

Dialog Semiconductor

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Jose Cano:

Good morning, and thanks to everyone for joining us today. Our call is being hosted by Dr. Jalal Bagherli, Dialog's CEO, and Wissam Jabre, Dialog's CFO. In a moment I will hand you over to Jalal to talk through the company's first quarter performance. First of all, I must remind everyone that today's briefing and some of the answers to your questions may contain forward-looking statements. These statements reflect management's current views, and there are risks associated with them. You can find the full explanation of these respects on page two of the investor presentation in the investor information section of the Dialog website. The interim report and press release can also be found on our website. Please note as well that this quarter we have published some additional slides in the business appendix of the investor presentation. If you have any questions on those large slides, please follow up with me.

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I would now like to introduce Jalal, who will run through the main highlights from the first quarter of the year. Jalal, over to you, please.

Jalal Bagherli:

Thank you, Jose and good morning to everyone. This quarter we're going to run the call a little differently. So, Wissam will take you through our financial results for the quarter, and I'm going to take you through some key aspects of our business. But first, I'd love to update you on what's happening with the 2019 design cycle of our custom PMICs. Our price and volume negotiation on the 2019 primary mobile PMICS have not finished yet. However, we have completed the design in collaboration with our customer, and we will be ready to sample this product in due course. Additionally, since February we have been awarded the number of custom PMIC designs targeting 2019 and later production ramps. With that said, let me run through some key aspects of the business, starting bid our R&D capability on slide four.

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Over the last decade, we have built a global R&D capability spread across 33 locations in 16 countries. There are now approximately 1,300 colleagues working R&D organization across the globe. Building this pool of talent is not an easy feat - it takes time and focus. We are careful to ensure the right approach to our recruitment and development, combine the recruitment of graduates and experience engineers to create a diverse pool of talent with a strong mix of fresh thinking and deep [unintelligible]. In the consumer electronics markets, product development times are short. To meet the needs of new and existing customers operating in these markets, our R&D organisation is focused on delivering technical excellence and high level of integration

through short design cycles. We continue to invest in R&D to generate IP, and design innovative, differentiated mix of products that should contribute to driving long-term revenue growth.

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Our investment in R&D has resulted in the expansion of our product portfolio and a strong comparative vision. Let's take a closer look on slide five. Mobile computing is our main end market, and we established a leadership position in highly integrated power management for mobile computing and rapid charge for smartphones. In [unintelligible] and peripherals, the number of feature-rich, always-on, connected devices and peripherals continue to increase. For this market, we have built a product portfolio including PMICS, nano-power ICs, wireless charging, Bluetooth slow energy, and the new wireless audio solution.

With the acquisition of Silego, we expanded our product offering with the configurable mixed-signal IC. This helped to expand our addressable market, solidified Dialog's position in mobile computing and IOT, and expand our product offering for the automotive and industrial markets.

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In Q1 2018, we made good progress with first designers for the CMICs for the smartphone customer in China. Although our primary focus is mobile computing and IOT, all the time we have expanded our range of products addressing those [unintelligible] markets. In addition to the legacy ASICs, we have automotive certified [spelled phonetically] products in power management for entertainment systems, [unintelligible] slow energy, and CMICs.

Finally, we continue to support our long-standing ASIC customers in the industrial market and seek opportunities for products, such as the CMICs. Turning to side six, let's look at the value of our product portfolio as to custom. Our technical competencies are aligned with secular trends in mobile and IOT for efficient power management and power technologies. Within mobile computing and IOT, power efficiency requires an increasing data processing transmission rates keep rising.

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Our products enhance consumer experience and enable our customers to differentiate and move fast to market. Our technologies contribute, for example, to extending battery life in portable devices, charging batteries faster and safely, and providing efficient connectivity in our EOT applications. Within our EOT, the complexity of power management in connected devices, like wearables and smart watches, is gradually gathering pace. There has -- an increase in the number of always-on applications and feature-rich wireless audio applications.

These trends demand low-power technologies, low latency wireless audio, and high performance but cost-effective solutions. Finally, we are also seeing an increase in the rate of data processing

and transmission in the automotive and industrial markets, for which standard, low-power technologies are gradually being adopted. Our technology portfolio brings added value for our customers by enabling them to differentiate and meet the requirements of the market in which they operate.

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Let me briefly run through our route to market on Slide 7. We haven't discussed our sales strategy with you for a while, but with an increasing number of engagements across a variety of channels, it seems appropriate to touch on this again. Over the years, we have established a broad range of sales channels, [unintelligible] market adoption of our innovative products, and built a close relationship with most of the leading consumer electronics companies.

To increase our reach in certain segments in markets, we have collaborated with other semiconductor companies through the reference platform programs and developed a close collaboration with a variety of module makers and distributors.

To highlight some examples, we have a global distribution agreement in place with Avenet [spelled phonetically], the worldwide leader in semi-conductor distribution. Our opportunity in automotive is built on the Avnet of the reference platform program with Renesas and Xilinx.

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Alongside this, we are working the spectrum to increase our market share in the mid to low-end segments of the smartphone market. Now, let me take you through the positioning and financial performance of our business in the next two slides. Turning to Slide 8, let me cover mobile systems first. The majority of our mobile systems business was built on a broad R&D with our largest customer. Over time, we have simultaneously increased the number of platforms and the content per device. This has resulted in a significant revenue stream with solid profitability. As I said earlier, during the quarter, we have been awarded with a number of new custom PMIC designs targeting 2019 and later production routes. Additionally, we are now also working on new opportunities with our largest customer outside of power management and are extending our power management offering into other customers and in markets.

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At the end of 2017, we had approximately 15 percent market share in power management for mobile computing, and we are well-positioned to continue working with new and existing customers in mobile and IOT. Finally, let me cover on Slide 9 the opportunity outside of mobile systems. Through a combination of acquisitions and organic developments, we have built a portfolio of innovative technologies -- a strong market share in growing markets. In the last quarter of 2017, we continued the expansion of our product portfolio with the acquisition of Silego and the LED backlighting portfolio from AMS. With Silego, we acquired an exciting,

innovative technology which can be sold into multiple end-markets. This combination of organic development and acquisition has enabled us to generate a diversified revenue stream which will reach or exceed \$400 million in 2018, representing a 19 percent [unintelligible] over the last four years.

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As this part of our business has grown in scale, we have been able to increase profitability faster. Over the period 2015 to '17, underlying operating profit has grown at a 16 -- 64 percent compound annual growth rate. I am really excited about the opportunities in this part of the business and its contribution to our prospects of a good year of growth in 2018.

Before I hand over to Wissam, I would like to make a few comments on the integration of Silego. I'm very excited about the opportunity of this business and our part of advanced mixed signal business segment. The main thrust of the sales force integration has already taken place, and we are beginning to see early signs of excellent progress. During the quarter, we entered the mobile end-market in Asia with our first customer being in China, we have seen an increase in the number of design wins in three geographical regions, Americas, Taiwan, and China.

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As I told you when we announced the acquisition of Silego, one of our objectives was to increase the value of the platform by introducing our own IP. This program has not started. During the course that we launched the first product post-acquisition, the first [unintelligible] that can be programmed in system, this is an exciting step and over the next couple of weeks we are making a strong marketing effort in the China region. In Taiwan 2018, Silego contributed \$22 million of revenue, and yesterday, we announced the remarkable milestone for the CMIC, which has now shipped over 3.5 billion units to date. With that, I'd like to hand over to Wissam take us through the financial performance of the business in quarter one 2018.

Wissam Jabre:

Thanks, Jalal. Good morning, everyone. First, let's take a closer look at revenue performance on slide 12.

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Q1 2018 revenue of \$332 million was up to 23 percent year-on-year and in line with our February guidance. The year-on-year increase was driven by growth across all business segments. Mobile systems during Q1 was up 17 percent, mainly on increased content per device. Silego contributed \$22 million of revenue in the quarter, which drove growth in advanced mixed signal. Connectivity was up 21 percent, driven by 45 percent year-on-year revenue growth in Bluetooth low energy and a healthy level of growth in the text-based products.

Finally, automotive and industrial was up 18 percent due to the solid performance of the automotive products. Excluding the contribution from Silego, year-on-year revenue growth for the group in Q1 2018 was 14 percent.

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We adopted IFRS-15 [spelled phonetically] from the 1st of January 2018, and this had no impact on the revenue recognition of the majority of our revenue. Turning to slide 13 to cover gross margin; from 1st of January, we changed the classification of certain product development costs. This change was made to improve the comparability with our industry peers. These costs were previously reported as cost of sales and they are now reported with the R&D expenses. In the top right of this slide, you can see a table showing underlying gross margin as reported and after the reclassification. In the press release, we included a table where you will find the impact of the reclassification of costs in gross margin and R&D expenses. Q1 2018 underlying gross margin was 47.2 percent, 10 basis points above Q4 2017, in line with our February guidance.

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The adverse impact of the revenue seasonality was offset by product mix. Compared to Q1 2017, gross margin was down 60 basis points. This was mainly the result of product mix. Let's now turn to slide 14 to cover operating expenses. Q1 2018 underlying operating expenses were \$104.7 million, up 21 percent from Q1 2017. This includes the impact from the consolidation of Silego into the group. As a percentage of revenue, underlying operating expenses were down 30 basis points year-on-year. Underlying R&D expenses in Q1 2018 were up 21 percent year-on-year. This increase was the result of the consolidation of Silego into the group alongside the ongoing investment and application-specific customer opportunities supporting the growth and diversification of the business.

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As a percentage of revenue, underlying R&D expenses were down 30 basis points year-on-year at 22.1 percent. Underlying as G&A expenses increased by 23 percent over Q1 2017. This increase was mainly due to the consolidation of Silego. As a percentage of revenue, as G&A was in line with Q1 2017 at 9.4 percent. During 2018, it was continued to carefully manage as G&A expenses and invest in R&D projects to enhance our technical leadership and expand our technology portfolio. Moving on to slide 15 to take a look at the operating process and EPS.

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In Q1 2018, underlying operating profits was 21 percent higher than Q1 2017. This was mostly due to the higher revenue in the quarter. Two of our operating segments maintained a similar level of underlying operating margins to Q1 2017. Mobile systems had approximately 23 percent, and automotive and industrial had 40 percent. The advanced mixed signal segment

improved underlying operating margin significantly from 5.5 percent in Q1 2017 to 9.1 percent in Q1 2018. In Q1 2018, the combined operating profit of advanced mixed signal connectivity and automotive and industrial was \$8.7 million, up 58 percent year on year.

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This represents approximately 70 percent of the group's total underlying operating profit. The combined underlying operating margin of the three business segments was 9.5 percent, 80 basis points above Q1 2017. The underlying effective tax rate in Q1 2018 was 21 percent, 170 basis points below Q1 2017. As a result of the higher revenue growth, underlying diluted EPS for the quarter was up 23 percent, to 53 cents. From earnings, let's now turn to slide 16 to take a closer look at inventory and cash. As we indicated in February, the value of inventory decreased 18 percent from Q4 2017 levels, and [unintelligible] inventory increased to 70 days.

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At the end of Q2 2018, we expect inventory levels and [unintelligible] inventory to increase from Q1 2018 ahead of the ramp in the second half of the year. At the end of Q1 2018, cash and cash equivalents balance was \$501 million. The decrease year on year was primarily due to the cash payment related to the acquisition of Silego Technology. The lower year-on-year cash flow from operating activities and free cash flow reflect working capital movements and timing of tax payments. In summary, we have made an encouraging start to 2018, delivering a set -- a solid set of financial results. We remain focused on delivering value to our customers and expanding our product portfolio through a combination of R&D programs, strategic investments, and M&A. We remain a cash-generative business. Our financial position continues to strengthen, and I'm confident about our prospects for 2018.

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Before we open the call to questions I would like to talk about the Q2 outlook. Based on our current visibility and typical seasonal trends, we expect revenue for Q2 2018 to be in the range of \$275 million to \$305 million. At the midpoint, this will result in 13 percent year on year revenue growth. We expect gross margin to be slightly above Q1 2018. Finally, we reiterate the expectation for 2018 to be a year of good revenue growth. With that, I will now ask the operator to open the call to questions. Josh, over to you, please.

Male Speaker:

Thank you very much. Ladies and gentlemen, if you'd like to ask a question, please press star, one on your telephone keypad. If you change your mind and wish to withdraw your question, please press star, two.

00:19:01

Please ensure your line is unmuted locally, and then you'll be advised when to ask your question. That's star, one on your telephone keypads now, please. Our first question comes from the line of Aditya Metuku [spelled phonetically] from Bank of America. Please go ahead; your line is now unmuted.

Aditya Metuku:

Good morning, guys. So, two questions, if I could. Firstly, Jalal, could you talk a bit about the assets you have that will help you address the back-lighting market and [unintelligible] to the back of the slide back. Any color on what exactly you're supplying here, who your key competitors are, and what your strategy is to gain share from them? And secondly, my question is on the visibility you have with Apple [spelled phonetically]. It looks like your visibility's gone up a little bit for an additional year. But has anything changed in the quarter that impacts your visibility in the medium term?

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So, let's say, three to five years out, or do you still think applicants insoles [spelled phonetically] are designed around our PMICs? Thank you.

Jalal Bagherli:

Good morning, Aditya. So, the first question is -- so, the -- as part of our Silego acquisition -- as part of our Iwat [spelled phonetically] acquisition, probably, I guess, three years ago now, we had a solid [unintelligible] lighting business. So, which -- we normally talk about the lightbulbs, LED-based lightbulbs.

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So, part of that technology, also, we had products for backlights. And these backlighting technologies basically are for LEDs, for multiple channels in an TV screen. So, they tend to go into high-end TVs, like 8K, 4K. They have -- the HDR type of technologies for TV screens. In November, December, we announced acquisition of assets, and products, and IP from AMS. So, they had -- AMS had a range of products similar to ours in a different product market -- and that different customers, as it turned out, quite complementary sort of customers. So, the businesses weren't big because the signs of the advanced TV at the time -- the last two or three years -- has been small but growing. So, we kind of felt that, you know, combine the two would be useful for one of the players and not both spending R&D.

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So, essentially, we bought those assets and they are out of that market, and we've strengthened our position. We believe we are number one now in the market for backlighting for TV screens.

But now, we see an extension into monitors, other color screens. And down the road, we think this technology is a very advanced technology. It's also applicable to other kind of displays

where you want to manipulate, with accuracy, sections of the screen which are LED based. For example, in automotive, if you think about driving between a sunny area and a shady area, the areas of shade and sunshine, you can increase or decrease the light in that part of the screen -- not in the whole of the screen. So, things like that, which are very clever stuff that you need for future larger screens.

And also, some of the technologies are also applicable to the up-and-coming micro LED and mini LED that is being spoken about for some of the display technologies.

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So, we are very positive on this, being now number one in this market. We see -- we are, actually, across every single brand name of TV, pretty much to my knowledge. And the shipments on some of those have started and we'll see strength of this going forward, and we'll expand into other markets.

We don't believe that there is a competitor of significant size. We can always round up, you know, big guys with some technology in displays. I'm sure they can muster some product or technology to compete. But in the market, actually playing, there isn't really a large name playing in the backlighting for this type of screen. So, we believe we will have the run of the market for a few years.

So, does that answer your first question?

Aditya Metuku:
Yes, indeed.

Jalal Bagherli:
Okay.

Aditya Metuku:
And just on the second one --

Jalal Bagherli:
Right. The second question was to do with visibility at Apple.

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I think it remains very similar to, you know, this time of the year for every year. I think, in the Q1, we -- as -- I guess you're talking about the future years as opposed to this year. I guess you can read into our guidance for the year to be a good year of growth, to infer that there is obviously shipments of new products in the second half. That's why we believe it is heavily -- our revenue is heavily weighted towards the second half. If you're asking a thing about the

future -- and what we said this quarter was -- sorry. In prior quarters, we said that we have development of IP blocks ongoing to address the 2019-type product. That was evaluated, successfully completed. And during this quarter, we -- actually together with our customer -- we have completed the chip that will end up in smartphones of 2019.

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When I say completed the design is completed, the chip is taped down to [unintelligible]. We will wait for the chip to come back. We will advise you [unintelligible] sample on track, on time, for the second half to customers -- to second half of this year for them to validate with the rest of the system for 2019 -- September 2019. However, the right date is in late '19 for those generation of forms to be launched. So, that's how much visibility I can give you on that specific question. We do have a broader range of [unintelligible] and other things for other products also awarded in the last three or four months, which we started work on, and the range of -- their launch date ranges from late 2019 to 2020.

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Aditya Metuku:

Okay. Understood. Thank you.

Male Speaker:

Our next question comes from the line of Andrew Gardner [spelled phonetically] from Barclays. Andrew, please go ahead. Your line is now unmuted.

Andrew Gardner:

Good morning, gentlemen, thanks for taking the question. So, another one in a similar vein to that last one, just specifically, Jalal, I suppose contrasting the potential internalization of certain power management functionality with the fact that you are winning what seems like an increased number of sort of quote "sub-PMIC [spelled phonetically]" wins. You know, we first saw the sub-PMIC introduced into the architecture of the phone last year. It sounds as though we're moving from a perhaps a single sub-PMIC to multiple sub-PMICs. Is there a general sort of comment you can talk about sort of how a management componentry in general in the phone and perhaps we seem to be moving away from an increasingly monolithic sort of structure as we'd had over the last decade to perhaps a return to more fragmentation, you know, within the device?

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I'd just be interested sort of conceptually on your view there and the secondly, in terms of the new revenue guidance you're giving for the X [spelled phonetically] mobile systems piece, the \$400 million this year or at least, you generated \$92 million in the first quarter, so to get to \$400 million for the year doesn't require much sequential growth as we move through the next three quarters yet you sound particularly bullish on some of these areas, Bluetooth low energy, rapid

charge, Silego. Is it fair to think of that \$400 million as a pretty prudent-based case with likely upside to it? Thank you.

Jalal Bagherli:

Good morning, Andrew. So, on the first question, so sub-PMICs I'll just talk general trends based on our interaction with more than one question. I mean, specifically your early part of the question was to do with the phones with the core PMICS and sub-PMICs.

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So, you're right. So, for the first time we had the opportunity to do a custom PMIC and a custom sub-PMIC for one phone. We see now going forward the number of sub-PMICs increasing and there are multiple reasons for this. Some of it is I guess a lot of it comes from saving power point of view and I'll explain in a second. But also, the practicalities of the large size of the main PMICS and closeness or relative physical proximity of those core PMICS through the processor, the main processor. So, we see that main PMIC although evolves as we go it might maintain similar set of content or similar size, if you like, going forward.

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But the additional features, [unintelligible], expansion into different areas, that requires additional physical hardware to the phone or tablet, whatever, will be supported by a smaller PMIC which will be called sub-PMIC closely placed next to those features and next to those components. So, again, just hypothetically if you're adding a 3-D camera to an otherwise regular smart phone, rather than trying to get your PMIC for the processor to root across the board, PCB board, to get to the camera to power it up and know when to power up, power down, and when to produce enough energy for them to transfer data, et cetera, you take advantage of a localized PMIC for that function. And one thing is you just be cluttered aboard by not rooting around so many power lines because otherwise everything has to come from one PMIC across all the board.

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The main PMIC still covers quite a bit, but you want to reduce that, so you have actually have a smaller, neater board and you can place more components. Secondly, perhaps more importantly, the -- it may be that you can have your main processor in sleep mode, the hibernation mode, to save energy, and some of the peripherals -- when they operate they don't necessarily need the main processor to be operating. If you rely on the main processor and the main PMIC, it merely has to be on, and that just consumes power. So, there are modes of operation where peripherals can be independently gathering data or responding to data without requiring the processor to be running all the time, and when they need to communicate, then the processor comes back online and receives a transmission, data, or commands, or instructions. So, for those reasons we see physical - physically, multiple subschemas [spelled phonetically].

00:31:04

And we've seen this in other customers as well, particularly for the sort of high-end smartphone design, complex smartphone design. There seems to be a trend.

Andrew Gardner:

That's very helpful. Thank you.

Jalal Bagherli:

On the second question, I think I said reaching for hard [spelled phonetically] or exceeding, actually, to give ourselves leeway. We don't typically guide, you know, segment by segment, and that's the reason. You're right: we're bullish on our -- for example, low-energy Bluetooth had fantastic, phenomenal growth last year, and we have massive design means this year that will mean that we are confident that it will again show very large growth this year. Silego; we guided them [unintelligible] that would grow for about 15 percent top line a year. I think, you know, if anything we see in Q1 it actually grew 22 percent.

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And you know, if that's a sign of the rest of the year, so you can sort of model that the chance of 20, 21 percent is probably not, you know, too wrong. But you know, our target growth for that business is about 15 percent a year, but you know, obviously, we do everything to ensure we, like, hit that. And certainly, the uptake of the product is very good, and we're very encouraged with our first breakthrough at the mobile phone market in in Asia. We actually -- before they finished the press release, I've heard there are others in the pipeline, but they're not confirmed from design yet, so I'm hoping to be able to announce them in the next quarter. We have added about 40 more customers to the existing roster of customers and applications they had for that quarter, just during the last three four months.

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So, we think that that is -- that progress is good. By the way, as we speak, we're also running a what we call goal configure. They are like your hands-on training on -- with the actual product with customers in -- we did one yesterday in Shenzhen, China, and we did one in Taiwan, and each one has attracted in the order of 400 hands-on engineering people from different companies to join, and we showed them during the seminar on how to use it. So, we think this has got a lot of legs. It was a small company, had visibility in Asia. We are enabling their visibility; we're enabling credibility for signing, you know, volume contracts with major customers in Asia, which helps to progress these products. [unintelligible] now stop to add IP blocks. A lot of technology we have developed over the years for power management -- the combination of the those with the configurability, flexibility that Silego offers gives us a platform to release a lot of products with much higher confidence, and hopefully the much higher ASP [spelled

phonetically] to report in in six to nine months' time. Long answer. Hopefully, it answers your question.

Andrew Gardner:

Yeah, appreciate the additional detail. Thank you very much.

Male Speaker:

Thank you. Our next question comes from the line of Basil Tazay [spelled phonetically] from Otter [spelled phonetically]. Basil, please go ahead; your line is now unmuted.

Veysel Taze:

Hi, I'm Veysel Taze. Several questions. The first will be, in your press release or your report, you highlighted that you secured some new design [unintelligible] with your largest customers. As I understand it, it's not the smartphone space, but -- so, beyond a phone.

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Can you just give a little bit of rough indication -- the new design activities, if successful, what content could that be possible in 2019 and beyond? So, are we talking about one U.S. dollar or beyond?

Wissam Jabre:

Hi. Good morning, Basil. So, I think what we said there is essentially a continuation of what we do every quarter. We get, every quarter, a number of RFQs. We win some. Mostly for PMIC -- we win them all. If they're not PMIC, we have a good chance to win them, but we have to compete against other players. And the -- that typically happens, for example, in audio display, other areas where we're not the dominant player, but we're gaining share.

So, the ones we reported is a result of what's happened in the first quarter. We have won a number of projects. Some are sub-PMICs, to your point.

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Some are for phone. Some are for other products, like tablets, watches, and Mac [spelled phonetically]. And the -- I think the dollar content ranges differently, because some are complete PMICs that could be three, four bucks. Some are sub-PMICs that could be 20 cents, 30 cents, 50 cents. So, a whole variety of things.

The point of it was to also explain to you guys that, you know, we have a continuing business relationship. It's not like actually we are sitting and doing nothing [unintelligible]. We are finishing off 2019 and 2018 parts and these will be new. So, it will be new for, as I said, late '19 into 2020. So, it's a continuing and a growing business relationship in a number of areas, and we're getting more visibility of non-power products as well, which we're very pleased with. And

we hope to land a number of significant opportunities in those areas that we can report on in the future.

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So, that's the background to that paragraph.

Basil Tazay:

Okay. And then, one question on the advanced mixed-signal segment. Silego was doing better than expected, but the rest of the business was down. So, I was wondering, particularly on the rapid charge, do you expect to see in the second half of the year, yeah, volume ramps [spelled phonetically] with some of the major OEMs or high-end smartphones?

Jalal Bagherli:

Yes, we do. So, we have -- it is actually good point. So, we have the sluggish Q4, I would say, also, on the rapid-charge ACDC in Q1. And that's -- Q4 was driven mostly because of Samsung holding back on new designs, on the charging. They're still sort of recovering from their charging issues in the past. They're very cautious.

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But that's going away, and it's, you know, coming back to the market with new innovation. In Q1, a lot of that was because of slowness in China in smartphones, and that's continued to -- I would say -- first part of Q2. But we see a change. Right now, we see demand increasing in that area for AC [spelled phonetically]. And we have also secured and won many new rapid charge designs. So, absolutely, my expectation is the second half, quarter by quarter, would be stronger than what we've seen in Q1 for specifically ACDC products.

Basil Tazay:

If I may -- just a very brief one on other -- on financial results, there was roughly 5 million other expenses in the financial reset, if I'm correct? What was the background there?

Wissam Jabre:

Sorry, Basil.

00:39:05

Are you referring to the 5 million -- oh, the -- this is -- so, on the IFRS side, this is related to the fair valuation at the end of every quarter of the derivatives we own on the Energous [spelled phonetically] share. So, this is our warrant re-valuation.

Basil Tazay:

Oh.

Wissam Jabre:

And it would be a movement of the share price in Q1. We saw a loss within that quarter. This is -- however, this is excluded --

Basil Tazay:

[inaudible] --

Wissam Jabre:

-- from our underlying results.

Basil Tazay:

Okay. Thank you very much.

Wissam Jabre:

You're welcome.

Jalal Bagherli:

You're welcome.

Male Speaker:

Our next question comes from the line of Robert Sanders from Deutsche Bank. Robert, please go ahead. Your line is now unmuted.

Robert Sanders:

Yeah, hi. It's Rob, here, from Deutsche Bank. My first question is, just to follow-up to a previous question, I think, from Andrew, about your -- the potential PMIC content per device as you move to a kind of distributed architecture.

00:40:05

The reason I ask is if you look at the presentation, on Page 19, ID, at least, seems to think that, you know, the seems to think that, you know, the PMIC market is basically kind of ex-growth. So, I'm sort of trying to reconcile that viewpoint out to 2020 with the idea that if you move to a distributed PMIC architecture with things like specialized PMICs for [unintelligible] or AI or whatever it is, that that would lead to an overall aggregate PMIC content per device increase and I have a follow-up, thanks.

Jalal Bagherli:

Okay. I think there are two answers to that question. One is, you know, research companies have the wrong view of the market. It's typically based on existing architectures. So, it's harder for them to have access to advanced architectures which are under development. Secondly, we

are talking about a segment of the market, which is the high end of the [unintelligible] smart phone.

00:41:02

So, you know, in the call it what 2 billion phones it may be a proportion of those phones, not necessarily that this is the case with every single phone. So, I think those two points may help answer that question.

Robert Sanders:

[unintelligible] and my follow-up was just around for [unintelligible]. The underlying optics that you're looking for for this year, the growth percentage, do you have a rough kind of range that we could think about given I think you're running a bit above your historical kind of per sales ratios that used to target? Thanks.

Wissam Jabre:

Sure. So, you know, as we said also in February, just reiterate, there's a fee [unintelligible] spend we do expect a bit of spend increase year-on-year with the stronger focus on R&D. So, one thing to keep in mind is that this is the first year we're going to have a full year of Silego consolidated with our numbers and so as a percentage of revenue, however, I do expect it still to be below 2017 levels from an R&D, as well as from an SG&A perspective. I hope this answers the question.

Robert Sanders:

Great. Thanks a lot.

Wissam Jabre:

You're welcome.

Male Speaker:

Our next question comes from the line of Achal Sultania [spelled phonetically] from Credit Suisse [spelled phonetically]. Achal, please go ahead. Your line is now unmuted.

Achal Sultania:

Hi. Morning. Just a followup on the fast charging business. So, I'm just trying to understand what is going on in terms of technology move when it comes to fast charging. Are you seeing like existing -- like competition from incumbent vendors like Free Scale [spelled phonetically] or Maxim [spelled phonetically] or are you also seeing a trend that vendors are actually trying to go towards more integrated solution and basically there is competition coming from newer guys when it comes to fast charging and adaptors?

00:43:07

Thank you.

Jalal Bagherli:

In the fast charging I think, you know, we -- in the smart phone we have a [unintelligible] market share in that area and other [unintelligible] is that's our similar, if you like, in terms of capability and products. Our people like on-semi [spelled phonetically], like Fairchild [spelled phonetically] acquisitions so they have ACDC fast charging technology and also power integration also has capability in the fast charging area. I think pretty much all are similar in terms of [unintelligible] integrate more, reduce the [unintelligible] highly competitive market. At the lower end you see more Chinese players, but they tend to be not have good fast charging technologies yet but is up and coming.

00:44:08

Mostly to have plain AC to DC conversion for low wattage charges. So, for example the 5-watt charging area is very dominated by the Chinese players. They tend to operate 10 watts, 15 watts and higher, and also fast charging as a feature. So, the market is segmented along simple AC/DC and then complex with fast charging and then there are different standards of fast charging, many of them are from qualcom-based technology and then media tech has also its own capability. But more and more, we see with people like Samsung, Waway [spelled phonetically], and others, they have their own definition of what is a fast charging. They have their own protocol and the reason these succeed is because like all our other businesses we are not shy of customizing parts for major customers.

00:45:07

So, we have products developed which are specific to people's own protocols, as well as being compatible with qualcom protocols. So, that's different to, say, many others who just produce standard [unintelligible] -- and that gets us in the door and gets us to develop things ahead of the competition. So -- and the reason we expect a very good second half is because two major customers with their own protocols are switching to us, and we will be shipping in high volume to them. Hopefully, that answers your question. I think the next generation we see USBPD coming. It's still not available or not used for phones so much, just because it's just a bit more expensive, perhaps.

00:46:03

But I think over time you will see USBPD also being adopted for phones. I think it's now looking more like 2019 for the mainstream market to start adopting USBPD. But this year it will still be proprietary. One or two customers may adopt USBPD.

Achal Sultania:

Thanks. Just to finish that point, like, earlier you -- if my understanding is right, earlier you had this benefit of being first on accepting or at least transitioning to a protocol, whether it's

Qualcomm's or MediaTek's. So, now, is it fair to say a lot of competition is already, like, caught up with you and --

Jalal Bagherli:

There are people who have chips for Qualcomm two, Qualcomm three, depending on which standard. Some have to be compatible with the all existing standards because you don't know which phone they may end up supporting. Then, as I say, many of the -- if you've got a large customer they typically want to make sure their charges [spelled phonetically] supports all the Qualcomm standards, because they don't know which phone, necessarily, it gets shipped with.

00:47:05

Then the design is complete. So, sometimes they have to support all Qualcomm standards, and then, on top of that, they have their own protocols. So, the chip is capable of supporting typically all Qualcomm, MediaTek, and vendors on proprietary protocols. This is not the case for every player, every small phone maker, but certainly all large -- the top five or six; they tend to have kind of their own spin, if you like, on the protocols. So, it's not standard.

Achal Sultania:

Okay. Thank you, Jalal.

Male Speaker:

Okay, we have no further questions on the line. So, this is your final reminder. If you would like to ask a question, please press star, one.

00:48:04

Our next question comes from the line of Gunther Holfelder [spelled phonetically]. Please go ahead; your line is now unmuted.

Gunther Holfelder:

Yeah, many thanks. I had a follow-up on the custom PMIC. I think you mentioned, you know, the one that, you know, is in smartphones in September 2019. Can you talk about the chip? I mean, do you -- from the chip design, did you have any -- do you get any indications, you know, regarding the type of smartphone range? You know, whether this is a high end; whether this will be an increase of content for you?

00:49:02

Thanks.

Jalal Bagherli:

Hi, Gunther. No, unfortunately, I can't talk about forward-looking products, as you know. It's -- you know, if they finish the design -- we don't believe there would be multiple ranges. I mean, it's usually -- in the past, actually, from past experience, for us it's been the same core PMIC that goes into older [unintelligible].

Gunther Holfelder:

Okay. So, you --with this -- let's say with this development of this chip, you expect to maintain, you know, a major share than your largest customer in the September 2019 lineup?

Jalal Bagherli:

Well, those negotiations are not concrete. When we have better visibility for '19, then I'll try and share. You know, just remember '18 hasn't been launched yet, so it's hard to, you know, be very specific on the '19 volume with the customer.

00:50:02

But having said that, you know, that if you do a custom product, that they spend a lot of time with you on it to design and validate that a significant volume will follow. But we don't know the volume will follow. But we don't know the extent of that, beyond that.

Gunther Holfelder:

And I think, in the press release, you mentioned again, you know, that you're aware of the capabilities of your largest customer, Apple, to design own PMICs. However -- but did you have any visibility, you know, whether Apple is, you know, doing this right now, whether there will be a product anytime soon, or are you mainly referring to -- in general -- to the capability and resources?

Jalal Bagherli:

There is a general capability. And I think it is very similar to what was said in the last two press releases.

Gunther Holfelder:

Yeah.

Jalal Bagherli:

So, I think it's almost word-for-word, probably. It's just to make sure that we are not misleading anybody. We are very open with what we know and what we don't know.

00:51:05

So, that's as much as we know, but I'm not aware of specific, you know, products being released, or volume being planned, or you know, in preparation. But you know, it's relatively early for

2019. So, it's possible. And I just want you to be aware. But I don't know specific -- have any more specific information that I can share.

Gunther Holfelder:

Okay. Maybe one follow-up on Spreadtrum. From -- are there, you know, any new developments you could share also, you know, regarding arm-based chipsets, potentially?

Jalal Bagherli:

Yeah. So, we've just delivered, actually -- not just; probably a month or so ago -- samples of our power management and charging chip, which goes with the next generation of the platform, which is arm-based. And they are now building reference platforms using their own chip set and our power management chip.

00:52:04

And I believe this will be released to the customers in this quarter. Typically, China and Southeast Asia is faster in adoption. But nevertheless, it takes a good six months of, you know, developing software and phones around the chip set. So, you know, we expect some early customer adoption in terms of early revenue in Q4 this year, and then ramping into '19.

Gunther Holfelder:

Okay. Great. Many thanks.

Jalal Bagherli:

Thank you.

Male Speaker:

Our next question comes from the line of Sebastian Stavrovich [spelled phonetically] from Kepler Cheuvreux. Sebastian, please go ahead. Your line is now unmuted.

Sebastian Stavrovich:

Yes. Thanks for taking my question. On the decked business, the business performed very well since a couple of quarters. And you have your new [unintelligible] DSPs [spelled phonetically] that would run for consumer headsets [spelled phonetically] in the coming [unintelligible].

00:53:07

Do you think the [unintelligible] cost rate that we are seeing in the decked business right now just tenable for the coming quarters? And also, second one -- [unintelligible] transmitters, when we expect to see the technology finally approved by the FCC in the U.S.? Thank you.

Jalal Bagherli:

On the decked business, I think you need -- we need to -- I think -- you know, we report on audio separately. And some of the audio separately. And some of the audio products is also decked-based. I think DECT, as a handsets business, I think, is in [unintelligible] decline. So, there is no way this is a legacy business. So, we don't expect, necessarily, consistent growth. But from quarter to quarter, we win shares [spelled phonetically] on some phones or some base stations that support that particular customer, versus another company's.

00:54:06

And that's where you will see some changes. But overall, that market is in decline. So, we don't expect the decked business, over time, to grow per se.

For the view that decked technology -- or the audio part of the decked technology -- for audio headsets, which is a separate growth business for us -- and we will be reporting on designment [spelled phonetically] on that going forward. We are currently engaged with a range of customers -- in excess of 10 -- in Asia, U.S., and Europe for -- these are for digital USB or wireless headsets, some of our phones. But they use the underlying technology of DSP processing, and all the processing comes from our decked technology. So, this is something that will have growth. But the base decked -- I think it's just basically a quarterly competitive -- sort of winning a particular contract versus losing or maintaining the share.

00:55:06

It's not -- I wouldn't sort of plan for that to grow over the years.

Sebastian Stavrovich:

In the press release, when you mentioned a decked product was growing 8 percent year-on-year, it was a combined business or only a picked portion of the business.

Jalal Bagherli:

I think it's combined at this point, but the real breakout is the audio parts becomes bigger, so yes, because the more stuff the [unintelligible] segment [unintelligible], we mentioned it as a deck-based product [spelled phonetically], but we did need [unintelligible] legacy business which is the old cordless handset, which continues in many regions of the world, but is basically declining as well while technology takes over. There's less of corded phones being shipped. But the other piece, which is high growth [unintelligible] release some new products in the last quarter so [unintelligible] we have 10 engagements, which we expect to generate growth revenue is for the if you'd like the audio headset, which are for digital and wireless USB headsets.

00:56:15

Sebastian Stavrovich:

Very good, thanks.

Jalal Bagherli:

And the second business [unintelligible] is on Energous. So, Energous has -- was reported they had FCC approval for the near field and up to a distance of I think a few feet or 2 or 3 feet. The latest information we have, and I think -- I'll refer you to the conference call because they had the conference call last week and you might want to listen to their recording. They also have announced the -- in addition to FCC now European Union, Australia, and a number of other countries, Colombia, New Zealand, et cetera, for near field certification.

00:57:04

So, they-- so this technology when you deploy it in any country, it has to have that region or that country's certification. So, currently I think they have 38 countries in five regions that pass the near field. They're working obviously on the mid-field and the longer range. And they're still designing in the parts with a number of people. The design is partially reliant on [unintelligible] customers or so designing or integrating antennas, particular kind of RF [spelled phonetically] engineering for antennas to make sure that the [unintelligible] is efficiently charged and so the work is ongoing. And again, I don't want to give guidance for [unintelligible] company, but I think what they've said is they expect nominal revenue from the first small customers this year and more meaningful revenue in 2019.

00:58:06

But again, this is their statement. It's not my statement.

Sebastian Stavrovich:

Okay. Thank you.

Male Speaker:

Okay. Thank you very much for your questions, ladies and gentlemen, and I'll hand you back over to your host.

Male Speaker:

Thank you again everyone for joining us today. [unintelligible] if you have any further questions, please don't hesitate to contact me or a member of the FTI team. Thank you.

[end of transcript]