Press release – 11 August 2021

Dialog Semiconductor reports results for the second quarter ended 2 July 2021

Q2 2021 revenue at US$318 million, up 5% year-on-year. Underlying operating profit at US$62.9 million, 1% above Q2 2020. Revenue excluding legacy licensed PMICs was up 33% year-on-year.

London, UK, 11 August 2021 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the second quarter ended 2 July 2021.

	IFRS basis (unaudited)		Underlying basis[1] (unaudited)		
US$ millions unless stated otherwise	**Q2 2021**	Q2 2020	**Q2 2021**	Q2 2020	Change
Revenue	**317.8**	302.3	**317.8**	302.3	+5%
Gross margin	**51.0%**	50.2%	**51.2%**	50.6%	+60bps
Operating expenses[2]	**132.2**	120.3	**101.3**	97.8	+4%
Operating profit	**31.1**	40.5	**62.9**	62.4	+1%
Operating margin	**9.8%**	13.4%	**19.8%**	20.6%	(80)bps
Diluted EPS	**$0.30**	$0.45	**$0.67**	$0.69	(3)%
Free cash flow	**N/A**	N/A	**(9.4)**	24.0	nm

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 5).
2 Comprising SG&A and R&D expenses.

Q2 2021 Financial highlights

- Revenue of US$317.8 million, including acquisitions, 5% above Q2 2020.
- Strength across the product portfolio with revenue excluding legacy licensed main Power Management ICs (“PMICs”) up 33% year-on-year.
- Gross margin at 51.0% (Q2 2020: 50.2%), and underlying gross margin at 51.2% (Q2 2020: 50.6%).
- Operating profit of US$31.1 million (Q2 2020: US$40.5 million), and underlying operating profit of US$62.9 million (Q2 2020: US$62.4 million).
- Diluted EPS of US$0.30 (Q2 2020: US$0.45) and underlying diluted EPS of US$0.67 (Q2 2020: US$0.69).
- Q2 2021 cash flow from operating activities of US$7.4 million (Q2 2020: US$33.1 million) which included US$12.5 million recoupment of the prepayment relating to the license agreement.

Q2 2021 Operational highlights

- Continued design-in momentum at our largest customers for the development and supply of several mixed-signal integrated circuits for 2022 and 2023. We have made significant progress on a number of designs scheduled for 2022 production.
- Strong operational performance despite evolving lockdown restrictions.
- Revenue from new mixed-signal products in Custom Mixed Signal business segment from our largest customer was up 11% year-on-year.
- Q2 2021 revenue from Advanced Mixed Signal segment up 26% year-on-year driven by strong demand for backlighting products.
- In Q2 2021 we launch our innovative digital Zero Voltage Switching (ZVS) rapid charge chipset, to enable 100 Watt and beyond High Power Density (HPD) Power Supply Units (PSUs) that are 30-50% smaller than conventional high power PSUs.
- Q2 2021 revenue in Connectivity & Audio segment up 32% mostly driven by strong demand for Bluetooth® low energy (“BLE”) and audio products.
- In Q2 2021 we launched the AT25EU family of SPI NOR Flash devices, supporting the development of power-conscious, size-constrained connected devices.
- During Q2 2021, industry-wide capacity constraints continued to impact our ability to meet incremental customer demand.

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Update on COVID-19

Throughout the pandemic, our main focus has been to protect the health and wellbeing of our employees and business partners. As lockdown restrictions continue to evolve and change, we are following applicable Health and Safety guidelines and where appropriate, opening our offices, albeit at a low capacity. We continued to maintain a minimal staff presence in our test labs, where required, and adhered to recommended safe working practices. Our supply chain has remained stable with tightness in supply of certain products and most suppliers continued to operate at full capacity. Customer engagements continued to be effectively managed remotely and we continue to make good progress.

Our business remains resilient. Our fabless business model and the strength of our balance sheet provide us with financial resilience and operational flexibility to navigate the current circumstances.

Q2 2021 Financial overview

Revenue increased 5% over Q2 2020 at US$317.8 million due to strong performance across the product portfolio partially offset by the decline in legacy licensed main PMICs. Excluding the contribution of Adesto, revenue was 2% below Q2 2020. In particular, sales growth of PMICs, backlighting, audio, and BLE was driven by the continuing strength of consumer demand for headphones, fitness trackers, digital watches, and tablets. Group revenue excluding legacy licensed main PMICs was up 33% year-on-year.

Gross margin was 51.0%, 80 bps above Q2 2020 (Q2 2020: 50.2%). Underlying gross margin was 51.2% 60bps above Q2 2020 (Q2 2020: 50.6%). This increase was mainly the result of product mix.

Operating expenses ("OPEX"), comprising SG&A and R&D expenses, in Q2 2021 were 10% higher than in Q2 2020, representing 41.6% of revenue (Q2 2020: 39.8%). The increase in OPEX was mainly due to the acquisition of Adesto, and costs related to the recommended acquisition by Renesas. In Q2 2021, we incurred US$4.2 million related to the Renesas transaction and US$0.8 million integration costs related to the acquisition of Adesto. Underlying OPEX in Q2 2021 was 4% above Q2 2020 (Q2 2020: US$97.8 million), representing 31.9% of revenue (Q2 2020: 32.4%). The increase in underlying OPEX was mainly driven by the additional OPEX from Adesto.

In Q2 2021, the Company continued to make good progress on the execution of the planned cost synergies. This aims to improve efficiency, protect profitability, and strengthen cash flow generation.

R&D expenses were broadly in line with Q2 2020 representing 24.2% of revenue (Q2 2020: 25.6%). Underlying R&D expenses in Q2 2021 were 3% below Q2 2020 representing 21.0% of revenue (Q2 2020: 22.8%). The decrease in underlying R&D expenses was mainly due to the increase in the amount of R&D capitalisation.

SG&A expenses in Q2 2021 were 29% higher than in Q2 2020, representing 17.4% of revenue (Q2 2020: 14.2%). The year-on-year increase was mainly due to the acquisition of Adesto, and costs related to the recommended acquisition by Renesas. Underlying SG&A expenses in Q2 2021 were 19% above Q2 2020 representing 10.9% of revenue (Q2 2020: 9.6%). The increase in SG&A and underlying SG&A expenses was mainly the result of additional expenses from the acquisition of Adesto.

In Q2 2021, other operating income and underlying operating income, which mainly comprised income from R&D contracts, were below Q2 2020 at US$1.4 million (Q2 2020: US$9.0 million and US$7.4 million respectively).

Operating profit in Q2 2021 was US$31.1 million, 23% below Q2 2020 (Q2 2020: US$40.5 million), mainly due to costs related to the recommended acquisition by Renesas and the incremental operating expenses from the acquisition of Adesto, partially offset by higher revenue and gross margin. Underlying operating profit was 1% above Q2 2020, at US$62.9 million (Q2 2020: US$62.4 million) driven by the increase in revenue offsetting additional operating expenses from the acquisition of Adesto.

The effective tax rate in H1 2021 was 27.3% (H1 2020: 23.2%) and in Q2 2021 was 24.9% (Q2 2020: 19.7%). Our relatively high effective tax rates for H1 2021 and Q2 2021 are principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation and business combinations. The underlying effective tax rate in Q2 2021 was 20.5%, up 80bps on the Q2 2020 underlying effective tax rate of 19.7%.

In Q2 2021, net income was US$21.8 million, 33% below Q2 2020 (Q2 2020: US$32.4 million). This decrease was mostly due to the decrease in operating profit. Underlying net income was US$48.4 million, 3% lower year-on-year. The decrease was mainly driven by the lower interest income together with a slightly higher underlying effective tax rate.

Diluted EPS in Q2 2021 was 33% below Q2 2020 at US$0.30 (Q2 2020: US$0.45). Underlying diluted EPS in Q2 2021 was 3% lower year-on-year to US$0.67 (Q2 2020: US$0.69).

At the end of Q2 2021, our total inventory level was US$186 million, 30% above the previous quarter. This is equivalent to 107 days of inventory representing a 37-day increase in our days of inventory from Q1 2021 ahead of new product launches.

At the end of Q2 2021, we held cash and cash equivalents of US$524 million (Q2 2020: US$957 million). The year-on-year movement was mostly due to the acquisition of Adesto. Cash flow from operating activities in Q2 2021 was US$7.4 million which was below Q2 2020 (Q2 2020: US$33.1 million). The year-on-year movement was mainly due to working capital. In Q2 2021, the Group generated negative free cash flow of US$9.4 million, which was below Q2 2020 (Q2 2020: free cash inflow US$24.0 million) due to the lower cash flow from operating activities and higher capital expenditure. At the end of the quarter, the remaining principal amount of the US$300 million prepayment from our largest customer that is outstanding was US$37.5 million. Subsequent to quarter end, the remaining principal amount outstanding was settled.

In April 2021, we entered into a capacity reservation agreement to secure our medium-term wafer requirements from one of our major foundry suppliers.

Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition of the entire issued and to be issued share capital of the Company by Renesas Electronics Corporation, will become effective during the second half of 2021.

Q2 2021 Segmental overview

Dialog is a fabless semiconductor company primarily focused on the development of highly integrated mixed-signal products for consumer electronics and other high-growth markets. Our highly skilled engineers, partnership approach, operational flexibility, and the quality of our products are sources of competitive advantage. Our primary end markets are consumer markets such as IoT, Computing, and Mobile. The increasing adoption of standard technologies, such as Bluetooth® low energy or LED lighting, and the expansion of high-performance processors into infotainment systems, have contributed to the expansion of our presence in the automotive segment. The acquisitions of Creative Chips and Adesto have enabled our expansion in the growing Industrial IoT market. Our ambition is to build a vibrant mixed-signal business, with a balanced end market exposure, on innovative low power products which enable our customers to get to market fast.

Underlying results by segment

	Revenue			Operating profit/(loss)		Operating margin	
US$ millions unless stated otherwise	**Q2 2021**	Restated* Q2 2020	Change	**Q2 2021**	Restated* Q2 2020	**Q2 2021**	Restated* Q2 2020
Custom Mixed Signal	**141.4**	181.6	(22)%	**28.4**	48.2	**20.1%**	26.6%
Advanced Mixed Signal	**79.8**	63.1	+26%	**13.7**	5.4	**17.2%**	8.7%
Connectivity & Audio	**58.0**	43.9	+32%	**11.2**	1.8	**19.3%**	4.1%
Industrial IoT	**29.2**	4.8	nm	**2.4**	0.1	**8.2%**	2.1%
Total Segments	**308.4**	293.4	+5%	**55.7**	55.5	**18.1%**	18.9%
Corporate and other unallocated items	**9.4**	8.9	+6%	**7.2**	6.9	**76.6%**	77.5%
Total Group	**317.8**	302.3	+5%	**62.9**	62.4	**19.8%**	20.6%

* Restated to reflect the segment reorganisation (see page 5).

Custom Mixed Signal (CMS)

In Q2 2021, underlying revenue was US$141.4 million, 22% below Q2 2020 due to the decline in legacy licensed main PMICs partially offset by growth in new mixed-signal products. Revenue in CMS from our largest customer's products excluding legacy licensed PMICs was up 11% year-on-year to US$85.0 million (Q2 2020: US$76.3 million). Underlying operating profit for CMS decreased 41% year-on-year to US$28.4million, mainly due to the lower revenue.

During the quarter, we continued to receive requests for quotations from a range of tier one customers, for new custom designs to be launched in 2022 and 2023 in diverse areas of power, battery management, display, and audio technologies.

There is a growing market opportunity for next generation battery management solutions, capable of supporting higher wattage chargers, safe and short charging times, as well as secondary charging from phones to other devices. Dialog is well positioned to capitalise on this opportunity, with a range of products built on our strong expertise in the design of mixed-signal and power-efficient ICs, meeting the requirements of a wide range of customers in mobile and consumer IoT end markets. We are currently engaged with the top mobile OEMs, with standard battery management products shipping since Q3 2020 and we expect revenue from high-volume contracts to begin with new smartphones in the second half of 2021.

In parallel, we continue to leverage our power management technology into new markets and geographies through the expansion of our platform reference designs. The collaborations with Renesas, Xilinx, and Telechips strengthen Dialog's presence in the automotive segment, in particular, Intelligent In-Vehicle Infotainment and ADAS. We have over 100 automotive customer engagements, most of which are expected to go into production over the next three years.

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Advanced Mixed Signal (AMS)

During Q2 2021, underlying revenue increased by 26% from Q2 2020 mainly due to a strong recovery in demand and design-in momentum for backlighting products. Underlying operating profit was US$13.7 million, 149% above Q2 2020, (Q2 2020: US$ 5.4 million) mainly driven by the higher revenue.

Dialog has successfully maintained a commanding share in the high power delivery rapid charge market through a combination of differentiated technology, speed of execution and wide support of rapid charge products, leading the industry in high power density AC/DC chargers. In Q2 2021 we introduced the innovative digital Zero Voltage Switching (ZVS) chipset to enable High Power Density power supply units. This chipset allows our customers to design higher power density chargers that are not only light-weight and ultra-small, but also cost-effective.

Our broad product portfolio, which includes LED backlighting and LED driver ICs, and proprietary digital control technology for power conversion, enables high quality solutions at a low cost. We are engaged with tier one customers in the high-end TV market and we are seeing a gradual expansion of our customer base in mobile and automotive display markets with medium term opportunities.

Dialog's configurable technology, including the highly successful GreenPAK™ product family, has become established as the leading choice in the market. Low power consumption and in-system programming enables customers to rapidly customise and integrate multiple analog, logic, and discrete components into a single chip. The expansion of the GreenPAK™ product range will further accelerate its adoption across a wider range of applications, such as automotive as well as smartphone cameras. Our portfolio of configurable products gives our customers the flexibility to keep pace with rapidly changing market needs. The CMIC, along with other members of the GreenPAK™ family, replaces dozens of components in a wide range of applications to optimize flexibility, footprint, and a reduction of the bill of materials.

Connectivity and Audio (C&A)

During Q2 2021, underlying revenue grew 32% from Q2 2020 mainly due to higher revenue from BLE and audio products. Underlying operating profit in the quarter was US$11.2 million, more than six times higher than Q2 2020 (Q2 2020: US$1.8 million) and operating margin was 19.3% (Q2 2020: 4.1%). We continue to invest in the development of new BLE and audio products to take advantage of market opportunities and position the segment for higher revenue growth and profitability over the coming years.

Revenue from our SmartBond™ BLE System-on-Chip ("SoC") was 40% above Q2 2020, as a result of increased demand from customers in Asia. Following the launch of SmartBond TINY™ and the SmartBond TINY™ module, we launched our first combo Wi-Fi and BLE module, the DA16200 SoC. This offering was purpose built for battery-powered IoT applications, including connected door locks, thermostats, security cameras and other devices that require an "always on" Wi-Fi connection. Its VirtualZero™ technology enables the industry's lowest level of power consumption for Wi-Fi connectivity, so that even continuously connected devices can achieve up to five years of battery life in many use cases. Highly integrated, the SmartBond™ SoC family delivers the smallest, most power efficient BLE solutions available – and enables the lowest system costs.

In Q2 2021, the combined revenue from new audio products and Codecs was 20% up year-on-year. The C&A Segment is targeting the rapidly-growing consumer wireless headset market with our SmartBeat™ wireless audio IC. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. Our product portfolio targeting the headset market also includes a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation, providing optimal audio performance in any environment.

Industrial IoT

In Q4 2020, we reorganised the Group's structure bringing together the businesses from Adesto and Creative Chips into a new segment named Industrial IoT.

In Q2 2021, underlying revenue was US$29.2 million and underlying operating profit was US$2.4 million. During the quarter we continued to make good progress on the integration of Adesto and we expect it to be completed by the end of 2021.

Our technology enables seamless connectivity of heterogenous systems in an industrial environment to the cloud for building and industrial automation. Non-volatile memory ("NVM") is a key component of many system designs and our wide range of NVM products offer an array of features designed to help tune and optimize our customers' systems. Together with its mixed-signal and RF design team, as well as world-class technology and intellectual property, we bring an innovative product portfolio to thousands of customers worldwide across the industrial, consumer, medical, and communications markets.

Our SmartServer IoT Partner Program gives Systems Integrators and OEM Solutions Providers access to Dialog's SmartServer IoT edge server and open software suite, including freely available integration tools and APIs, certified training, and premium support. This accelerates secure, scalable integration of IoT edge devices and networks with cloud platforms and Operational Technologies (OT) found in smart factories, buildings and cities.

On 26 April 2021, we launched the AT25EU family of SPI NOR Flash devices, to support the development of power-conscious, size-constrained connected devices. The AT25EU focuses on achieving the lowest power consumption and the fastest operation in order to achieve the lowest energy.

Non-IFRS measures

Underlying measures of performance and free cash flow quoted in this press release are non-IFRS measures. Our use of underlying measures and reconciliations of the underlying measures to the nearest equivalent IFRS measures are presented in Section 3 of the full announcement of our results for Q2 2021. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

Q2 2021

US$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Cost-reduction initiatives	Underlying basis
Revenue	**317,761**	**–**	**–**	**–**	**–**	**–**	**317,761**
Gross profit	**161,919**	**846**	**34**	**–**	**–**	**–**	**162,799**
SG&A expenses	**(55,249)**	**8,543**	**7,076**	**778**	**4,273**	**15**	**(34,564)**
R&D expenses	**(76,979)**	**6,608**	**3,642**	**–**	**–**	**–**	**(66,729)**
Other operating income	**1,412**	**–**	**–**	**–**	**–**	**–**	**1,412**
Operating profit	**31,103**	**15,997**	**10,752**	**778**	**4,273**	**15**	**62,918**
Net finance income	**(2,105)**	**–**	**–**	**–**	**–**	**–**	**(2,105)**
Profit before income taxes	**28,998**	**15,997**	**10,752**	**778**	**4,273**	**15**	**60,813**
Income tax expense	**(7,213)**	**(2,578)**	**(1,959)**	**(146)**	**(561)**	**(3)**	**(12,460)**
Net income	**21,785**	**13,419**	**8,793**	**632**	**3,712**	**12**	**48,353**

Q2 2020

US$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Strategic investments	Underlying basis
Revenue	302,299	–	–	–	–	302,299
Gross profit	151,797	791	262	–	–	152,850
SG&A expenses	(42,983)	7,243	6,253	501	–	(28,986)
R&D expenses	(77,317)	5,969	2,508	–	–	(68,840)
Other operating income	8,957	–	(1,591)	–	–	7,366
Operating profit	40,454	14,003	7,432	501	–	62,390
Net finance income	(64)	–	54	–	(380)	(390)
Profit before income taxes	40,390	14,003	7,486	501	(380)	62,000
Income tax expense	(7,943)	(2,967)	(1,265)	(95)	72	(12,198)
Net income	32,447	11,036	6,221	406	(308)	49,802

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Accounting for business combinations

US$000	Q2 2021	Q2 2020
Acquisition-related costs	–	1,278
Amortisation of acquired intangible assets	10,679	7,318
Consumption of the fair value uplift of acquired inventory	–	262
Consideration accounted for as compensation expense	73	173
Forfeiture of deferred consideration	–	(8)
Remeasurement of contingent consideration	–	(1,591)
Increase in operating profit	**10,752**	7,432
Unwinding of discount on contingent consideration	–	54
Increase in profit before income taxes	**10,752**	7,486
Income tax credit	(1,959)	(1,265)
Increase in net income	**8,793**	6,221

EBITDA

US$000	Q2 2021	Q2 2020
Net income	21,785	32,447
Net finance income	2,105	64
Income tax expense	7,213	7,943
Depreciation expense	8,974	8,165
Amortisation expense	16,171	13,178
EBITDA	**56,248**	61,797
Share-based compensation and related expenses	15,997	14,003
Acquisition-related costs	–	1,278
Consumption of the fair value uplift of acquired inventory	–	262
Consideration accounted for as compensation expense	73	173
Forfeiture of deferred consideration	–	(8)
Remeasurement of contingent consideration	–	(1,591)
Integration costs	778	501
Corporate transaction costs	4,273	–
Cost-reduction initiatives	15	–
Underlying EBITDA	**77,384**	76,415

Free cash flow

US$000	Q2 2021	Q2 2020
Cash flow from operating activities	7,410	33,092
Purchase of property, plant and equipment	(3,502)	(3,334)
Purchase of intangible assets	(1,601)	(1,538)
Payments for capitalised development costs	(8,522)	(1,967)
Capital element of lease payments	(3,222)	(2,239)
Free cash flow	**(9,437)**	24,014

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The full release including the Company's unaudited consolidated financial statements for the quarter ended 2 July 2021 is available under the investor relations section of the Company's website at:

https://www.dialog-semiconductor.com/investor-relations/results-center

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About Dialog Semiconductor
Dialog Semiconductor is a leading provider of integrated circuits (ICs) that power mobile devices and the Internet of Things. Dialog solutions are integral to some of today's leading mobile devices and the enabling element for increasing performance and productivity on the go. From making smartphones more power efficient and shortening charging times, enabling home appliances to be controlled from anywhere, to connecting the next generation of wearable devices, Dialog's decades of experience and world-class innovation help manufacturers get to what's next. Dialog operates a fabless business model and is a socially responsible employer pursuing many programs to benefit employees, the community, other stakeholders and the environment we operate in. Dialog's power saving technologies including DC-DC configurable system power management deliver high efficiency and enhance the consumer's user experience by extending battery lifetime and enabling faster charging of their portable devices. Its technology portfolio also includes audio, Bluetooth® Low Energy, Rapid Charge™ AC/DC power conversion and multi-touch. Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. It currently has approximately 2,300 employees worldwide. In 2020, it had approximately US$ 1.38 billion in revenue. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006).

Forward Looking Statements
Forward Looking Statements This press release contains “forward-looking statements” that reflect management's current views with respect to future events. The words “anticipate,” “believe,” “estimate”, “expect,” “intend,” “may,” “plan,” “project” and “should” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: the global effects of the COVID-19 pandemic generally and on the semiconductor markets and supply chain specifically; an economic downturn in the semiconductor and telecommunications markets; changes in currency exchange rates and interest rates, the timing of customer orders and manufacturing lead times, insufficient, excess or obsolete inventory, the impact of competing products and their pricing, political risks in the countries in which we operate or sale and supply constraints. If any of these or other risks and uncertainties occur (some of which are described under the heading “Managing risk and uncertainty” in Dialog Semiconductor's most recent Annual Report) or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement which speaks only as of the date on which it is made, however, any subsequent statement will supersede any previous statement.