

Power Integrations Reports Fourth-Quarter and Full-Year Financial Results

1/30/2020

Fourth-quarter revenues increased 23 percent year-over-year to \$114.5 million

Fourth-quarter GAAP earnings were \$5.28/diluted share; non-GAAP earnings were \$5.60/diluted share; GAAP and non-GAAP earnings include benefit of \$4.78/share from litigation settlement

SAN JOSE, Calif.--(BUSINESS WIRE)-- Power Integrations (Nasdaq: **POWI**) today announced financial results for the quarter and year ended December 31, 2019. The results include the previously announced settlement of the company's patent disputes with ON Semiconductor, which resulted in a payment to the company of \$175 million in October 2019.

Net revenues for the fourth quarter were \$114.5 million, flat compared to the prior quarter and up 23 percent from the fourth quarter of 2018. Net income for the fourth quarter was \$158.3 million or \$5.28 per diluted share compared to \$0.57 per share in the prior quarter and \$0.77 in the fourth quarter of 2018. Cash flow from operations was \$182.2 million for the fourth quarter.

In addition to its GAAP results, the company provided certain non-GAAP measures that exclude stock-based compensation, amortization of acquisition-related intangible assets, the tax effects of these items, and a 2018 tax benefit stemming from U.S. tax-reform legislation. Non-GAAP net income for the fourth quarter of 2019 was \$167.9 million or \$5.60 per diluted share (including a benefit of \$4.78 per share from the litigation settlement), compared with \$0.78 per diluted share in the prior quarter and \$0.54 per diluted share in the fourth quarter of 2018. A reconciliation of GAAP to non-GAAP financial results appears at the end of this press release.

For the full year, net revenues were \$420.7 million, an increase of one percent compared to 2018. Net income for

the year was \$193.5 million or \$6.49 per diluted share compared to \$2.32 per diluted share in 2018. Non-GAAP net income for the full year was \$219.9 million or \$7.38 per diluted share (including a benefit of \$4.81 per share from the settlement) compared to \$2.71 per diluted share in 2018. Cash flow from operations for the full year 2019 was \$224.5 million.

Power Integrations paid a dividend of \$0.19 per share on December 31, 2019. The next dividend of \$0.19 will be paid on March 31, 2020 to stockholders of record as of February 28, 2020.

Commented Balu Balakrishnan, president and CEO of Power Integrations: "Revenues grew 23 percent year-over-year in the fourth quarter driven by our continued success in rapid-charging for mobile devices and a return to growth in consumer appliances. While sales for the analog semiconductor industry fell in 2019, we delivered positive growth for the year, and we're entering 2020 with momentum fueled by innovative products such as our InnoSwitch™3 ICs – including our latest devices incorporating GaN technology – and a broad set of opportunities including rapid charging, connected homes, renewable energy and smarter, more efficient appliances."

Financial Outlook

The company issued the following forecast for the first quarter of 2020:

- Revenues are expected to be \$110 million plus or minus \$3 million.
- GAAP gross margin is expected to be between 50.5 percent and 51 percent. Non-GAAP gross margin is expected to be between 51.5 percent and 52 percent. (The difference between the expected GAAP and non-GAAP gross margins comprises approximately 0.7 percentage points from amortization of acquisition-related intangible assets and 0.3 percentage points from stock-based compensation.)
- GAAP operating expenses are expected to be approximately \$41.5 million; non-GAAP operating expenses are expected to be approximately \$35.5 million. (Non-GAAP expenses are expected to exclude approximately \$5.8 million of stock-based compensation and \$0.2 million of amortization of acquisition-related intangible assets.)

Conference Call Today at 1:30 p.m. Pacific Time

Power Integrations management will hold a conference call today at 1:30 p.m. Pacific time. Members of the investment community can join the call by dialing 1-647-689-4187. The call will also be available on the investor section of the company's website, <http://investors.power.com>.

About Power Integrations

Power Integrations, Inc. is a leading innovator in semiconductor technologies for high-voltage power conversion. The company's products are key building blocks in the clean-power ecosystem, enabling the generation of renewable energy as well as the efficient transmission and consumption of power in applications ranging from milliwatts to megawatts. For more information please visit www.power.com.

Note Regarding Use of Non-GAAP Financial Measures

In addition to the company's consolidated financial statements, which are presented according to GAAP, the company provides certain non-GAAP financial information that excludes stock-based compensation expenses recorded under ASC 718-10, amortization of acquisition-related intangible assets, the tax effects of these items and, with respect to the prior-year results, a tax benefit related to the 2017 U.S. tax-reform legislation. The company uses these measures in its financial and operational decision-making and, with respect to one measure, in setting performance targets for compensation purposes. The company believes that these non-GAAP measures offer important analytical tools to help investors understand its operating results, and to facilitate comparability with the results of companies that provide similar measures. Notwithstanding these considerations, the company is including the impact of its litigation settlement in its non-GAAP results in order to be consistent with its historical practice of including litigation-related expenses in its non-GAAP results. Non-GAAP measures have limitations as analytical tools and are not meant to be considered in isolation or as a substitute for GAAP financial information. For example, stock-based compensation is an important component of the company's compensation mix, and will continue to result in significant expenses in the company's GAAP results for the foreseeable future, but is not reflected in the non-GAAP measures. Also, other companies, including companies in Power Integrations' industry, may calculate non-GAAP measures differently, limiting their usefulness as comparative measures. Reconciliations of non-GAAP measures to GAAP measures are attached to this press release.

Note Regarding Forward-Looking Statements

The above statements regarding the company's forecast for its first-quarter financial performance are forward-looking statements reflecting management's current expectations and beliefs. These forward-looking statements are based on current information that is, by its nature, subject to rapid and even abrupt change. Due to risks and uncertainties associated with the company's business, actual results could differ materially from those projected or implied by these statements. These risks and uncertainties include, but are not limited to: changes in global macroeconomic conditions, including changing tariffs and uncertainty regarding trade negotiations, which may impact the level of demand for the company's products; potential changes and shifts in customer demand away from end products that utilize the company's integrated circuits to end products that do not incorporate the company's products; the effects of competition, which may cause the company's revenues to decrease or cause the company to decrease its selling prices for its products; unforeseen costs and expenses; and unfavorable fluctuations in component costs or operating expenses resulting from changes in commodity prices and/or exchange rates. In addition, new product introductions and design wins are subject to the risks and uncertainties that typically accompany development and delivery of complex technologies to the marketplace, including product development delays and defects and market acceptance of the new products. These and other risk factors that may cause actual results to differ are more fully explained under the caption "Risk Factors" in the company's most recent

Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on February 13, 2019. The company is under no obligation (and expressly disclaims any obligation) to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by the rules and regulations of the SEC.

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Industrial

30%

34%

40%

34%

31%



POWER INTEGRATIONS, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP RESULTS
(in thousands, except per-share amounts)

RECONCILIATION OF GROSS PROFIT	Three Months Ended			Twelve Months Ended		
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	
GAAP gross profit	\$ 58,225	\$ 58,131	\$ 48,005	\$ 213,402	\$ 214,788	
GAAP gross margin	50.9%	50.9%	51.4%	50.7%	51.6%	
Stock-based compensation included in cost of revenues	413	280	313	1,237	1,097	
Amortization of acquisition-related intangible assets	955	940	813	3,483	3,253	
Non-GAAP gross profit	\$ 59,593	\$ 59,351	\$ 49,131	\$ 218,122	\$ 219,138	
Non-GAAP gross margin	52.1%	52.0%	52.7%	51.9%	52.7%	

RECONCILIATION OF OPERATING EXPENSES	Three Months Ended			Twelve Months Ended		
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	
GAAP operating expenses	\$ (125,418)	\$ 40,633	\$ 39,962	\$ (3,620)	\$ 159,140	
Less: Stock-based compensation expense included in operating expenses						
Research and development	2,754	1,893	1,944	8,423	7,688	
Sales and marketing	1,602	1,211	1,222	5,015	4,729	
General and administrative	3,569	1,722	1,963	8,672	8,066	
Total	7,925	4,826	5,129	22,110	20,483	
Amortization of acquisition-related intangible assets	378	378	455	1,577	1,899	
Non-GAAP operating expenses	\$ (133,721)	\$ 35,429	\$ 34,378	\$ (27,307)	\$ 136,758	

RECONCILIATION OF INCOME FROM OPERATIONS	Three Months Ended			Twelve Months Ended		
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	
GAAP income from operations	\$ 183,643	\$ 17,498	\$ 8,043	\$ 217,022	\$ 55,648	
GAAP operating margin	160.4%	15.3%	8.6%	51.6%	13.4%	
Add: Total stock-based compensation	8,338	5,106	5,442	23,347	21,580	
Amortization of acquisition-related intangible assets	1,333	1,318	1,268	5,060	5,152	
Non-GAAP income	\$ 193,314	\$ 23,922	\$ 14,753	\$ 245,429	\$ 82,380	

from operations	\$	193,314	\$	23,922	\$	14,753	\$	245,429	\$	82,380
Non-GAAP operating margin		168.9%		21.0%		15.8%		58.3%		19.8%

RECONCILIATION OF PROVISION (BENEFIT) FOR INCOME TAXES	Three Months Ended			Twelve Months Ended						
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2018				
GAAP provision (benefit) for income taxes	\$	27,204	\$	1,477	\$	(13,396)	\$	28,946	\$	(10,220)
GAAP effective tax rate		14.7%		8.0%		-143.4%		13.0%		-17.1%
Impact of U.S. tax legislation		-		-		(9,687)		-		(9,687)
Tax effect of adjustments to GAAP results		(53)		(266)		(3,846)		(1,955)		(5,361)
Non-GAAP provision for income taxes	\$	27,257	\$	1,743	\$	137	\$	30,901	\$	4,828
Non-GAAP effective tax rate		14.0%		7.0%		0.9%		12.3%		5.6%

RECONCILIATION OF NET INCOME PER SHARE (DILUTED)	Three Months Ended			Twelve Months Ended						
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2018				
GAAP net income	\$	158,291	\$	17,099	\$	22,736	\$	193,468	\$	69,984
Adjustments to GAAP net income										
Stock-based compensation		8,338		5,106		5,442		23,347		21,580
Amortization of acquisition-related intangible assets		1,333		1,318		1,268		5,060		5,152
Impact of U.S. tax legislation		-		-		(9,687)		-		(9,687)
Tax effect of items excluded from non-GAAP results		(53)		(266)		(3,846)		(1,955)		(5,361)
Non-GAAP net income	\$	167,909	\$	23,257	\$	15,913	\$	219,920	\$	81,668
Average shares outstanding for calculation of non-GAAP net income per share (diluted)		30,005		29,866		29,651		29,816		30,147
Non-GAAP net income per share (diluted)	\$	5.60	\$	0.78	\$	0.54	\$	7.38	\$	2.71
GAAP net income per share	\$	5.28	\$	0.57	\$	0.77	\$	6.49	\$	2.32

POWER INTEGRATIONS, INC.
CALCULATION OF EARNINGS PER SHARE BENEFIT OF SETTLEMENT
(in thousands, except per-share amounts)

Gain from litigation settlement	Three Months Ended			Twelve Months Ended						
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2018				
Tax expense attributed to settlement	\$	168,969	\$	-	\$	-	\$	168,969	\$	-
Litigation settlement net of tax	\$	25,543	\$	-	\$	-	\$	25,543	\$	-
	\$	143,426	\$	-	\$	-	\$	143,426	\$	-

Earnings per share benefit of settlement (GAAP and non-GAAP)	\$	4.78	\$	-	\$	-	\$	4.81	\$	-
Diluted average shares outstanding		30,005		29,866		29,651		29,816		30,147

POWER INTEGRATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>December 31, 2019</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 178,690	\$ 80,162	\$ 134,137
Short-term marketable securities	232,398	164,649	94,451
Accounts receivable, net	24,274	25,819	11,072
Inventories	90,380	88,710	80,857
Prepaid expenses and other current assets	15,597	15,316	11,915
Total current assets	<u>541,339</u>	<u>374,656</u>	<u>332,432</u>
PROPERTY AND EQUIPMENT, net	116,619	114,930	114,117
INTANGIBLE ASSETS, net	16,865	18,238	21,152
GOODWILL	91,849	91,849	91,849
DEFERRED TAX ASSETS	2,836	5,564	6,906
OTHER ASSETS	34,388	31,173	22,241
Total assets	<u>\$ 803,896</u>	<u>\$ 636,410</u>	<u>\$ 588,697</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 27,433	\$ 30,542	\$ 31,552
Accrued payroll and related expenses	13,408	10,796	12,131
Taxes payable	584	597	933
Other accrued liabilities	9,051	7,717	3,750
Total current liabilities	<u>50,476</u>	<u>49,652</u>	<u>48,366</u>
LONG-TERM LIABILITIES:			
Income taxes payable	14,617	9,309	8,652
Deferred tax liabilities	164	152	216
Other liabilities	14,093	11,969	4,391
Total liabilities	<u>79,350</u>	<u>71,082</u>	<u>61,625</u>
STOCKHOLDERS' EQUITY:			
Common stock	28	28	28
Additional paid-in capital	152,117	143,554	126,164
Accumulated other comprehensive loss	(3,130)	(1,084)	(1,689)
Retained earnings	575,531	422,830	402,569
Total stockholders' equity	<u>724,546</u>	<u>565,328</u>	<u>527,072</u>
Total liabilities and stockholders' equity	<u>\$ 803,896</u>	<u>\$ 636,410</u>	<u>\$ 588,697</u>

POWER INTEGRATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended			Twelve Months Ended		
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	\$ 158,291	\$ 17,099	\$ 22,736	\$ 193,468	\$ 69,984	
Adjustments to reconcile net income to cash provided by operating activities						
Depreciation	4,928	4,831	4,549	19,190	18,918	
Amortization of intangible assets	1,373	1,357	1,300	5,213	5,267	
Loss on disposal of property and equipment	35	62	98	249	553	
Stock-based compensation expense	8,338	5,106	5,442	23,347	21,580	
Amortization of premium (accretion of discount) on marketable securities	104	(66)	(115)	(192)	227	
Deferred income taxes	2,741	(381)	(3,070)	4,019	(4,465)	
Increase (decrease) in accounts receivable allowances	-	-	(198)	57	(28)	
Change in operating assets and liabilities:						
Accounts receivable	1,545	(351)	2,868	(13,259)	5,754	
Inventories	(1,670)	487	(6,656)	(9,523)	(23,770)	
Prepaid expenses and other assets	902	580	1,226	(2,132)	(1,495)	
Accounts payable	(3,920)	(6,789)	(1,311)	(6,556)	1,336	
Taxes payable and other accrued liabilities	9,492	(91)	(8,540)	10,618	(9,897)	
Net cash provided by operating activities	<u>182,159</u>	<u>21,844</u>	<u>18,329</u>	<u>224,499</u>	<u>83,964</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of property and equipment	(9,789)	(5,977)	(5,557)	(24,114)	(24,677)	
Acquisition of technology licenses	(675)	(100)	-	(1,026)	(900)	
Purchases of marketable securities	(71,952)	(80,864)	(4,612)	(207,240)	(62,833)	
Proceeds from sales and maturities of marketable securities	4,150	46,762	10,050	70,334	157,551	
Net cash provided by (used in) investing activities	<u>(78,266)</u>	<u>(40,179)</u>	<u>(119)</u>	<u>(162,046)</u>	<u>69,141</u>	
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net proceeds from issuance of common stock	225	4,005	803	9,908	9,353	
Repurchase of common stock	-	-	(28,776)	(7,302)	(103,153)	
Payments of dividends to stockholders	(5,590)	(4,999)	(4,651)	(20,506)	(18,823)	
Proceeds from draw on line of credit	-	-	-	-	8,000	
Payments on line of credit	-	-	-	-	(8,000)	
Net cash used in financing activities	<u>(5,365)</u>	<u>(994)</u>	<u>(32,624)</u>	<u>(17,900)</u>	<u>(112,623)</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	98,528	(19,329)	(14,414)	44,553	40,482	
CASH AND CASH EQUIVALENTS	22,122	22,122	22,122	22,122	22,122	

AT BEGINNING OF PERIOD	80,162	99,491	148,551	134,137	93,655
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 178,690	\$ 80,162	\$ 134,137	\$ 178,690	\$ 134,137

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