Power Integrations, Inc. (POWI)

Updated February 22nd, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	1.6%	**Market Cap:**	$3.7 B
Fair Value Price:	$25	**5 Year Growth Estimate:**	20.0%	**Ex-Dividend Date:**	02/28/2025
% Fair Value:	258%	**5 Year Valuation Multiple Estimate:**	-17.3%	**Dividend Payment Date:**	03/31/2025
Dividend Yield:	1.3%	**5 Year Price Target**	$63	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Power Integrations designs and manufactures high-performance electronic components for high-voltage power conversion systems. Notable products include the InnoSwitch family of ICs, which integrates primary, secondary, and feedback circuits, and the LYTSwitch ICs, designed for efficient LED lighting solutions. These products are used in mobile device chargers, consumer electronics, lighting, industrial controls, and renewable energy systems. Known for innovation and energy efficiency, Power Integrations simplifies design and reduces component counts in power supplies, emphasizing sustainability to reduce electronic waste and enhance energy efficiency worldwide.

On February 6th, 2025, the company reported its Q4 results and full-year for the period ending December 31st, 2024. For the quarter, the company posted net revenues of $105.2 million that were down 9% sequentially, but up 18% year-over-year. The year-over-year increase was driven by stronger performance across multiple end markets, including industrial and appliances, despite ongoing macroeconomic uncertainties. Appliances remain a key contributor within the company's consumer category, which accounted for 37% of total sales in the quarter.

For Q1 2025, the company expects revenues to be flat compared to Q4, plus or minus 5%. The adjusted gross margin is expected to be between 55.5% and 56%. Thus far, Wall Street expects full-year adjusted EPS of $1.57, up 35% from adjusted EPS of $1.16 in FY2024. Note that all past EPS figures in our table are on a GAAP basis.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.58	$0.85	$0.47	$1.19	$3.31	$1.19	$2.73	$2.96	$0.97	$0.56	***$1.57***	***$3.91***
DPS	$0.24	$0.26	$0.28	$0.32	$0.35	$0.42	$0.54	$0.72	$0.77	$0.81	***$0.84***	***$2.09***
Shares[1]	58.0	57.9	59.3	58.9	58.5	59.7	60.3	57.8	57.2	56.8	***56.8***	***55.0***

Power Integrations has experienced modest growth over the past decade, with revenues rising at a compound annual growth rate (CAGR) of just 1.85% during this period. The underwhelming growth can be attributed to a number of industry-specific factors. Firstly, the power conversion market faced intense competition, which put pressure on pricing and limited revenue growth despite increasing unit sales.

Additionally, the consumer electronics market, a notable segment for the company, saw slowed growth as the smartphone and tablet markets matured, reducing the rapid expansion previously seen in these sectors. Accordingly, the company's margins failed to scale over the past decade, with GAAP EPS even declining during this period.

That said, the market has increased expectations for the company's medium-term outlook. This optimism is driven by increasing demand for energy-efficient solutions and the proliferation EVs, as well as renewable energy systems. The company's InnoSwitch ICs, which are crucial for fast-charging mobile devices and efficient power supplies, and their Gate Driver ICs, essential for EV powertrain and charging infrastructure, position it well to benefit in these growing markets. Additionally, the ongoing global transition to LED lighting continues to drive demand for the company's LYTSwitch ICs, further supporting growth prospects. For this reason, we expect adjusted EPS and the dividend to each grow at a CAGR of 20% over the next five years. Note that the company has already increased its dividend for 13 consecutive years.

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	42.8	30.2	72.3	29.6	11.4	44.4	30.1	28.8	81.8	129.0	***41.2***	***16.0***
Avg. Yld.	1.0%	1.0%	0.8%	0.9%	0.9%	0.8%	0.7%	0.8%	1.0%	1.1%	***1.3%***	***3.3%***

Power Integrations' P/E appears to have been all over the place over the past decade. The company's GAAP EPS has fluctuated wildly during this period due to the cyclical nature of the company's business model and the various variable costs involved. Today, even when we adjust earnings for stock-based compensation and other "one-off" expenses, the stock still trades at very rich P/E of 41.2. This multiple reflects the market's expectations for significant earnings growth over the next five years, as explained earlier. Still, we expect a significant valuation headwind down the road. Given the company's business model, we expect its fair P/E to settle close to a humble 16 once growth normalizes. Its dividend yield has been trivial in the past, though it could grow following rapid dividend increases in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

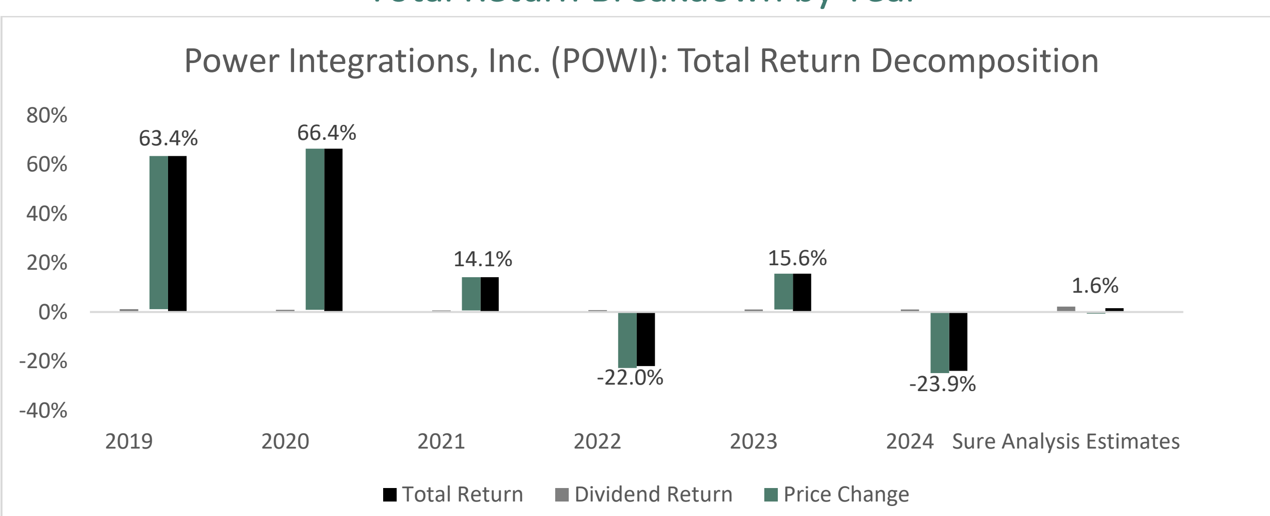
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	41%	31%	60%	27%	11%	35%	20%	24%	79%	145%	***54%***	***54%***

Power Integrations benefits from several competitive advantages, including its advanced integrated circuit technology and a robust portfolio of over 2000 patents. For example, the InnoSwitch ICs streamline power supply designs by combining multiple functions into one chip, while the LYTSwitch ICs provide energy-efficient solutions for the growing LED lighting market. However, the company's revenues and earnings are vulnerable to recessions. Economic downturns typically lead to reduced consumer spending on electronics and lower industrial investments, which can decrease demand for the company's components and impact their financial performance. For instance, a slowdown in consumer electronics and industrial infrastructure projects during a recession could significantly affect its results.

Final Thoughts & Recommendation

Power Integrations has failed to generate meaningful returns since 2020, with revenues and earnings growth lagging notably during this period. Today, the market has high expectations about the company's growth over the medium term, which is reflected in our growth estimates. However, we believe that the possibility of a significant valuation headwind could wipe away most returns the company's underlying growth could produce. We believe the stock is too expensive given the cyclical nature of its business model, and rate it a sell at its current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	349	345	390	432	416	421	488	703	651	445
Gross Profit	190	173	192	214	215	213	244	361	367	229
Gross Margin	54.3%	50.3%	49.3%	49.5%	51.6%	50.7%	49.9%	51.3%	56.3%	51.5%
SG&A Expense	79	77	81	88	89	92	91	101	91	98
Total D&A	22	24	23	24	24	24	28	35	37	37
Operating Income	56	39	49	58	56	48	70	175	180	35
Operating Margin	16.0%	11.3%	12.5%	13.3%	13.4%	11.4%	14.4%	24.9%	27.7%	7.9%
Net Income	60	39	49	28	70	193	71	164	171	56
Net Margin	17.1%	11.4%	12.5%	6.4%	16.8%	46.0%	14.6%	23.4%	26.2%	12.5%
Free Cash Flow	62	70	86	50	58	199	55	184	176	45
Income Taxes	(3)	0	1	33	(10)	29	4	12	13	(10)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	494	488	554	621	589	804	903	1,014	840	820
Cash & Equivalents	61	90	62	94	134	179	259	158	105	64
Accounts Receivable	10	8	7	17	11	24	36	41	21	15
Inventories	64	52	53	57	81	90	103	99	135	163
Goodwill	116	130	123	117	113	109	104	101	98	96
Total Liabilities	63	59	51	73	62	79	93	102	85	68
Accounts Payable	22	22	30	33	32	27	35	44	30	26
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	431	429	503	548	527	725	810	912	755	752
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.0%	8.0%	9.4%	4.7%	11.6%	27.8%	8.3%	17.1%	18.4%	6.7%
Return on Equity	13.7%	9.1%	10.5%	5.3%	13.0%	30.9%	9.3%	19.1%	20.5%	7.4%
ROIC	13.7%	9.1%	10.5%	5.3%	13.0%	30.9%	9.3%	19.1%	20.5%	7.4%
Shares Out.	60.0	58.0	57.9	59.3	58.9	58.5	59.7	60.3	57.8	57.2
Revenue/Share	5.66	5.80	6.58	7.07	6.90	7.05	8.03	11.44	11.16	7.71
FCF/Share	1.01	1.19	1.45	0.81	0.97	3.34	0.90	2.99	3.02	0.78

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.