Dialog Semiconductor - Q2 Earnings Call

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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, our CFO. In a moment, I will hand you over to Jalal to talk through the company's second 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 then are risks associated with them. You can find a full explanation of these risks on page two of the investor presentation in the Investor Relations section of the Dialog website. The interim report and the press release can also be found on our website. I would now like to introduce Jalal, who will run through the main highlights from the second quarter. Jalal, over to you, please.

Jalal Bagherli:
Thank you, Jose, and good morning to everyone. Wissam will take you through our financial results in more detail in a minute, but first I'd like to update you on what's happening with the 2019 design cycle of our custom PMICs.

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On 31st of May, we announced that the main PMIC in the phone platform was [unintelligible], and we expect this to continue in the future. Price and volume negotiations of the 2019 primary mobile PMIC haven't finalized yet.

We have completed the design in collaboration with our customers, and we are sampling this chip. Additionally, since May we have been awarded the number of new custom PMIC designs targeting 2019/2020 production ramps. On this goal, I would like to take you through some of the key aspects of the business opportunities in IOT and peripherals. Let me touch briefly on our product portfolio on slide for.

Through a combination of organic development and acquisitions, we have built a mixed-signal product portfolio to meet the requirements of customers in consumer IOT and peripherals.

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Our portfolio covers power management [unintelligible] energy, low-power audio, AC to DC converters, and configurable mixed signal ICs since the acquisition of Silego. Building on our expertise in low power and high integration, we have built very strong market positions in areas which include professional audio applications and fitness trackers.

Our products enable customers in these end markets to launch feature-rich applications in short design cycles, while reducing the overall system costs. Our business model is well aligned to the requirements of our customers in these segments, and we continue to invest to expand our product portfolio and increase our share of wallet [unintelligible] application. Turning to slide five, let's look at the key market trends and main applications focusing in the IOT market.

There is a substantial increase in the number of horizontal [spelled phonetically] applications.

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These applications are constantly collecting and assessing the environment, resulting in an increase in the data processing and data transmission activities. To meet the highly competitive nature of consumer markets, our customers work within short design cycles and seek to work with companies that can satisfy as many of their technology requirements as possible simultaneously.

Customers are under the pressure to meet consumer demand for longer battery life and more stringent government regulation on energy efficiency and low standby power. As a result, there continues to be a strong focus for all technologies to be as energy-efficient as possible and an increasing need for more efficient power management in connected devices. Our revenue today in consumer IOT is mostly generated from sales of Bluetooth low-energy and CMICs into applications such as wearables, fitness trackers, proximity tags, and smart home devices. Remember that we classified high-end smart watches as mobile.

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Looking ahead, we are working on new applications which will contribute to driving revenue growth over the medium term in areas such as home consumer electronics and a new generation of connected medical devices. Turning to focus on peripherals, both the professional and consumer segments are demanding a better audio experience and power-efficient, feature-rich wireless audio applications. To tap into this trend, we are leveraging our strong position in the professional audio segment to expand into consumer wireless and USB wireless application.

Many of our customers in the professional segment, such as Senheiser, Plantronics, or Jabra, are already offering a broad range of consumer products. Alongside this, leading OEMs are upgrading their product portfolio; for example, we're seeing an increasing number of in-the-box USBC headsets in the Android ecosystem and growing interest in features such as active noise cancellation for wireless audio solutions, extending battery life, voice control, and biometric sensors.

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The outlook is well-placed to capitalize on these trends and continue growing in IOT. We are expanding our product portfolio, and our strong low-power expertise and the ability to accommodate short design cycles is well suited to requirements of our customers. On the next few slides I'd like to briefly touch on the positioning and value of the technologies in our connectivity segment.

In line with our innovation strategy, we are investing in our Bluetooth low-energy and digital audio technology for future revenue growth. In Bluetooth low-energy, we have adopted a twoprong approach. First, we target selected growing vehicles [spelled phonetically] as a trusted advisor, building close customer relationships and a deep understanding of the technical requirements. And second, we leverage our product portfolio into the broader market.

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Our customers value our deep expertise in developing highly integrated BLE system-on-chip, low-power [unintelligible], and a strategic focus on cortex and applications where the data processing can be done from the BLE SoC. At the end of 2017, we achieved 15 percent market share and we are well positioned to take advantage of the growing opportunities in this market over the medium term.

In the digital audio space, our offering is built on deck [spelled phonetically] and the new audio IC. As a reminder, the audio IC product is a two-chip solution, including the analog codec and the digital processing. Our objective is to leverage our IP and strong market position in the professional segments into consumer and semi-professional applications.

Customers value the level of integration and low-power, combined with solid analog and digital audio expertise, voice and audio processing, and compatibility with multiple communication pipes.

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The ability to meet tight deadlines and short design cycles is vital to ensure ongoing success in consumer markets. This quarter, a top-five global smartphone OEM has adopted our audio IC for new, in-the-box wireless wearable products.

Let me now run through our sales approach on slide seven. As we highlighted last quarter, we have a range of sales and distribution channels focused on accelerating market adoption of our innovative products. Over the years we have established a broad range of sales channels and built close relationships with most of the leading consumer electronics companies.

Our focus is to develop and retain long-term relationships with a variety of module makers, OEMs, industry partners, and distributors. To highlight some examples, [unintelligible] for the IOT ecosystem are the three main OEMs who drive the largest ecosystem.

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Dialog works closely with all of them, and our products can be used by consumers, by customers across Thread, Apple Kit, and Artik.

We have global distribution agreements in place with [unintelligible] and DigiKey, worldwide leaders in semiconductor distribution. Our product portfolio fits neatly with the ever-expanding suite of IOT-enabling products, and the agreements have increased our exposure to a broader range of customers and end markets. We work together with all the main module makers, such as Murata, apps [spelled phonetically], and Panasonic to broaden our market reach.

Now let me take you through the positioning and financial performance of our IOT and peripheral business on slide eight. In connectivity, we have built over time as a strong market share in BLE and profession audio, and we are investing in R&D to expand our product portfolio and generate revenue growth over the medium term.

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The revenue mix in connectivity has also changed over time. In 2015, approximately 20 percent of revenue was in growing markets; by the end of 2018, it will exceed half of the connectivity revenue.

To summarize, there is an increasing opportunity in growing markets where Dialog maintains a strong market share and continues to win new business with innovative and differentiated technology. Alongside the growth and revenue, connectivity has improved its profitability over the last three years, more than doubling underlying EBITDA margin in 2017 to 10 and 1/2 percent. I'm really excited about the opportunities in our connectivity segment and its contribution to our business over the medium term.

With that, I would now like to hand over to Wissam to take you through the financial performance of the business in Q2.

Wissam Jabre:
Thanks, Jalal. Good morning, everyone.

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First, let's take a closer look at revenue performance on slide 10. Q2 2018 revenue of $296 million was up 16 percent year on year and slightly above the midpoint of our May guidance. The year-on-year increase was driven by growth across all business segments. Mobile systems during Q2 was up 4 percent, mainly on increased content per device.

Silego contributed approximately $24 million of revenue during the quarter, which helped to almost double revenue year on year in advance mixed signals. Excluding the contribution from Silego, advanced mixed signal was up 17 percent year on year on increasing demand for rapid-charge products. Connectivity was up 12 percent, driven by 45 percent year on year revenue growth in Bluetooth low-energy. Last but not least, automotive and industrial was up 4 percent due to higher volumes of automotive products.

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Excluding the contribution from Silego, year on year revenue growth for the group in Q2 2018 was 6 percent. On a year-to-date basis, revenue for the group was up 19 percent year on year, with all our business segments growing double digit. Excluding the contribution from Silego, year-on-year revenue growth for the first six months of 2018 was 10 percent. Turning to slide 11 to cover gross margin.

In Q2 2018, underlying gross margin was 48.3 percent, ahead of our May guidance and 30 basis points below Q2 2017. The adverse impact of the product mix was partially offset by savings in manufacturing cost.

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Compared to Q1 2018, gross margin was up 110 basis points. This was mainly the result of savings in the manufacturing costs and improved product mix. For the first half of the year, underlying gross margin was 47.7 percent, 50 basis points below the previous year, mainly due to product mix.

Let's now turned to slide twelve to cover operating expenses. Q2 2018 underlying operating expenses were approximately $101 million, up 9 percent from Q2 2017, less than half of the increase we saw in the previous quarter. This includes the impact from the consolidation of Silego into the group. As a percentage of revenue, underlying operating expenses were down 210 basis points year on year.

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Underlying R. and D. expenses in Q2 2018 were up 6 percent year on year. This increase was the result of the consolidation of Silego into the group. As a percentage of revenue, underlying R&D expenses were down 220 basis points year on year at 24 percent. Underlying SG&A expenses increased by 17 percent over Q2 2017; this increase was mainly due to the consolidation of Silego.

As a percentage of revenue, SG&A was broadly in line with Q2 2017 at 10.2 percent. For the first half of the year, underlying operating expenses as a percentage of revenue were down 120 basis points. During 2018, we will continue to rigorously control operating costs for the remaining part of the year.

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Moving on to slide 13 to take a look at the operating profit and EPS.

In Q2 2018, underlying operating profit was 33 percent higher than Q2 2017. That means profits have grown twice as fast as revenue growth. This was mostly due to the higher revenue and R&D operating leverage. All of our operating delivered double-digit underlying profitability in Q2, and we're profitable on an IFRS [spelled phonetically] basis. As a percentage of revenue, underlying operating profit for mobile systems and automotive and industrial was slightly down year on year to approximately 16 percent and 40 percent, respectively. Connectivity improved its underlying profitability slightly to 14.6 percent, and advanced mixed signal improved significantly, from 10.9 percent in Q2 2017 to 17.5 percent in Q2 2018.

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In Q2 '18, the combined underlying operating profit of advanced mixed signal, connectivity, and automotive an industrial was $19.5 million, representing approximately 47 percent of the total group and up 66 percent year on year. The combined underlying operating margin of the three business segments was 18 and 1/2 percent, 220 basis points over Q1 2018. The underlying effective tax rate in Q2 was approximately 21 percent, 100 basis points below Q2 2017.

As a result of the high revenue growth, underlying diluted EPS for the quarter was 25 percent -- was up 25 percent to $0.45. From earnings, let's now turn to slide 16 to take a closer look at the inventory and cash.

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Excuse me. Inventory levels at the end of Q2 were lower than anticipated in May. The value of inventory decreased slightly from Q1 2018 levels and days of inventory increase to 78 days. At the end of Q3, we expect inventory levels and days of inventory to increase from Q2.

At the end of Q2 2018, cash and cash equivalents balance was $537 million. The decrease year on year was due to the outflow related to the acquisition of Silego technology. In Q2 2018, cash flow from operating activities was approximately $56 six million, which more than doubled year on year. Free cash flow for Q2 2018 was $37 million, also significantly higher than the free cash flow achieved in Q2 2017.

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In summary, during Q2 we delivered a strong set of results with revenue growth and operating leverage, resulting in earnings acceleration and strong cash generation. We are in a solid financial position and are focused on the successful execution of the product ramp ahead of us. Before we open the call to questions, I would like to talk about the Q3 outlook.

Based on our current visibility and typical seasonal trends, we expect revenue for Q3 2018 to be in the range of $365 million to $395 million. At the midpoint, this will result in approximately 5 percent year-on-year revenue growth, and we expect gross margin to be broadly in line with Q2 2018. With that, I will now ask the operator to open the call to questions. Todd [spelled phonetically], over to you, please.

00:18:01

Operator:
Thank you. Ladies and gentlemen, if you would like to register a question, please press star, followed by one, on your telephone keypad. If you do change your mind, please press star, followed by two, and when prepared to ask your question, please ensure that your phone is unmuted locally. Our first question today comes from Achal Sultania, calling from Credit Suisse. Atal, please go ahead.

Achal Sultania, Credit Suisse:
Hi, good morning. Two questions. First on the comment that, Jalal, you made about the price

negotiations for 2019 models. Help us understand. [unintelligible] you said in May that you would be supplying two models out of three iPhone models this year. So, are you getting any visibility on what's going to in 2019? Is the situation changing, or is the same next year? And then, secondly, how should we think about the seasonality in Q4? Basically, are you getting any -- are you seeing in your Q3 guidance -- are you seeing any impact from the fact that you're only supplying two models out of three for the PMIC, or is it more that the impact could be delayed, and some of that impact could be seen in Q4?

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Thank you.

Jalal Bagherli:
Good morning. I think, you know, we limit the comments we have on 2019 to what we've have said. Basically, the -- I think the focus is on getting the 2018 ramp done before models for '19 are fully determined. So, you know, as we said, we have completed our design, and we've sampled the chip, and this chip is being evaluated by the customer. But in terms of the volume or how many models, et cetera, that is still not determined, and we will update you when that is the case.

In terms of the Q3, we have no specific information apart from what we shared. I -- you know, what we are forecasting is for what we understand from our backlog situation.

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It's not -- I can't give you any, you know, delineation between the three models, the two models, or whatever. That's not something I can do. It looks as [unintelligible] forecast that we anticipated, and again, I remind everybody we have two chips in the upcoming cycles. One is across all three, and one is across two models.

Achal Sultania, Credit Suisse
Okay. Thank you, Jalal.

Operator:
Our next question comes from Mitch Steves, calling from Royal Bank of Canada. Mitch, please go ahead.

Mitch Eteves, RBC:
Hey, guys. Thanks for taking my question. Earlier, you said tier [spelled phonetically] -- the first actually just [unintelligible] back in 2019. So, [unintelligible] $100 million [unintelligible] for '19 in terms of the revenue decrease due to the PMIC loss?

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And then secondly, on the M&A front. I know you guys have pulled away from that experience [spelled phonetically], but how do you think about what you guys are looking for strategically in terms of M&A going forward?

Jalal Bagherli:
Okay, I'm going to answer the M&A one, because I didn't quite hear your first question. So, the M&A -- we released information yesterday we disengaged from our discussion with Synaptics, and basically that's kind of where we are with that. It's -- we were only engaged in due diligence discussion. Again, reminding everybody it was a discussion looking into diligence. There were no contractual negotiations at this point. And any acquisitions of this size, when the companies are both of similar size, there's a lot of factors to get right for the acquisition to proceed.

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And you know, for us, based on all the various factors, we don't feel as though it's the right set of parameters coming together to be creating value for our shareholders. So, we decided to disengage, and that's what we've announced.

In terms of our plans forward, we remain open to acquisitions. We did two small acquisitions last year successfully, and we will go back to the market -- there are number of opportunities there -- and we will continue that part of our diversification strategy. So, there's no real change. Clearly, the energy we were putting on a major acquisition can now be refocused on the other targets. I -- can you repeat your first question? Because I didn't hear it. Sorry.

Mitch Steves, RBC
Yeah, no problem. I'm just trying to get a little bit of clarity on 2019.

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So, if I strip out, basically, Silego from September [unintelligible], which [unintelligible], roughly, on a year-to-year basis. So, is it fair to use that as a sort of benchmark for the next, well, [unintelligible] four quarters or so?

Wissam Jabre;
Sorry, Mitch, are you referring to 2019 or 2018? The sound isn't very clear.

Mitch Steves, RBC
[unintelligible] the next three quarters. Essentially, you guys are diving [spelled phonetically] to [unintelligible] down as your September [spelled phonetically] [unintelligible] take out Silego. So, I'm wondering if that's what a rough trajectory should use for December, March, June. Just looking for essential [spelled phonetically] direction.

Jalal Bagherli:
He said if he strips out Silego, just looking down, [unintelligible].

Wissam Jabre:
[inaudible] take it up with him --

Jalal Bagherli:
Yeah. Mitch, I'll follow up with you again.

00:24:01

We can't hear you really well, so I'll give you a call back when we finish, if you don't mind, please. The line is really bad.

Mitch Steves, RBS
Okay, no problem.

Wissam Jabre:
Yeah, sorry.

Male Speaker:
We now have a question from Adithya Metuku calling from Bank of America-Merrill Lynch. Adithya, please go ahead.

Adithya Metuku, BAML
Yeah, good morning, guys. Two questions, if I could. Just firstly, on your inorganic growth strategy, can you give us some color on what exactly will you be looking for? You know, what kind of financial leverage are you willing to take on, and any color around how you're thinking about your inorganic growth strategy.

And secondly, a question for Wissam on the opex progression. In the second quarter, it looks like your opex went down on an underlying basis. You know, historically, this has never happened. If I look at the last three years, Q2 opex generally goes up.

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So, clearly, you know, some cost control measures are being put into place. So, how do you think -- how should we think about opex progression in Q3 and Q4? Thank you.

Jalal Bagherli:
Right. So, I think, in terms of the inorganic growth, we're just fresh from termination of a major acquisition, so we will, you know, refresh our target list, because, you know, things change in the market. And you know, as you know, there was also a number of other acquisitions that didn't go through, like the Qualcomm and NXP. This was much, much bigger, plus other. So, you know, there will be changes in terms of what's available in the market, divestitures, callbacks [spelled phonetically], et cetera.

We -- our targets remain the same. We will look at areas where we can apply the expertise of our company, the DNA of our company, and the management to these acquisitions.

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I.e., we are not looking to jump miles away from where we're good at. So, we will be looking at consumer-related area. IOT that we've talking about quite a bit; areas -- we tend to favor mixed signal type products, because that's what we understand in terms of manufacturing design; and consumer volume.

We like high-volume products, so we're not looking for niche-y stuff. So, that's as much as I can characterize. There is a number of targets available. They tend to be smaller relative to what we were just contemplating, and therefore, I think that financial leverage won't be significant, potentially, as much as it would have been in the deal with Synaptics. Hopefully that answers your question.

Adithya Metuku, BAML
It does, thank you. And Wissam, just on the opex.

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Wissam Jabre:
Yeah. So, on the second question, obviously we've already taken some action to limit opex, but I would draw your attention on Q2. We had a bit of also higher R&D capitalization within the quarter, and so if you factor that in, we had it around \$3 million to \$4 million of R&D capitalization higher than the Q1, as well as a bit higher R&D credits. If you factor that in, net/net, we were probably flattish to Q1. But as we look at Q3 and Q4, we continue to, as I said, rigorously control our Opex. The one element that obviously don't have much control over, are a couple of items are the R&D capitalization, that is typically a link to the timing of one product, sorry, projects reach certain milestones.

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That will be expected to be lower in the third quarter, comparative to what we saw in Q2. Q2 was probably the peak for the year. And also, in Q3, it would start amortizing some of the new products that will start ramping. And so, there will also be a bit of headwind. So, if I want to sort of quantify the headwind maybe from Q2 to Q3, I would say we probably have around four to five million dollars. But, as I said, for everything else we continue to drive vigorous control to make sure we, to make sure we get into a better position by Q4.

Male Speaker:
Understood. Thank you. We now have a question from David O'Connor, calling from Exane BNP Paribas. David, please go ahead.

David O'Connor, Exane
Good morning. Thanks for taking my questions, two from my side.

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Firstly, on the buyback, our potential buyback. Can you share the [unintelligible] and is [unintelligible] an option for you guys? That's the first question. And then a second question for

Wissam may be on the Opex again. Longer term, how do you manage the Opex base going forward here in the context of a potential step change in [unintelligible]? And, at some point, will there be need to right-size the business to preserve margins and cash and things?

Wissam Jabre:
Let me take two, both questions, David. So, on the buyback, obviously, as you very well know, the AGM [spelled phonetically] in May, we got authorization from our shareholders to buy back up to 10 percent of the share capital of the company. And so now that the acquisition that we were contemplating is off the table, the buyback is higher on the agenda. It's part of our consideration when we look at our cash issues, as well as other types of inorganic growth activities.

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With respect to the second question, on Opex, look -- we look at the outlook in revenue, and we're going to be proactive at managing the cost structure of the company to ensure that whatever, whatever outlook on revenue is, we, we are constantly cash-flow positive as we go forward. And, so, I wouldn't be able to give any quantitative indications at this point. Obviously, we continue to look at what 19 and beyond will hold. But, you know, at the right time, we'll be taking the right action, as needed, to make sure that we have the right cost structure for the revenue, as well as we are positive cash flow.

David O'Connor, Exane
That's helpful. Thanks, Wissam.

00:31:04

Wissam Jabre:
You're welcome.

Operator:
Our next question is from Sebastien Sztabowicz, calling from Kepler Cheuvreux. Sebastian, your line is open. Please go ahead.

Sebastien Sztabowicz, Kepler Cheuvreux
Yeah, hello. Thanks for taking my question. Could you please provide a little bit of how you document for the [unintelligible] and deck-based product [unintelligible] because it seems that the dynamic of this category was a bit behind expectation in Q2, as it seems the business dropped quite [unintelligible]. What could we expect for the back half of the year for this kind of product? And, also, for AC/DC [unintelligible] business, what was the rate of growth [unintelligible] in Q2, and what do you expect for the second part of the year for AC/DC converters?

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Do you have any specific [unintelligible] second half of the year? Thank you.

Wissam Jabre:
Okay. On the -- I mean, we don't break out as a separate category, Sebastien, so it's part of our business of connectivity's reported as a segment. So, in that segment we have the wireless audio and that is, that includes deck, two decked things. One is decked handsets, which are the older decked phone systems, which are Legacy business and is called a cash cow. And the second part is the growth business, which is the headsets, professional headsets up to now, and going forward, and we are going into the consumer headset, as I indicated in my opening remarks.

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We see, actually, growth there. So now the growing piece of connectivity is larger than the Legacy piece. The other part of the connectivity, of course, is the Bluetooth, which has caused very high growth.

So, I don't, I'm not sure where you got that assumption from in terms of reduction, but connectivity, for example, as a whole, grew 13.4 percent in terms of sequentially, and also in terms of year on year, it grew 12 percent overall. So, that includes both Bluetooth and the wireless audio technology. So, I hope that answers that question.

Sebastien Sztabowicz, Kepler Cheuvreux
Yeah, but just if you look at the Bluetooth when it was 45 [unintelligible] --

Wissam Jabre:
--right.

Sebastien Sztabowicz, Kepler Cheuvreux
--so maybe [unintelligible].

Wissam Jabre:
Right.

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So, the decked handset is a market that's, you know, every year it reduces because it is related to the old phone lines to homes. That's why people don't buy those phones. And, you know, more and more, the, you know, past, I guess 15 years, the, the new generations are relying more and more on wireless instead of the phones and they don't buy so many wired phones. So that's, that's where it is. But is not, is not unexpected. We have expected that business to reduce roughly between eight to 12 percent per year because the market is shrinking. But our market share remains good. And we've actually increased, and our market share is very profitable.

So, the cash that [unintelligible] out of that business, we plow back into the headset business, which is a new growth business. It uses decked technology plus our analog codec and other things, and this is a new area, and that is growing.

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And, of course, Bluetooth is growing [unintelligible].

Sebastien Sztabowicz, Kepler Cheuvreux
Okay. Thank you.

Wissam Jabre:
You're welcome.

Operator:
We now have a question from Andrew Gardiner, calling from Barclays. Andrew, please go ahead.

Andrew Gardiner, Barclays
Thank you. Good morning, gentlemen. Two questions, please. Firstly, on 2018, you've talked, talked again about, you know, a year of growth [unintelligible] towards the second half. I just come back to the comments you made in late May, early June, regarding the sort of revised expectations supposed to change at Apple. Can you confirm that, you know, that, sort of that reduction or that revised expectation is still, indeed, the case, and you're comfortable with that given what you can see in 3Q and sort of the, the initial visibility into 4th quarter?

Wissam Jabre:
Yes, Andrew, this is Wissam. Thanks for the question.

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Yeah, the, the outlook for us is still we're expecting 2018 to be a year of good growth. And whatever we indicated at the time, in May 31st, the implications from the massive market share for the [unintelligible] was around the five percent. We're still expecting, basically, the same, the same numbers.

Andrew Gardiner, Barclays
Okay. Thank you. And then sort of thinking beyond this year, you alluded to a number of design winds in the press release. I'm just wondering about your level of engagement with Apple outside of the core, core [unintelligible] for iPhone. Can you comment on the level of activity you're seeing there across the rest of the portfolio, and sort of how that makes you think of the, you know, level of business you'll have within 19, 20, 21? Thank you.

Jalal Bagherli:
Thank you, Andrew. That's a, sort of, over-arching question. But, please, let me talk about the relationship and the, the, what we have visibility of.

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So, I think, as we indicated before, actually, we had a number of designs won since January, actually since December. And since May, we've won additional three other designs. These are across different platforms. They tend to be a variety of designs, small [unintelligible], as well as other, other types of [unintelligible] for applications. And some end up in form, some for tablets, some for other products as yet unidentified or that we don't know. And the good thing is the number of opportunities coming our way has not diminished. In fact, if anything, it's increased in terms of numbers of opportunities. And the relationship is very healthy. The activities between the many engineering teams is ongoing, between the management, between procurement, all of that is positive.

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With the, of course, acknowledgement of what we said, which is the main core PMIC is now [unintelligible] and we lost a share of volume this year. That is expected to continue going forward. There's no change in what they've said, but all the other products are up for grabs and we grabbing it, a good proportion of those going forward affecting 19, 20, and 21 in these. So we see an ongoing stream of opportunities against the backdrop of what [unintelligible].

Andrew Gardiner, Barclays
Thank you, Jalal.

Operator:
The next question today comes from Veysel Taze, calling from Oddo Asset Management. Basil, please go ahead.

Veysel Taze, Oddo
Yes, good morning. Maybe I follow up on your sub PMIC with your lead customer.

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Can you quantify the number of sub PMICs looking -- going down two, three years? I mean, it looks like it could be around four five sub PMICs when we move to 2020. That would be the first one. And the second one on the main PMIC business, do you see the risks that the main PMIC, that you might be replaced for the main PMIC in other products which seems to be not the case right now?

Jalal Bagherli:
Hi. And so, sub PMICs I think is not something we can project accurately for several years ahead. So, what we alluded to is a [unintelligible] which is basically, you know, focusing of the core PMIC on to the application processor more and more and the additional features and peripherals added to a phone or tablet would be serviced through sub-PMICs or secondary PMICs or, you know, whichever you want to call them.

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And so, the reasons are partially technical for distributing the power and heat across boards, making the boards more rootable, more manageable in terms of also putting down bigger batteries if as you reduce the clutter on the board, you release more rear space for batteries which is useful.

So those are the driving reasons. Now we have seen one PMIC in the actual forms of the shipping so far. We have visibility of two, as we've said in the 2020 -- sorry, 2019 designs, and we are working on more than that for the year after. But we don't know necessarily all of that, you know, because the design for those are so early that it's hard to predict.

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But my -- and what we've shared with you guys is our assumptions of trend would lead to something in the order of four or five sub-PMICs. And we have -- and those are not kind of dream products. They're actually products that we're working on, but we don't know the final conflagration of those end application until the customer has completed his design which is very early. So that's why I don't want to be so definitive on the numbers.

On the main PMIC replacement, I think we've shared what we know. As we've said, our customers are capable of designing core PMICs clearly and, you know, should they decide to upload to other areas, technically that is possible, but, you know, it's also a function of resourcing, risks, and many other things.

00:42:04

So, there are differences between, for example, a phone and a tablet PMIC as you handle bigger batteries, bigger screens, et cetera, the type of technology, the IPs are partially different. They share quite a lot, but they also have different specific IPs that are relevant for high efficiency of handling power. And it comes down also to the size and number of teams available to do these things. Now that doesn't rule it out for you, but in my humble opinion at the moment, I don't see that being on the agenda.

Male Speaker:
Okay. And maybe a very quick one on your PMIC activities beyond a main customer. I mean, a pre-fab date where we stand there, particularly on the spread phone partnership. I mean, it looks like it become quiet, the communication with this partnership.

00:43:01

Jalal Bagherli:
Okay, so on the spread phone, the first generation we did a chip last year, right? And that chip was for the very first LT and I think it's standard on one of the codes -- that particular platform, the [unintelligible] platform used Intercore and when they came to promote it, it didn't really take much traction just because, you know, the processor is not something people typically find in phones. Most of the rest of the world, in fact, to the man uses Oncore. So, in the second generation of the LT platform, they switched back to the Oncore base platforms and we created a new PMIC, which will release the samples within March this year. Since March, they've been building platforms using the new LT and our chips and their target is smaller second-tier type customers, both in phones and tablets, but also customers outside China.

00:44:11

That includes Southeast Asia, India, et cetera. And the latest is we started shipping bigger quantities of samples. We see four to five design wings by Spreadtrum in these customers. We see probably a healthier number in Q4, so they are just promoting, so, you know, our expectation is that they will have more designs, but we know that's secured already four or five. They're typically smaller customers but we also know they include some India phones with Indian operators. So, we should be seeing early revenue in Q4 because we are already starting to ship samples and we think something which is more meaningful we will be able to report in Q1 2019 in terms of revenue.

00:45:03

So, it was quiet. You're right, in the first generation. The second generation seems to be gaining traction and is actually hitting the type of customers that we wouldn't be able to reach by ourselves and we could only do through a partner like Spreadtrum. So, to my mind, I think, also somewhat beyond our original expectations in terms of finding, it is starting to come back together.

Outside of that, as you asked about PMICs in other areas, we see traction in gaming machines in Japan. So, we're engaged in designing chips for that segment. Again, we will report progress when we have more concrete items, but we're making good progress. We are fitting for other areas using our two-to-one conversion for high voltage charging in the phones which comes from the same product group.

00:46:01

So, again, in this press release, I think they alluded to a top four China smart phone maker to start going to production with two optic chips. We’re hoping that that will be then replicated across other Chinese smart phone makers so we will be having a bigger base [inaudible] of revenue generation. And, you know, we have also started shipments of PMIC to our first camera, DSLR camera, in Japan customer. So again, there's a range of four or five DSLR cameras that use the same PMIC and we started shipping to the very first one and two and we expect about five platforms to go to production over the next 12 months. So, we are looking at sub-segments outside mobile. We're looking at derivative technology or power like charging inside mobile as well and Spreadtrum is a very [unintelligible].

00:47:07

Male Speaker:
Okay. Thank you very much.

Operator:
Our next question is from Lee Simpson calling from Stifel. Please go ahead.

Lee Simpson, Stifel
Thanks so much. Apologies first. I've missed most of this call, [inaudible] if this question's been asked I apologize up front. But just wanted to try and ask about Silego if possible. Looking at the advanced mixed signal business, it's picking up quite nicely in this quarter and if I assume all of the trends being equal are continuing from 2017, my suspicion in that Silego is the culprit for this growth. If it is, could you give us a sense for why that is? I mean, are we looking at operations starting to hit full stride after the acquisition integration, or is there something else to our important [spelled phonetically] cycles and new businesses that are beneath the [unintelligible]? Thanks.

00:48:03

Jalal Bagherli:
Good morning, Lee [spelled phonetically] and thanks for the question. So, the advancement signal [spelled phonetically] comprised of two businesses, as you call them. One was the X-Silego, which we call configurable mixed-signal business unit, and the other one is a power conversion to XI-1 [spelled phonetically] business. I'm happy to report both businesses within the reported segments are going very nicely.

So, the power conversion, in the beginning of the year, had a slow start because of the issues in Chinese markets. But in the Q2, it regained momentum and it showed a very good, very good sequential growth, as well as year on year growth.

00:49:00

And that is driven by higher share in Korea, but also much larger shares and shipment in China. In fact, the top four Chinese all use -- do all use our fast-charging [spelled phonetically] products. Software, I feel like, portable, customized for their purposes, but nonetheless the base products are the same. And equally in Korea, we have regained some market share. So, overall, our market share worldwide is in the order of 60 percent for the rapid charge, and we maintain it in a growing market.

On the Silago [spelled phonetically], the integration has gone well. The -- I think the promotion has gone well. Silago had momentum before we had court [spelled phonetically]. We've maintained and added to that momentum using [unintelligible] task force capabilities in production, and also customer access.

00:50:07

I think we indicated our expectation of 15 percent top goals, beginning of the year. We surpassed that in Q1. We surpassed that again in Q2. So, I think we have updated our expectations to 20 percent plus now, for the year for Silago. So, it's doing really well.

The traction in the Kosto [spelled phonetically] base is good. We had two promotional days in Asia recently with full days in Shenzhen, in China, and Taipei, and the booths were sold out. They ran off three, four hundred engineering attendants, hands-on training on Silago -- it was a little bit like the FCGA [spelled phonetically] with the software and everything, and once you get addicted, if you like, to the way that -- how easy it is to use and customize, customers just carry on generating designs of their own. And that's kind of the secret source behind that product line. So, we're hoping that this trend continues for the balance of the year and, indeed, into next year's.

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And, you know, Garlevosa [spelled phonetically], as part of his R & D investment, they have invested and doubled down on the product development at Silego, with adding more complex, more high-performing [unintelligible] into the next generation of Silego chips. And they should come to the market within the next 12 months to propel the growth even further.

Male Speaker:
That's terrific. Thanks to the caller.

Operator:
Ladies and gentlemen, that was our final question today. I'd now like to hand back.

[end of transcript]