Dialog Semiconductor Q1 2020 Results

Jose Cano:
Good morning, and thanks to everyone for joining us today. I hope you're all keeping well. Our call is being hosted by Dr. Jalal Bagherli, Dialog CEO, and Wissam Jabre, our CFO.

In a moment I will hand you over to Jalal to talk through the company's Q1 2020 performance. But first of all, I need to 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 a full explanation of these risks on page two of the investor presentation. The interim report and press release can also be found on our website.

I would now like to hand over to Jalal, who will run through the business review. Jalal, over to you, please.

Jalal Bagherli:
Thank you, Jose, and good morning to everyone. We closed the first quarter of 2020 with revenue at the high-end of the guidance range, underlying gross margin at 35.4 percent, and with almost $1 billion in cash on our balance sheet. In Q1 2020, group revenue, excluding the main license PMIC, was up 34 percent year-on-year, and the underlying operating margin was 13.2 percent.

In support of our goal strategy during the course, that we maintained our investment in the organic expansion of our product portfolio. And we also announced acquisition of Adesto Technologies, which will accelerate the diversification of our business into industrial IoT.

Needless to say, the current environment of isolation and lockdown is far from the usual business practices, but like every other company, we are navigating the challenges and uncertainty brought in by the COVID-19 pandemic. But let me share a few points on this subject on slide four.

The health and safety of our employees and business partners has been of paramount importance since the beginning of the pandemic. Most of our employees continue to work from home, in line with the national or local guidelines, and the Employees Assistance Program provides additional support that our employees and their families may need through these challenging times. The dedication, commitment, and flexibility of all our employees have enabled us to run the company remotely and continue to provide the same excellent support for our customers as they have come to expect from us.

As we indicated in March, the supply chain of our customers is now fully -- almost fully operational after the disruption caused earlier in the year to the respective contact manufacturers. Encouraging is the level of customer engagement until that time, and we remain confident about the medium-term growth prospects of the company.

As you've seen in our Q2 revenue outlook, we are expecting a sequential increase in Q2.

However, the economic uncertainty caused by the pandemic is resulting in lower than usual visibility of our outlook for the second half of the year. For this reason, we stated in the press release that we have withdrawn our full year guidance until visibility improves. The operational flexibility and financial resilience of our fabless business model is a key advantage at times like this. We are in a fortunate position; together with our strong balance sheet and liquidity, it gives me confidence that the company is well-placed to successfully navigate the current environment.

Last, but not least, we are a business built on innovation. And as such, we continue to invest in the development of new products to generate future revenue growth. We have the capacity and capability to do so. One of the areas of future revenue growth is power and battery management. Let me remind you about this opportunity on slide five.

First, we are leveraging our power management expertise in other end markets such as automotive, gaming, and computing, with custom power management products for various applications, such as automotive infotainment system, ADAS, gaming console, and solid state drives. We have multiple engagements in these areas and we expect this revenue stream to build up steadily over the next three years.

Second, in mobile, we have invested in charging solutions through the acquisition of iWatt in 2013, and we continue to have a commanding market share in charging of -- in charging for mobile phones with our AC to DC converters. We are supporting our customers with the introduction of high power delivery and an increasing demand for higher wattage adapters.

This has to be matched with an appropriate batching management system inside a wide range of devices. As a result, we're seeing a growing opportunity in battery management in mobile and consumer IoT, something that we have referred to in the past as in-the-world charging. The interim battery management system is made up of multiple components, and we are engaged with the top five mobile OEMs to deliver next generation battery management solutions, which improve consumer experience through faster charging, more efficient [unintelligible] management, and the ability to support new functions, such as battery management and [unintelligible]. We have leveraged our expertise in highly integrated, power efficient solutions to create next generation battery management products, which can help our customers [unintelligible] and enable a fast go to market.

Turning to slide six, let me give you some additional color on this large opportunity in battery management. Battery management is a growing market, which we currently estimate will lead to $1.6 billion by 2022 in those segments where we currently operate. Consumer's appetite for -- [clears throat] excuse me. Consumer's appetite for longer battery life and shorter charging time sees no end, so our customers need efficient battery management solutions which can support these requirements. Of the total market, our current focus is on wireless and consumer. We are really excited about this opportunity, as battery management can be found in a wide range of applications, such as mobile phones, wearables, and earables, and it is an important criteria of customer satisfaction, which in turn becomes important for our customers. In the coming months, we will share more information about this opportunity and provide additional insight into the different components, which are part of the entire battery management on both side of the charging wire.

Before I hand over to Wissam to cover financial in more detail, let me leave you with a few final remarks on the next slide. Our fabless model gives us the operational and financial flexibility to successfully navigate these unprecedented times. Over the last few weeks, the health and safety of our employees and business partners has been our main priority, and we are successfully running the company remotely thanks to the commitment and flexibility of all our employees. This has allowed us to continue providing excellent customer support and generate a healthy pipeline of new opportunities for a multitude of customers for 2022 and beyond, including exciting new areas such as battery management, display, and audio. The process to close the acquisition of Adesto continues as planned, and we are on track to close by Q3 2020. And lastly, the financial resilience of our fabless business model, together with the strength of our balance sheet and liquidity, will allow us to successfully navigate the uncertainty of the current economic environment. Wissam, I'd like to hand over to you now, please.

Wissam Jabre:
Thanks, Jalal. Good morning, everyone. Before I run through the Q1 2020 results, let me summarize a few points around what we have done to manage the current situation. As Jalal mentioned earlier, our fabless business model and strong balance sheet gave us the financial flexibility to navigate the current economic environment. At the end of Q1, we had almost $1 billion in cash and in undrawn, revolving credit facility of $150 million. As always, we continued to maintain a strong focus on working capital management and cash generation. In parallel, during the last few weeks, we have done additional business planning with a strong focus on cash flow and liquidity. We have been in place a framework with defined saving initiatives to reduce our cost base. We are aiming to strike the right balance between maintaining a focus on cash flow and investing in future revenue growth.

Now, let me run through the highlights for the quarter on slide 10. We go into more detail shortly, but there are a few points I would like to make here. First, Q1 2020 revenue of 248 million was at the high end of our March guidance range and 16 percent below Q1 2019. Excluding revenue from legacy license to main PMIC products, revenue was up 34 percent year-on-year. Second, underlying gross margin reached a record 60.4 percent, slightly ahead of the March guidance. Third, we have almost $1 billion of cash on the balance sheet, after the $50 million recoupment of the pre-payment relating to the license agreements, and higher year-on-year income taxes payments.

On the next slide, I'd like to give you some additional color on our revenue performance in Q1 2020. This quarter, we have simplified this slide to focus on the main revenue trends by segment, while giving you a visibility to the revenue of the licensed main PMIC. Additional details can be found in the appendix. Revenue growth from new, mixed signal products for our largest customer was up 62 percent year-on-year. Compared to Q1 2019, revenue from advanced mixed signal was up 1 percent, led by AC/DC products, and GreenPAK CMICs, partially offset by lower shipments of backlighting drivers for TVs. And revenue from connectivity and audio was up 7 percent on the back of strong performance of Bluetooth low energy and the contribution from FCI, partially offset by lower volumes of legacy DECT products.

Turning to slide 12 to cover gross margin. In Q1 2020, underlying gross margin was slightly ahead of our guidance at 50.4 percent, up 80 basis points year-on-year. Adjusting for the 80 basis points positive movement from non-recurring items in Q1 2019, Q1 2020 underlying gross margin was up 160 basis points. The year-on-year increase was mainly due to the license revenue and continued improvement in manufacturing costs.

As you can see in the chart at the bottom of the slide, gross margin expansion has been a focus area for many years, increasing over 500 basis points to 50.4 percent in Q1 2020. And we continue to target manufacturing cost savings and operational improvements. As I mentioned earlier, our fabless business model gives us the operational and financial flexibility to successfully navigate periods of economic uncertainty where visibility is lower than usual.

Let's now turn to slide 13 to discuss operating expenses. Q1 2020 underlying operating expenses were $95.2 million, down 8 percent from Q1 2019. Due to lower R&D expenses, partially offset by the first time consolidation of FCI and Creative Chips into the group. As a percentage of revenue, underlying operating expenses in the quarter were above Q1 2019 at 38.3 percent reflecting the lower revenue and lower operating expenses.

Underlying SG&A expenses were down 2 percent year-on-year to $30.9 million, mainly due to cost savings, and partially off-set by the first time consolidation of FCI and Creative Chips. As a percentage of revenue, SG&A was 12.4 percent. Q1 2020 underlying R&D expenses decreased 11 percent year-on-year to 64.3 million, while absorbing the costs of FCI and Creative Chips. As a percent of revenue, R&D was above Q1 2019 at 25.9 percent. At the bottom of the slide, you can see that on a trading 12-month basis, OPEX as a percentage of revenue was 70 basis points below Q1 2019 at 28.9 percent.

Turning to slide 14 to cover operating profit and EPS. In Q1 2020, underlying operating margin was below last year at 13.3 percent as a result of the lower revenue, partially offset by higher gross margin and reduced operating expenses. At the bottom of the slide, you can see the breakdown by business segment. As we continue to invest in the development of new products in advanced mixed signal and connectivity and audio, in Q1 2020, connectivity and audio generated a small operating loss. The intensity of the investments in connectivity and audio will position the business for higher revenue growth and profitability over the coming years. We expect underlying operating profit of AMS and C&A to improve in Q2.

Underlying operating profit from custom mixed signal decreased to $30.1 million, and the underlying operating margin to 19.6 percent. The decrease in operating profit was mainly due to the lower revenue from licensed maintenance. Corporate improved significantly due to the license revenue, together with the reduction in corporate expenses. The underlying effective tax rate for Q1 2020 was 19.7 percent, 80 basis points below Q1 2019. Lastly, underlying diluted earnings per share in Q1 2020 was below the previous year at 39 cents. From earnings, let's now turn to slide 15 to take a closer look at inventory and cash. Inventory level was 5 percent above the previous quarter at $129 million, and 17 percent below Q1 2019. Days of inventory were in-line with Q1 2019 at 93 days. During Q2 2020, we expect inventory value to remain broadly in-line with Q1 2020 and days of inventory to decrease.

During the first quarter, we saw a cash outflow from operating activities of $49 million, and at the end of Q1 2020, our cash and cash equivalence balance was 965 million, slightly below the previous quarter. The main items driving this movement were $50 million recoupment of the prepayment, higher income taxes paid, and working capital movements.

Lastly, the second tranche of the 2019 share buyback started on the 23rd of March for an amount of €70 to €90 million. In summary, revenue in Q1 was at the high end of the guidance range, and we have continued to invest in the expansion of our product portfolio and return capital to our shareholders. We have strong a balance sheet and liquidity to navigate the economic uncertainty caused by the pandemic. We have cost containment initiatives in place to gradually reduce our cost base, and following the closing of Adesto, which is expected in Q3 2020, the company intends to achieve cost synergies as early as possible. All these initiatives are aimed at protecting probability and strengthening cash flow generation.

Before we open the call to questions, I would like to talk about the Q2 outlook. We expect Q2 2020 revenue to be in the range of 260 to $290 million, and underlying gross margin to be broadly in-line with Q1 2020. With that, I'll hand over the operator to open the line for questions.

Operator:
Thank you. We have a few questions registered. Our first one comes from Andrew Gardiner from Barclays. Andrew, please go ahead, your line is now open.

Andrew Gardiner:
Thanks very much. Good morning, guys. So I just had one really on the -- on the outlook and, you know, how customer behavior of late is translating into what you guys are thinking for the second quarter. You know, there has been reports out there of starting to feel cuts through parts of the smartphone supply chain, including what's your biggest customer. Can you talk us through perhaps how order rates or [unintelligible] has changed over the last six weeks or so as we finished -- as we started the current quarter? Have you seen, you know, changes to forecasts or are things transpiring largely as you would have expected? And how, you know, as we look at -- I know you -- obviously, you pulled the guidance for 2020, but I presume you're starting to get an initial read on the third quarter; you know, has there been significant variation relative to your expectations around that, albeit, of course, at an early stage? Thank you.

Jalal Bagherli:
Good morning, Andrew. So, let me take that. I think on the visibility, I think our Q2 visibility is, I would say, quite good. There was volatility in the, you know, order backlog in terms of timing, but that's kind of pretty much settled. I -- we didn't see the -- any -- felt major cuts in the -- in the orders that you referred to so far. There seems some indication in Korea that there will be less [unintelligible] in the rest of the year or you know, they're adjusting down. That's good, but, you know, our forecast covers all the known things for Q2. And actually, if anything, we've seen some small upsides for Q1 into Q3, which relates to the popularity of tablets and also notebooks. Because of the lockdown, there seems to be a, you know, a short-term demand for additional tablets and notebooks, and that affects chips for power, but also chips for audio, for headsets, et cetera, that people might use in their home office type environment. So, I think we're pretty comfortable with the Q2, and, you know, at this point, we have one month under our

belts, and we can see over the next two months, we have a pretty good visibility of this quarter.

In terms of the rest of the second half, it's -- you know, again, we don't have many specifics, but generally, all our customers are not -- you know, there is all the backlog but to the extent that, you know, they have freedom of moving all the backlog back and forth and reduce or increase. So, it's hard to make an accurate guidance, given that not many people are confirming the consumer electronics market in Q3, Q4. You know, it all depends post-lockdown how the consumers behave, given the level of economic impact to consumers. So -- but, you know, we don't have specific views, but -- that curves us one way or the other, and that's one of the reasons we think it'd be [unintelligible] to be wrong. So, it's best not to and, as you know, much bigger companies have now withdrawn their annual guidance. So, I think that makes sense not to guide on something we don't quite fully have data on.

Andrew Gardiner:
Okay, thank you, Jalal.

Jalal Bagherli:
Okay, you're welcome.

Operator:
Our next question comes from Achal Sultania from Credit Suisse. Achal, please go ahead. Your line is now open.

Achal Sultania:
Hi, good morning, everyone. Just a question on Adesto. I guess Adesto last year was doing somewhere around $30 million, give or take, quarterly revenue run rate. Can you give use some color as to how transit Adesto have been more recently, or do we have to wait for -- to hear it from them directly? And then, second, obviously, you're saying the deal is on track for Q3. Is there any scope for you to revisit the terms of the deal, given a lot has changed between late last year and this year? And then, third question is on the auto side. I guess you mentioned a lot of design wins. I think you mentioned 80-year-old customers in auto production will ramp over the next few years. Can you give us some sense as to, are you partnering directly with car companies? Is it with, like, auto suppliers, or is it with semi companies into auto supply chain? What kind of partnership are those, and what kind of products, specifically, are you targeting in that segment? Thank you.

Jalal Bagherli:
All right, good morning, Achal. So, you know, on Adesto, I think, you know, I don't want to comment on their results because, you know, they need to publish their own. You know, I assume, given that they're exposed to industrial market that would be impacted like other industrial customers with the factory shutdown and pending shutdown and the [unintelligible], et cetera. But I'll let them publish their results. We don't own or control the company yet. But the deal is progressing, and I think they had the shareholders' approval yesterday -- their shareholders' approval. So, we'll be making steps forward; we have other regulatory approval to clear yet, so these things would be Q3 this year. There isn't any intent or opportunity to revisit the deal because of the tentative agreement that we have signed, you know, unless there's a

massive, you know, problem [unintelligible] prevented, et cetera. It's not -- under U.S. law, you can't, you know, even be -- any changing of the parameters.

On the automotive, we have a growing number of customer engagements and they are -- actually, I'm very pleased to see this in multiple regions. It's in Japan; it's in China; and now more recently, also, in Korea. So, we have a lot of circuits and enough as they don't entail a long wait as you would normally expect from automotive parts. Opportunities are more likely 18 months to three-year-type design cycle, and some of them will start this year going to production. These are mostly to do with entertainment inside the car and the ADAS systems and they tend to be, you know, [unintelligible] the typical volumes are not high. But we come across so many opportunities in China, Japan, and Korea this way.

So, the nice range of customers, and it started to really gather momentum. It takes some time before the revenue will be meaningful, that we can separate out and discuss, but we definitely have over -- inside this, probably closer to 100 opportunities that we're engaged in. We'll probably see a handful starting production this year; quite a few will start next year in terms of going through volume, and the automotive companies also come back to life a lot more. But in terms of designing and opportunities for our most special CMICs for entertainment, we have specific [unintelligible] CMICs for the exhaust system; we've got -- also, as you know, we promote our CMICs, the Configurable Mixed-Signal chips, for automotive as well as Bluetooth low energy. So, we have quite a few standard products, and another area we'll be exploring, of course, is the LED drivers for the -- we have a definitive project on the headlamps -- headlights, with chips that control the power of the LED for each headlight. So, that's also on the way. So, we've got quite a few opportunities in automotive that we can see. I hope that answers your question.

Achal Sultania:
Yeah, thanks, Jalal.

Jalal Bagherli:
[inaudible] So, most of our CMIC partners are companies that supply the processers, right? So -- because they need it for managing the power and the powering of the entertainment system. So, they, you know -- and I think we've talked about that before, but, you know, people like Renesas, where we are on most of their platform. We have more recently Telechips in Korea, which is a lower cost, higher volume-type company providing, you know, [unintelligible] for automotive. And also, we have partnership with [unintelligible] in the automotive area. And I think those are the main ones that we are supported with.

Achal Sultania:
Okay, thank you, Jalal.

Operator:
Our next question comes from Francois Bouvijnies. Apologies for the pronunciation, Francois. Your line is now open. Please go ahead.

Francois Bouvijnies:

That was good, thank you. Thank you [unintelligible] for taking my questions. The first one I had is on your Q2 guidance, just to come back on this. And could you give us a bit -- some color around the mix? You know, I mean, Q1 has been particularly strong for the upper legacy and new businesses, but should we expect, as well, the auto bit to improve in Q2, or is it may need you to be [unintelligible]? That's the first question on Q2. Then on H2, coming back to your visibility, and as I understand, it's very difficult to give, you know, some numbers, but can you give us, what is exactly -- you're talking about in terms of visibility? Is it mainly the volumes of [unintelligible] for example? Is it the market share and pricing as well? I mean, can you clarify if there is any doubt, as well, on the market share and pricing of the product, would be very helpful? And the last one is on your OPEX. I mean, OPEX has been under control in Q1, like you said with your presentation. Just wondering, what would we think in terms of run rates for the rest of the year for OPEX? Thank you very much.

Jalal Bagherli:
Okay, thank you. So, let me take the first two, and then I'll let Wissam comment on the third one. So, on the guidance, I think the mix is very, very similar to Q1. But we expect strength from our largest customer continuing and increasing and, you know, particularly the new products that we're talking about. In terms of the other two businesses, I think -- these I've also referred to but, for example, we expect our advanced mixed signal group to grow, to show higher growth, because they ship a lot of AC/DC converters to China, for example, and Q1 will not -- was not a full, running market because of the problem with corona. Right now, they're more and more back to normal, the Chinese auto makers, so we expect the revenue in that segment to grow, in addition to our Configurable Mixed-Signal chips, the CMICs, which are in the AMS. So, we expect growth -- bigger growth there, and therefore, that's why we refer to possibility improvements for that group as well. In the group -- in the connectivity group, we expect the Bluetooth to continue to expand, as well as the audio side. The voice side is still, you know, like [unintelligible], still suffering in terms of the volume, but we believe the audio and Bluetooth particularly will show growth in Q2.

And the upper -- and the H2 visibility maybe -- when we're talking about the, you know, [unintelligible] volume knowledge, it's not about losing [unintelligible] in terms of market share or percentage movement so much, and definitely, there's no conversation about pricing at this point. So, that is not the reason why we are not buying; it's mostly about the volume and the timing of that volume. So, Wissam, I'll hand to you to cover the OPEX run rates, please.

Wissam Jabre:
Thanks, Jalal. Francois, on the OPEX, we expect the second quarter to be more or less in line with the Q1. I would say within plus or minus 2 percent. And as I mentioned in the prepared notes, that we do have cost containment activities in place, and those we expect to help us drive the reduction for the second half, Q3 and Q4 run rate, relative to Q1 and Q2, by around 2 to 4 percent. And so, we continue to monitor very closely and drive our OPEX very tightly. This is what we have currently in place for the rest of the year.

Francois Bouvijnies:
That's great. Thank you very much.

Wissam Jabre:
You're welcome.

Operator:
Our next question comes from Stephan Houri from ODDO. Stephan, please go ahead. Your line is now open.

Stephan Houri:
Yes, hello, good morning. Actually, I have two questions. The first one is on the margin of the audio and connectivity, the AMS, which have come negative this quarter. And I think you've said that you are investing for all the future product, future group positioning of the division. So, can you clarify a little bit on that point and tell us if also there is some price pressure coming from the [unintelligible] that could explain that [unintelligible]? And the second question is about the designing activity for H2 2021 and also the production schedule description that you have for 2022. If you can, give us some information of the kind of products, kind of customers, volume if we had an idea, and the size of those designs. Thank you.

Jalal Bagherli:
Hi, good morning, Stephan. So, on the operating margin of the audio connectivity, so, you know, this business was generating profit last year and if you -- when I look at the gross margin of the product, it is, you know, very much similar to the year before. So, there's no degradation in the profitability of the products we shape. It's -- as we've, then, indicated, it's the rate of R&D investment that we are making. So, this cycle, it's purely we see more opportunities in the market for growth, and we expand on the portfolio. Remember, we now have also the Wi-Fi in there in this business, so we have the Bluetooth low energy; we're expanding the number of products there. We have Wi-Fi to invest in, the -- investing in the foundational technology for these, for the, if you like, the next beat in the process, technology that we have to take our building blocks through before we can generate products.

So, some of those are one-off investments we have to make this year, and rather than showing profitability, we felt that, you know, that this would be the right thing to do to build a longer term business. And as we go through the year with the cost management that, again, Wissam referred to, we expect the profitability of the group to show better improvements. And you know, our expectation is that, in the meantime, it would absolutely be a profitable business with the high growth the Bluetooth is generating. So, I mean, like, Bluetooth had 16 percent year over year growth in Q1 and, you know, we expect some growth again in Q2, but also our audio product that we invested in, as well as Wi-Fi with [unintelligible]. There is no -- it's not -- there's no price -- there is always price competitiveness, but there isn't a particular price pressure that has any effect on the profitability of this one.

The designing activity, I think we typically talk about that with regards to our custom business. But generally, the designing activity remains very strong. Our portfolio has never been discrete in terms of breadth of technology we now cover. There's a lot of organic, as well as the acquired, technologies that we have. So, we have specific products that we will start production in the second half of 2021, which we indicated a while back, they are still on track. In between, we have also secured other products which may start earlier from other customers. Again, the custom power, custom charging area. You said, you know, you wanted to know what area -- one specific area, which we will hopefully come back to you guys and expand a lot more, is the area of battery management. So, we have several components that comprise the chain of charging and battery management. Some are outside the role, we talked about AC/DC charges, but there's quite a few that go inside the devices, the phones, so that perhaps a sufficient conversion of energy into the battery.

And these are new products that I will bring into the market and some of those will start late this year, early 2021. Major volume, as we indicated, would be the second half of 2021 for some of these products, and that's on track. In terms of getting new designs, we are working already on products that start production with our largest customers in 2022. So, those products have been secured, and we're working on them, and we're making good progress on them. And, you know, the rate of winning products for those years are undiminished, and we continue to remain very confident about our gross [unintelligible] with our more traditional power and now battery management, which is new.

In the other areas, as I've indicated, our automotive is gathering pace. That will definitely be something which will be a lot more meaningful by 2022. The gaming platforms that we have products for, we see them starting later this year and expanding in 2021. We have made good progress with SSD, chips for SSD modules. Again, we expect some revenue later this year, but, you know, quite a few more next year. We are working on custom devices now for, also, display technology, which is, you know, relevant for new phones or tablets or -- notebooks may use new type of displays, from -- ranging from OLED to mini LED. But we do have technologies for those and we do have engagement on those two to work.

One other exciting area we haven't talked about for a while is our CMICs, what we've got a product line for [unintelligible] acquisition. So, in 2020 we invested a lot in expanding the portfolio, so we are very excited -- over the next six months, you will see three to four major product releases into the market, and typically, those products we developed early customers -- alpha customers, so you know, the feedback has been very positive and they have samples which are functional. We are just tidying up, measuring, qualifying, you know, checking reliability, and preparing for volume. But those will be launched this year, which again, you will see some designing conversation this year, but most of the revenue will be in 2021. So hopefully that gives you a relatively comprehensive feedback on that.

Stephan Houri:
Indeed. Thank you very much.

Jalal Bagherli:
You're welcome.

Operator:
Our next question comes from Sebastien Sztabowicz from Kepler Chevereux. Sebastien, please go ahead. Your line is now open.

Sebastien Sztabowicz:

Yes, thanks for taking my question. One on the inventory [unintelligible] customers because you are the very good business with two smart phone in Q1 [unintelligible] 50 percent or so, the rapid charger [unintelligible] phone, while in same time, smartphone market volumes have been declining into the [unintelligible]. Also we think about the inventory's actual [unintelligible] customers which we, kind of, built up recently, and after -- on the rapid charge specifically, business has been very strong; it will grow more than 20 percent in Q1. What was the reason behind that soft smartphone market and also, what should we expect for the business moving to Q2 with the COVID-19 impact, and particularly the smartphone demand? Thank you.

Jalal Bagherli:
Okay, thanks. So I don't think I've got the specific commentary on inventory per se; I think they are in good shape. We know -- the most of our volume goes into, you know, adjusting time, so pulling from [unintelligible], so if we don't [unintelligible] inventory of customers to the extent that they forecast, so we don't have any -- we don't have anything in between; you know, we don't have a channel to fill up, so majority of our deliveries are to the end customer. So we don't -- we don't have, you know, finished inventory stored somewhere that we're not aware of. So for majority of the business, I think the inventory is in good shape, and it's ready -- and you've seen those slight increase in the level of inventory and that's because we've been preparing for Q2 growth. So, you know, absolutely I have no -- today any issues with our inventory level. I don't know if, Wissam, you want to add any comment on the inventory side?

Wissam Jabre:
The only thing I would add, Jalal, is we don't see that. I mean, if we're looking at inventory in terms of inventory in the channel or in the -- our customers, we don't necessarily see -- from our perspective, we don't see any specific buildup, and in terms of our inventory, we're very comfortable with the current levels. We don't see much exposure there.

Jalal Bagherli:
Okay. On the rapid charge question, so maybe I can share some information with you. So you're correct, the Q1 was the stock market for smartphone, but if you look at the overall market, we -- our Q1 was pretty good for AC/DC. The reason for that was because our shipment to Korea was very strong, so although shipment to China was weak because of the, you know, effect of corona there, Korea actually performed really well in Q1. I think this role will be slightly switched in W2 as the Chinese -- the four or five smartphone makers are back in business, at least for the internal market for China, but also when India opens doors, I have very large shares in India. And we supply to all the major smartphone makers. So that's a nice balance. If one of them is not performing, other people take their share usually, so we continue to see growth there. So we expect Q2, actually, to shift quite a lot more to China, relative to Q1, conversely with -- I think Samsung has made public an announcement about their, you know, their outlook for Q2 not being so great. We don't expect to be as strong in Korea in Q2 as we were in Q1. So hopefully that gives you a little bit of color.

Sebastien Sztabowicz:
Thank you. And one last, if I may, on the [unintelligible] business. It seems as if the business were declining in the first quarter, what kind of decline are we talking about in the first quarter, and also, you had lot of product launch ready last year and you have new products to come; is the

business [unintelligible] to growth in Q2 or [unintelligible] this year?

Jalal Bagherli:
So the [unintelligible], we talked about [unintelligible] new products, we're working on those last year when we were talking about them. So those products have been released to manufacturing and they'll come back, and that's what I was saying earlier in my previous comment, so we have nice, new products. We've done most of it, so we've got, I think, three brand new products. Fourth one is still under development, but the first three have come back, and we are finalizing those products to make them ready for market launch this year. So I think that'll be released in the next, I would say, six weeks into the market and -- but even in spite of that, we expect the CMICs to show significant growth this year starting in Q2.

The reason for -- Q1 was weak was because all the particularly large shipments that was supposed to go the last week of the quarter, but it was delayed by just one week into Q2 so this is why it looks a little bit weak, but otherwise CMIC business is -- remains very strong, very good margin with, you know, brand new products expanding the portfolio. So I would -- that's one of our, if you like, strongest pillars of our business that we built on in terms of growth and possibility. So I have no doubt that it will grow this year.

Sebastien Sztabowicz:
Okay. Thanks a lot.

Jalal Bagherli:
Okay, thank you.

Sebastien Sztabowicz:
You're welcome.

Operator:
Our next question comes from Adithya Metuku from Bank of America. Adithya, please go ahead. Your line is -- sorry, bear with me, I'm trying to open the line. Apologies ladies and gents, please bear with me. I do apologize ladies and gents, I can't open the line for the next question. We have three questions left; I don't know if you would like to put them on the webcast instead while I try to investigate?

Jose Cano:
Yeah, hi, Bethany [spelled phonetically], this is Jose. Is it only the first one that you can't put through, or is it all of them now?

Operator:
I think it might have frozen, unfortunately, Jose. I'm really sorry. I do apologize. I'm just trying to sort it out.

Jose Cano:
That's all right. I think for those -- for you guys still on the queue, if you would like to type your questions on the webcast, please go ahead. If not, we'll follow up with you in any case in a few

minutes time. We're just getting close to the -- to 10:30 anyway. So let's just give it a minute, Bethany, if you don't mind. If we can see the questions coming through online, then we'll read them out loud, and if not, then I'll hand over to Jalal, just to do the final remarks, and then we will follow up with the three people that are still pending to ask a question. [unintelligible].

Operator:
I do apologize, Jose. We may be able to -- have found a solution. Please bear with me.

Jose Cano:
Okay.

Operator:
Adithya Metuku, is your line open?

Adithya Metuku:
Hello, can you hear me guys?

Multiple Speakers:
Yes. Yes, we can.

Adithya Metuku:
I typed the question, so I don't if have seen my question come through, but basically three questions really. So firstly, just on Adesto, obviously, you know the -- there was a bit of a ramp up in RCRA between U.S., China, and shipments to China, et cetera. Do you see any issues there from [unintelligible] viewpoint and secondly, just on these recent changes to rules. I suppose [unintelligible] company is trying to assess how exactly they may be affected? But if you have any initial thoughts around how you think you may be caught up by the recent changes to rules from the U.S. government, that would be super helpful. Thank you.

Jalal Bagherli:
Okay, so on the Adesto, I think we've -- you know, we are going through the regulatory process. It's [unintelligible] is the longest usually at the start of the process, so you know, as they, you know -- we expect them to take between -- anywhere between two to three months to complete their review and let us know. We don't expect any major issues because, you know, Adesto is completely industrial and civilian-products, and also, we are, you know -- we are a U.K. company, and so we don't expect any issues. And also, we worked closely with them when we were [unintelligible], so we have a good track record with [unintelligible], so our expectation is that they go through the process; they will generate a lot of questions, and we'll be able to clear that. So that's our expectation.

On the recently talked about or announced rules for U.S. in terms of China, et cetera, it typically applies to certain class of products -- category of products in terms of, you know, the technology involved, in terms of processing or process nodes, and where it's manufactured. If it's a U.S. origin, et cetera, so again, our first analysis doesn't indicate that we have a big issue with that because most of our I.T. is in Europe and a lot of the design is in Europe. There's certain products that are designed in North America, but those are not the ones that are typically issued to China, and in any case, they're all manufactured outside U.S., so they don't get shipped from U.S. They are manufactured in Taiwan, and the shipment is direct. So at the first analysis of what is announced, we don't see -- we don't see a major issue today.

Adithya Metuku:
Very clear. Just one more follow up, if I could, and I don't know if you answered this more from a group viewpoint or from a specific, fast-charging viewpoint, but just on the Q1, you know, versus your initial expectations. Obviously, you came in at the upper end of the range; I just wondered whether, you know, there is an element of pre-building by customers. Not an increase in channel inventory, but whether people are buying things, you know, anticipating further issues and trying to -- building their products a bit earlier. Can you, maybe, comment a bit on those two things? Where was the deviation with the issued guidance, and then whether you're seeing anything on the latter point? Thank you.

Jalal Bagherli:
I'm not sure I fully understood the question but -- so you're saying that they may have built in anticipation of demand that's --

[talking simultaneously]

Jalal Bagherli:
-- problem later; is that what you're saying?

Adithya Metuku:
Yeah, so, you know, obviously, you largely operate in a -- on a "just in time" approach.

Jalal Bagherli:
Yes.

Adithya Metuku:
So, you know, you're unlikely to see any trend in [unintelligible], but is it possible that some of your customers may have built products --

[talking simultaneously]

Jalal Bagherli:
I understand. I think -- I think -- we haven't seen that in our largest customers because, you know, the slow remains -- because, you know, we have a close forecasting and all the backlog-type relationship in the sense that, you know, all the fluctuation is, you know, updated every week, so it's not, like, you know, far enough to forget [laughs]. So we haven't seen, post Q1, any big, you know, perturbation in terms of backlog to adjust for what is overbuilt or whatever. And in fact, they couldn't overbuild because, you know, the factories were shut down all of February, and of course, a bit of March. So it's only that second half of March that started to, you know, build again at a lower capacity, and by April, they're now full -- back in full operation. So I don't think there's any inventory issues with our larger customer at their site, but I don't have visibility to what -- you know, what they have in their inventory, but I suspect they will have some and as

the retail channel opens up again, put those on the shelves.

But other customers may well do that. As I indicated, we see a little bit of [unintelligible] in Korea based on the public announcement, but also on the type of order flow we see, so -- but that's, kind of, reflecting the market that those customers serve. I think the China market is getting stronger in terms of, you know, all the indigenous Chinese are pushing for more parts, and so demand in increasing. And as they rebuild their market share and, you know, go after the new markets. So I don't, you know -- again, I don't see a big issue there. There was -- as I mentioned, we have some upside which affects also -- it affected a little bit last quarter, but it's mostly this quarter and the next quarter, which is more of tablets -- are higher than expectation in all regions. The majority of customers building, you know, more tablets and also notebooks have some components like audio and CMICs that are [unintelligible] of the notebook, so those we see increasing; CMICs, obviously, for tablets they've already manufactured, or we've already released. For example, for prior generations, they sell really well, so those are the ones that are [unintelligible]. The rest are relatively within our estimation, and this is why we are still putting the guidance we gave you. It just [unintelligible].

Adithya Metuku:
I understood. Very clear. Thank you.

Jalal Bagherli:
Thank you. Welcome.

Operator:
The next and, I believe, final question comes from Jurgen Wagner from Main First Bank. We may have to wait a couple of seconds for his line to open. Jurgen?

Jurgen Wagner:
Yes, thank you. Yep, I can hear you, thank you. I have follow-up on OPEX. You mentioned that you planned some small reductions, but in case volumes weaken in the second half, how flexible would you be, and how much could you go down then? And second one, on your former investment, Energist, we had some news last week of a new FCC certification. How should we think about that investment? Thank you?

Jalal Bagherli:
Okay let me cover the Energist, and then I'll let -- we can talk about the cost reduction. So the -- I think, you know, we certainly talked about Energist before, you know, it was the company we invested in a couple of years back, where the expectation of wireless charging was expanding, and there wasn't this, sort of, clear market [unintelligible]. I mean, the [unintelligible] standard since then has been well established because, you know, Samsung, Apple, and all the majors use that. So for Energist to be successful, it needs to show innovation, which they can show in the lab; it's actually [unintelligible] for consumer equipment, right. So FCC was one [unintelligible] that, and they seem to be clearing that [unintelligible], which we're pleased to see, but you know, we still need to build it into realistic consumer equipment and get approval in each region for transmitting electromagnetic waves, if you'd like, energies through our app. So I still do not necessarily see a, you know, a big impact on us for some time, as they have to land those

customers and also get clearance from each country, regional-type equivalent of FCC for each region. [unintelligible] some point.

Wissam Jabre:
Of course. Thanks, Jalal. So Jurgen, with respect with the OPEX as I noted in our opening remarks, we've done additional business planning over the last few weeks, and we've basically modeled several scenarios, and the focus is on cash flow and liquidity. And we have a place -- in place, a good framework that will help us especially define the savings that we need to do with respect to various outcomes. So, the -- if we experience a more sharper declines and revenue in the second half, we do have options to take cost further down. But we're always trying to strike the right balance between maintaining focus on cash flow and investing in future revenue growth.

I wouldn't necessarily be in position today to quantify, given that we haven't provided the -- or withdrawn the guidance from the rest of the year. But internally, we do have several plans to operate in a -- in a -- comfortably in more difficult environments if we need to.

Jurgen Wagner:
Okay. Thank you

Jalal Bagherli:
I think one of the points we wanted to make actually is to draw everybody's attention to our business model. I'm sure, you know, you guys are all, you know, focused on different businesses. And, you know, ours -- relative our peers who are listed in Europe, we are probably the biggest established company/business, right, in terms of semiconductors.

And that -- you know, in times of downturn, this is really a merit to have, in the sense that we don't worry about idle equipment and plants [unintelligible] our, you know, P&L in terms of depreciation, or that we have to manage furloughed workers that work in those factories. So, we don't have any of those costs on us. Most of our cost is variable. So, should there be a severe downturn, you know, we can weather that a lot easier than most other companies, just to add a few more comments to what Wissam said.

Jurgen Wagner:
Okay. Thank you.

Jalal Bagherli:
Okay.

Operator:
Okay. Our final question comes from Roberts Sanders from Deutsche Bank. Robert, your line should be open.

Robert Sanders:
Thanks. My first question is just on slide six where you look at -- you talk about the battery management market. I know this is an external market research company. But the growth

opportunity is not that exciting, according to that market research company; we're only sort of 5 percent higher. I guess that's a surprise to me given that we've got all of this sort of secular trend, like larger batteries, USPC, 5G, et cetera, et cetera, higher-watt chargers.

So, I'm just wondering, you know, do you sort agree with that rather that slow growth opportunity? Because I would have expected the content opportunity to be uniquely higher as you move to higher watt charges, et cetera. And secondly, related to that, I mean given that you've got this charging when you're leading customer in 2021, what is the progress of actually, you know, leveraging that win into the top five Android OEMs? And, you know, related to that, who do you actually see in those existing sockets when you compete with -- who do you actually compete with? Is it TI? Is it [unintelligible]? Who are the companies you actually see?

But then a lot of those companies are typically U.S. analog-type companies that have seen consumers, a bit of a part-time kind of activity for them, given the lower margins. So, I just would get interested to sort of see who has the technology and is competing with you for those wins? Thanks.

Wissam Jabre:
Okay. Good morning, Robert. So, I think the slide six shows you the signs of the battery management. Part of the market, as you say, is going only from 1.4 billion to only 1.6 billion in two, three years. So, we understand that. And I think the reason for that is because we're not inventing the market, okay. So, this market exist already, and people are supplying chips to tablet, to -- you know, as you've seen on page six, a number of other things like, you know, earphones, you know, airdrops, watches, bands, et cetera, right, and, you know, web consuls. So, there's an existing market. And that's the beauty of this.

It's -- the reason we are excited by this is because we bring in a new technology which is more -- it has a more efficiency in charge -- in, if you like, managing that charge into the battery, not to lose energy. So, the way to sort of think about that is you've got the wireless -- sorry, you've got the charging wire coming into the phone from outside; possibly it's a fast charging, the other end of it. And at the device, if you have a battery -- you have sometimes multiple components, then take that charge into the battery and store it, right?

If the efficiency isn't high, you actually feel the device getting warm as you're charging it. If the efficiency is good, that means the energy is not wasted in the heat. It's actually put into the battery. And your phone remains only slightly, maybe noticeably a little warmer but not -- you know, it doesn't [laughs] burn your fingers, or it stays cool depending on how efficient the components are.

So, that's what we're talking about. And that is not an area we've been before. So, for us to play in an existing market of -- call it $1.5 billion, but starting from zero, that would be a high growth market for us, not because the market is going fast, but because it's a big market already, and if we can get a significant sort of chunk of it, that's a nice, exciting area. And we have -- you know, we have invested in technology there. And to your point, the 2021 device that you've talked about, that falls into this category. And a lot of the IT was developed there, we can also use to address the Android-type market. And, indeed, we are doing that.

And I think I mentioned in a previous comment that we engage with the top five of the world smartphone makers in these areas one way or the other because there's multiple components, so not everybody going after the same components. In some cases, they are -- the chip that's actually inside the phone directly connects to the battery. In some other cases, it's the chip prior to that inside the phone that converts energy using a [unintelligible] converter technology.

We plan to do, by the way, a full information session for you guys. We'll bring in our experts that -- and we'll talk about each of these components because we think this is a big thing for us. In terms of existing -- this market, of course, is served today by other companies; we've started using either standard programs or low efficiency compared to what we have developed. Yes, the names you mentioned are correct, the PI. But I would say maximum, maybe I see a bunch of people who has standard products in battery management area.

The other -- the other thing we've done is we've also used our capability for low-power design to create also versions of physical wearables. That's relatively new product to market. You know, for example, either watches, trackers, earphones, and the like. So, the variable, adherable parts of the market also create an opportunity for charging that we would be able to adjust to the same -- from the microtechnology. Hopefully, that answers your question, Robert.

Robert Sanders:
It does. Thank you very much.

Wissam Jabre:
Okay. You're welcome.

Operator:
We have no more questions.

Wissam Jabre:
Okay. So, maybe I just do a quick, final remark before we close the call. So, many thanks for all of you to participate. I just wanted to say that the health and safety of our employees, business partners, and other stakeholders will remain our main priority. The technology that we are working on to get [unintelligible] contribution, so keeping people connected and healthy. Never before has this work so been important for a globally connected society. The three things in particular -- that is, have confidence that we will successfully navigate the short term challenges we have; firstly is the commitment and dedication of our employees. Secondly, our further resilience of our business model and business partners. And third, the strength of our balance sheet. So, together, I know we will be successful as we continue to work towards the execution of our longer-term strategy. So, with that, I just want to thank you all, and have a good day.

[end of transcript]