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DIOD.OQ - Q1 2021 Diodes Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to Diodes Inc. First Quarter 2021 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Thursday, May 6, 2021.

I would now like to turn the call over to Leanne Sievers of Shelton Group Investor Relations. Leanne, please go ahead.

Leanne K. Sievers - *Shelton Group - President*

Good afternoon, and welcome to Diodes First Quarter 2021 Financial Results Conference Call. I'm Leanne Sievers, President of Shelton Group, Diodes' Investor Relations firm.

Joining us today are Diodes Chairman, President and CEO, Dr. Keh-Shew Lu; Chief Financial Officer, Brett Whitmire; Senior Vice President of Worldwide Sales and Marketing; Emily Yang, Senior Vice President, Business Groups, Gary Yu; and Director of Investor Relations, Laura Mehrl.

Before I turn the call over to Dr. Lu, I'd like to remind our listeners that the results announced today are preliminary as they are subject to the company finalizing its closing procedures and customary quarterly review by the company's independent registered public accounting firm. As such, these results are unaudited and subject to revision until the company files its Form 10-Q for its first quarter 2021 ending March 31, 2021.

In addition, management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties and management may make additional forward-looking statements in response to your questions. Therefore, the company claims the protection of the safe harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today, and therefore, we refer you to a more detailed discussion of the risks and uncertainties in the company's filings with the Securities and Exchange Commission, including Forms 10-K and 10-Q.

In addition, any projections as to the company's future performance represent management's estimates as of today, May 6, 2021. Diodes assumes no obligation to update these projections in the future as market conditions may or may not change, except to the extent required by applicable law.

Additionally, the company's press release and management statements during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP terms. Included in the company's press release are definitions and reconciliations of GAAP to non-GAAP items, which provide additional details. Also, throughout the company's press release and management statements during this conference call, we refer to net income attributable to common stockholders as GAAP net income. For those of you unable to listen to the entire call at this time, a recording will be available via webcast for 90 days in the Investor Relations section of Diodes website at www.diodes.com.

And now I'll turn the call over to Diodes Chairman, President and CEO, Dr. Keh-Shew Lu. Dr. Lu, please go ahead.

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

Thank you, Leanne. Welcome, everyone, and thank you for joining us today. Revenue in the first quarter set a new record, both organically and on a consolidated basis, increasing 18% sequentially and exceeding the high-end of our guidance range, in what has historically been a seasonally down quarter for our business.

Our growth was driven by record total POS revenue as a result of records in both Asia and Europe, combined with strong growth in North America. We also achieved records in our computing end market, driven by record telecom product revenue, and the automotive market due to strong organic growth in Diodes' automotive business. Combined with our expense management and operating efficiencies, we delivered the highest quarter of adjusted earnings per share, which increased 25% sequentially.

The integration of LSC is also progressing well and ahead of schedule, as we have already begun to harvest the benefit of manufacturing synergies from improved factory loading with both LSC's and Diodes' products. In fact, loading at the LSC facility has reached 70% in the quarter versus our original target of 50%, resulting in being operationally breakeven at this facility 2 quarters ahead of plan.

Overall, our global manufacturing footprint is serving as a key advantage at a time when the broader semiconductor industry is challenged by supply and capacity constraints. We have both internal and external capacity needed to support the increasing demand we are seeing for our products. As a result, we expect to deliver another quarter of sequential growth in the second quarter, coupled with a continued expansion in bottom-line profitability.

With that, let me now turn the call over to Brett to discuss our first quarter financial results and our second quarter 2021 guidance in more detail.

Brett R. Whitmire - *Diodes Incorporated - CFO*

Thanks, Dr. Lu, and good afternoon, everyone. As part of my financial review today, I will focus my comments on the sequential change for each of the line items and would refer you to our press release for a more detailed review of our results as well as the year-over-year comparisons.

Revenue for the first quarter 2021 was a record $413.1 million, which included the first full quarter of revenue from LSC, an increase of 17.9% from the $350.4 million in fourth quarter 2020. Gross profit for the first quarter was also a record at $138.6 million or 33.6% of revenue on a consolidated basis and 36.3% for Diodes only. This compares to $122.7 million or 35% of revenue in the fourth quarter 2020.

GAAP operating expenses for the first quarter 2021 were $91.2 million or 22.1% of revenue and on a non-GAAP basis, were $86.4 million or 20.9% of revenue, which excludes $4 million of amortization of acquisition-related intangible asset expenses and $0.8 million of restructuring costs. This compares to non-GAAP operating expenses in the prior quarter of $75 million or 21.4% of revenue.

Total other income amounted to approximately $2.6 million for the quarter, including $6 million of other income and $768,000 of interest income, partially offset by $2.9 million in interest expense and $1.3 million in foreign currency loss. Income before taxes and noncontrolling interest in the first quarter 2021 was $50 million compared to $36.1 million in the previous quarter.

Turning to income taxes. Our effective income tax rate for the first quarter was approximately 18.9%. GAAP net income for the first quarter 2021 was $39.5 million or $0.87 per diluted share compared to GAAP net income of $29.7 million or $0.59 per diluted share in the fourth quarter 2020. The share count used to compute GAAP diluted EPS for the first quarter 2021 was 45.2 million shares, which reflects a reduction in the weighted average share count due to the repurchase of approximately 7.8 million Diodes shares from LSC as part of the acquisition.

Non-GAAP adjusted net income in the first quarter was $42 million or $0.93 per diluted share, which excluded net of tax $3.3 million of acquisition-related intangible asset costs, $1.5 million of acquisition-related costs, $0.7 million in restructuring costs and a $2.9 million gain in value of certain LSC investments. Non-GAAP adjusted net income in the fourth quarter 2020 was $37.3 million or $0.74 per diluted share.

Included in first quarter 2021, GAAP net income and non-GAAP adjusted net income was approximately $4.8 million net of tax of non-cash share-based compensation expense. Excluding share-based compensation expense, both GAAP earnings per share and non-GAAP adjusted EPS would have increased by $0.11 per diluted share for first quarter 2021 and $0.10 for the fourth quarter 2020.

EBITDA for the first quarter was $81.7 million or 19.8% of revenue compared to $67.1 million or 19.1% of revenue in the prior quarter. We have included in our earnings release a reconciliation of GAAP net income to non-GAAP adjusted net income and GAAP net income to EBITDA, which provides additional details.

Cash flow generated from operations was $68.2 million for the first quarter 2021. Free cash flow was $51 million for the first quarter, which included $17.2 million for capital expenditures. Net cash flow in the first quarter was a positive $10.6 million, which included a paydown of $37.4 million of long-term debt.

Turning to the balance sheet. At the end of first quarter, cash, cash equivalents, restricted cash plus short-term investments totaled approximately $339 million. Working capital was $618 million and total debt, including long-term and short term, was $415 million.

In terms of inventory, at the end of first quarter, total inventory days decreased to approximately 98 in the quarter on a consolidated basis as compared to 115 last quarter. Finished goods inventory days also decreased to 27 from 31 in the fourth quarter 2020. Total inventory dollars decreased $17.1 million to approximately $290 million. Total inventory in the quarter consisted of an $18.2 million decrease in raw materials, a $3.5 million decrease in finished goods and a $4.6 million increase in work in process.

Capital expenditures on a cash basis for the first quarter 2021 were $17.2 million or 4.2% of revenue. We expect to remain within our target model of 5% to 9% for the full year.

Now turning to our outlook. For the second quarter of 2021, we expect revenue to increase to approximately $434 million, plus or minus 3%, which represents a record on both an organic and a consolidated basis for a combined increase of 5% sequentially at the midpoint. We expect GAAP gross margin on a consolidated basis to be 35.6%, plus or minus 1%. Non-GAAP operating expenses, which are GAAP operating expenses adjusted for amortization of acquisition-related intangible assets, are expected to be approximately 20.5% of revenue, plus or minus 1%.

We expect net interest expense to be approximately $1.6 million. Our income tax rate is expected to be 19%, plus or minus 3%, and shares used to calculate diluted EPS for the second quarter are anticipated to be approximately $45.7 million. Please note that purchasing accounting adjustments of $3.3 million after-tax for Pericom and previous acquisitions is not included in these non-GAAP estimates.

With that said, I will now turn the call over to Emily Yang.

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Thank you, Brad, and good afternoon. The 17.9% sequential increase in the first quarter revenue was better than the high end of our guidance, driven by the record direct revenue increased more than 30% and record POS revenue up more than 10%, led by POS records in Asia and Europe combined with strong growth in North America. Distributor inventory in terms of weeks decreased quarter-over-quarter and below our defined normal range of 11 to 14 weeks.

Looking at the global sales in the first quarter. Asia represented 81% of the revenue; Europe, 12%; and North America, 7%. In terms of our end markets, computing represented 30% of the revenue; industrial, 22%; consumer, 19%; communication, 17%; and automotive, 12% of revenue. We achieved record revenue in automotive end market, which was strong across all regions and the computing market, driven by record Pericom revenue.

Now let me review the end market in greater details. Starting with our automotive market. Our record revenue achieved in the quarter reflects an 18% sequential increase and 61% year-over-year increase to 12% of total revenue. This growth was driven by strong organic growth for Diodes of automotive products with minimal contribution from LSC since this product has low exposure to this market.

We also continue to gain contact with our expanded automotive portfolio of Pericom products as we secured several new design-ins for our interface and frequency control product in the automotive applications, ranging from ADAS, infotainment, telematics and DASH Board systems.

During the quarter, we introduced several new automotive-grade products, including USB switches, IO expanders and 14 new frequency control products for the in-vehicle infotainment system, connected driving, lighting and body control applications.

We also introduced a 2-wire automotive LED hall sensor and over 20 DC-to-DC products with design-ins and design wins and multiple customers in the infotainment power supplies, lighting, instrument clusters, telematics and ADAS applications. We also secured additional design wins for gate drivers, LED drivers and voltage regulators with major car manufacturers in applications like wireless charging, lighting and DC-DC for electric vehicles.

Also during the quarter, we saw very strong demand for our protection devices in automotive fusible links, HDMI, LVDS and data line protection. Higher voltage battery system drove up the demand for our MOSFET products. Also released 2 new MOSFETs in the TOLL package to help address the power efficiency demand. We also released 3 channel linear LED drivers, 7 new SBR product and 5 volt bipolar transistor automotive product during the quarter. SBR SKY product was designed-in by a number of customers in the EV battery management system, car headlight, display, onboard computer and portable power bank applications.

In our industrial market, we also achieved very healthy revenue growth of 13% sequentially and 25% over the prior year. Similar to the automotive market, revenue contribution from LSC is very minimal, which highlights the strong growth and momentum Diodes has continued to achieve in the industrial market.

During the quarter, we saw increasing demand for our Wide Vin LDO product family for applications such as power tools, e-meters, IoT and other industrial applications. We have also seen an increasing number of design wins for linear voltage regulators in DC fans to support applications such as mining machines, communication, MCUs and IT systems.

Additionally, we saw more design-ins for SBR and Trench Schottky in applications like industrial router, lighting and heavy machinery. Diodes' MOSFET products continued to gain market share in lots of DC inverter applications, and our success with LED driver chipset continued with new design-ins for commercial lighting projects.

We also released our 8-port/8-Lane PCI Express 3.0 packet switch, which is designed to meet the need of industrial PC market to improve signal reliability and increase bandwidth performance.

In the consumer market, we saw strong demand for our Piezo sound driver due to tracker market growth. We also continue to expand our business for USB power delivery decoder in OEM-ODM quick charger applications. TV and monitor design wins also continue to represent a large opportunity for our BJT products, and we have very good design win activities for very small transistors into robotic vacuum cleaners and doorbells. In addition, we continue to build traction for our products in IoT, smart home and entertainment applications.

For the communication market, we saw traction from several Schottky and SBR products in the satellite radio, 5G routers, access point routers and power over Ethernet switches. Demand for our Pericom product remains strong as high-speed data processing drove the ramping of 200, 400, 800 gig connection. Pericom frequency control products, ultra-low jitter, small size crystal oscillator family, have several design-ins into optical modules. We also released more than 11 new devices in frequency control product family for communication applications.

Also during the quarter, our high PSRR LDO product family and omnipolar hall sensors continue to achieve design wins and design-ins in smartphones. Our low saturated high-voltage transistors would be signed into routers, IP cams and optical network application.

Lastly, in the computing market, revenue increased 54% quarter-over-quarter and 160% year-over-year to a quarterly record, primarily driven by record Pericom revenue combined with initial revenue contribution from LSC products. New design-in activity continues in the PC segment, along with increased demand of our existing Pericom products, driven by the growth across all the platforms, including consumer, education and commercial PCs. In the quarter, we released 3 1.8 volt ReDrivers servicing to USB Type-C and DisplayPort for PCs and 2 additional HDMI ReDrivers for high-speed media applications. Continuous demand for high-resolution display, propelled our HDMI/DP ReDriver product to other unit volume peak. New USB power switch product for USB-A and USB-C ports achieved solid revenue growth, driven by strong market demand for notebooks. Our design-in momentum continued for Dual-unipolar Hall sensor, ESD total solutions for USB Type-C, flash LED driver and the Schottky products in the notebooks, tablets and storage applications.

Also during the quarter, in computing market, we released close to 100 new power TVS, High Search dataline protection and power stage products for power line and VBUS protection for notebooks, mobile phones, panels and charger applications.

In summary, we are very pleased with our strong start to the new year, led by above seasonal growth resulting in record first quarter revenue. Additionally, record POS as well as low channel and internal inventory indicate a strong second quarter with continued increasing in growth and profitability. We have already begun to realize the initial benefit of the manufacturing synergy from the LSC acquisition with significant opportunities for upside by capitalizing the additional synergies across products, customers and end markets.

With that, we now open the floor to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Matt Ramsay from Cowen.

Matthew D. Ramsay - *Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst*

Impressive results for sure. Dr. Lu, I wonder if you might give us a bit of a more detailed status upgrade of the integration on the operations side with LSC. You I think mentioned in your brief prepared comments that you're now at 70% utilization in those facilities. It's certainly a good environment to have extra capacity, given the tightness in the industry. So if you could give us a little bit of an update there and how you see that utilization rate of those facilities trending in the next couple of quarters?

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

Yes. Let me get Gary. He is in charge for the LSC integration to answer your question.

Gary Yu - *Diodes Incorporated - SVP of Business Groups*

Yes. Hi, everybody, this is Gary. I'm new to this conference call. Okay. And to answer your question, yes, we do see the improvement by the facility usage increased a lot in the second quarter. And we will continue loading our factory in the next couple of quarters, and we will see more realization in the third and the fourth quarter.

Matthew D. Ramsay - *Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst*

Got it. Welcome to the call. And as my follow-up question, I guess, for the whole team, it's been some very impressive growth, both consolidated inorganically, but no secret that there's a lot of different points of capacity tightness across the industry. Diodes happens to be in a position to have some extra foundry capacity, which is great. But maybe you could calibrate us a little bit on how other things in the market may be affecting the upside that you can continue to deliver? I'm thinking about things like testing capacity, packaging, wafers, substrates and even limitations of supply of some of your peer companies that may sell into the same cars or end market devices. If there's anybody you could calibrate how the environment is out there versus the strength that your company is seeing, that would be much appreciated.

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

Okay. The most constraint of the capacity is the wafer fab. And fortunately, half of our wafer fab requirements, our wafer requirement is coming from our internal wafer fab support. And another advantage or another, fortunately, is because in 2019, we acquired the fab from Texas Instruments, we call GFAB, and that GFAB provide us a very big additional internal capacity.

And the other one is we are ramping up the, we call SFAB2, which is in Shanghai, when we acquired BCD, and that is the fab we are getting. And now we are ramping up for the 8-inch section of the SFAB2. So those 2 fabs are helping us a lot for the wafer requirements.

Then in addition, when we purchased LSC, and LSC fab is underloaded. If you remember, we're just talking about that, when we acquired it was 50% loading. So we now, like Gary was talking about, in 1Q it's already up to 70%, then we'll continue increase the capacity or the utilization for that LSC fab.

So overall, we really have good room to grow our revenue by the ramp-up or utilize more of our internal fab. Then, yes, since we are able to get more support from our external fabs, so overall, we see some constraint, but it's not very severe to us. And you can see that in our revenue growth, continued revenue growth in 1Q and continue to 2Q, and we are able to continue to support us in the future -- the rest of the year.

Okay. And then the rest of it since assembly, again, majority is our own factory. So we do continue to expand our assembly capacities. So we don't really see a major limitation for our expansion for the revenues. And the rest of it is really a minor constraint. Therefore, I think Diodes has performed much better than our competitor due to we have a lot of our internal manufacturing capability.

Matthew D. Ramsay - *Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst*

The results speaks for themselves.

Operator

Our next question comes from the line of William Stein from Truist Securities.

William Stein - *Truist Securities, Inc., Research Division - MD*

Part of it was answered a moment ago, but I'm maybe looking for more -- maybe the word is a more forceful view. Everyone else is -- all the other companies are talking very clearly about capacity constraints. It sounds like they're not as problematic for you because of your internal capacity. Are you seeing lead times in aggregate stretch either because the company is having trouble delivering on some parts? Or because customers are willing to place orders at longer lead times? Are you seeing that dynamic in your business? And if so, maybe how far out in the future are we stretching today?

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Right. This is Emily. Let me answer the question. So we've definitely seen the overall market constraint, right? We have very, very strong book-to-bill ratio. We have extremely strong backlog across all the regions. And just like I reported, we have very, very strong POS result as well. So definitely, we've seen a little bit of the imbalance of supply and demand in the market. So I want to make sure we're seeing that as well. What we've been doing is actually we are overcoming different bottlenecks by working very closely with the customers to understand their true demand, right? So definitely, we are seeing longer, I'll say, bookings, right? People -- the lead time is stretching a little bit longer. But I've been emphasizing, it's not really about the lead time, it's really true demand understanding from the customer by working closely with them. So we're definitely seeing longer visibility for the backlog point of view. So yes.

William Stein - *Truist Securities, Inc., Research Division - MD*

One other, if I can. An idea that's been sort of discussed in the semi industry for some years is competition from local China-based manufacturers. And there's, I think, a new JV announced in the last couple of days between Yageo and Foxconn to produce small ICs. Not necessarily about that potential future competitors specifically, but if you can characterize the competitive threats generally and specifically about sort of local new entrants in the market in China?

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Right. So definitely. We -- I mean new competitors coming from China is nothing new. We've been seeing that, I would say, situation for a while already. Like I mentioned before, what we usually see these kind of competitors really more on the low end of the product or the technology. So over the years, Diodes has been implementing a strategy of actually walking away from this kind of deep commodity market areas. So what we've been doing is actually continue to improve our technology and continue to drive the product mix to the higher end side, right?

So I would say, even having more competition in the low end area, doesn't really have a big impact for the overall Diodes' business, actually it fits better with our new strategy because that has been our direction for the last few years.

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

Yes. I would add few words is we -- what we -- another strategy we did is convert our sales from the commodity or individual sale to the content or total solution sales with the very big or very strong, very wide product portfolio. And through all the past history of M&A, we are now -- our product portfolio is very completed and very wide range. And therefore, it gives us an advantage when we go to the customer, when we approach to the total solution. And the new star company or China company, typically, they are not able to have a very wide range of a completed of the product portfolio. And so this -- we watch out for our competitor coming, but we apply our strength of the wide range product portfolio.

I think this just gives the credit for our past history of the M&A and to enable us to now participate to the customer solution by using our wide range of product portfolio.

William Stein - *Truist Securities, Inc., Research Division - MD*

Congratulations on the excellent results.

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Thank you.

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

Thank you.

Operator

Our next question comes from the line of Tristan Gerra from Baird.

Tristan Gerra - *Robert W. Baird & Co. Incorporated, Research Division - MD & Senior Research Analyst*

I think I heard that about 50% of your production is outsourced currency. And I think that's mostly on the analog side following the years ago, Kansas City shutdown. Are you expecting to meaningfully change over the next few years and increase the percentage of your manufacturing that's going to be in-sourced, notably as you now have more capacity in-house between SFAB2, GFAB and Lite-On?

Gary Yu - *Diodes Incorporated - SVP of Business Groups*

Yes. And let me answer your question. Definitely, we are going to have additional capacity that we can have a good control. But Dr. Lu mentioned about from years ago, we acquired BCD, so we have a SFAB. And GFAB we acquired from TI, we get a 6-inch and 8-inch wafer fab in Scotland. And also, just recently, we merged with Lite-On Semi and we have 6-inch wafer fab and 4-inch wafer fab in the Hsinchu and Keelung in Taiwan.

So we are still looking for the good candidate with a good capacity to increase internally in the future. So that probably is very soon, and we will have newer capacity, maybe okay. But definitely, just our direction to increase internal capacity and reduce the outside support for subcons.

Tristan Gerra - *Robert W. Baird & Co. Incorporated, Research Division - MD & Senior Research Analyst*

Okay. And then given the relative supply advantage you have versus peers and given some larger analog companies or deemphasizing certain products being supply constrained. Do you basically see market share gains as you're basically taking on products that some of your peers are either deemphasizing on purpose, so not able to serve the market with?

Gary Yu - *Diodes Incorporated - SVP of Business Groups*

Yes, definitely. When the capacity is very high and demand is very strong and whoever the company has a capacity will win the business.

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Right. So let me just add a little bit on top of that. I think Tristan is -- it's all about balancing, right? So keep in mind, our strategy doesn't really change. What we've been focusing is content expansion, right? So we want to continue to expand the product into the customer and continue to expand our customer base, right? So right now, it's an interesting dynamic of the market, but does not take away our long-term focus as a company. So what our focus is to continue with our total solution sales, continue to improve our product mix, right?

So that is actually the reason because we do have a very clear goal by 2025 that we want to achieve $2.5 billion, right? So I would say, yes, there's short term, I would say, variations for the demand and supply in balance, but that does not take away our long-term strategy of the product mix improvement as well as content expansion.

Operator

(Operator Instructions) Our next question comes from the line of David Williams from Loop Capital.

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

Congrats on the solid progress. I guess I wanted to see maybe if you could help size up maybe your backlog or maybe any color around the math of velocity of the orders through the quarter. Just kind of how you've seen orders tracking? And how you think about that as we move through this quarter or maybe into the third quarter?

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Okay. David, let me answer your question. So we do actually continue to see strong book-to-bill ratio, much higher than one. And we -- like I reported in the Q1 results, right, we have seen very strong POS results and the record POS from Asia as well as for Europe. Even for North America, we're actually seeing very, very strong net momentum, grow more than 20%.

If I look at the direct POP business point of view, the OEM business, I also mentioned we actually grow more than 30%, right? So based on all this data and based on the strong backlog that we currently have on the book, so overall, I would say the market is very, very strong across all the regions and also across all the segments.

So within the segments, we're definitely seeing continued extra strong strength from the automotive, and we're also seeing very good momentum in the industrial continue to recover and the computing will continue to be strong. I think even in consumer and communications, we are also seeing very strong backlog as well.

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

In addition, if you look at our -- the inventory from our distributor is very low. Okay. We're typically looking for 11 to 14 weeks of the distributor inventory, and we are now even below the 11 weeks. So in addition, the POS, strong POS, the inventory use or low inventory is actually going to indicate a very strong business in the future.

David Neil Williams - *Loop Capital Markets LLC, Research Division - VP*

Okay. All right. And then maybe just from your customers, do you get a sense that they are being fairly rational in terms of their orders? Obviously, double bookings are a thing and may not mean much. But do you get a sense that maybe they're becoming a little more rational in their ordering and understanding the lead times and placing orders that are in line with what the real dynamics are?

Emily Yang - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. So I think, like I mentioned before, we work very closely with the Tier 1, Tier 2 customers, to understand their true demand. What we see is, is very rational. But going through the distribution side, the Tier 3, Tier 4 is not something we have the bandwidth to work with each individual customer to understand it. So how we measure it is actually, we look at the POS resell. We look at the channel inventory. So with all this data, I would say, overall, the business seems really solid and strong overall.

Operator

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

Keh-Shew Lu - *Diodes Incorporated - Chairman, CEO & President*

Thank you for your participation on today's call. Operator, you may now disconnect.

Operator

Thank you. And thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.