Dialog Semiconductor Q3 Earnings Call

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Jose Cano:
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'll hand you over to Jalal to talk through the company's Q3 performance.

First of all, I must remind everyone that today's briefing and some of the answers to your questions may contain forward-looking statements. These statements reflect management's current views and there are risks associated with them. You can find a full explanation of these risks on Page 2 of the Investor presentation in the Investor Relations section of the Dialog website. The interim report and press release can also be found on our website.

I would now like to introduce Jalal who will running through the main highlights from the third quarter. Jalal, over to you please.

Jalal Bagherli:
Thank you, everybody, and good morning to everyone. I'm pleased to report a solid financial performance of the business in Q3 delivering year-on-year revenue growth and earnings acceleration. Business momentum remains strong into the final quarter and our operational priority for Q4 is the delivery of a successful ramp of new high-value products.

Last week we closed the acquisition of Silego Technology. This acquisition is well aligned to our strategic goals. We welcome the talented new team and a unique product offering, which complements our product portfolio and customer base. Wissam will take you through our financial results in more detail, but first on Slide 4 let me briefly highlight two areas of our financial performance in Q3 2017.

During the third quarter, we delivered revenue of $363 million. This was slightly above the midpoint of our guidance range and 5 percent above the revenue we achieved in Q3 2016. The year-on-year revenue growth was driven by the high-volume ramp of new Power Management ICs resulting in 54 percent sequential revenue growth in the Mobile Systems' segment and record quarterly revenue in the Connectivity segment surpassing $40 million for the first time.

Underlying diluted EPS increased 14 percent year-on-year to 81 cents. That is almost three times more than the revenue growth. We have achieved that while continuing to invest in R&D to generate future revenue growth opportunities.

Let's move to Slide 6 and take a look at the outlook. Based on our current visibility, we anticipate revenue for Q4 2017 to be in the range of $415 million and $455 million. At the midpoint, this will result in full year 2017 revenue up 11 percent year-on-year to $1,324,000,000. We have a robust order backlog, and we expect demand for our new products to remain strong. In line with the revenue performance, we now expect gross margin for the full year 2017 to be slightly above the full year 2016.

So, that is the outlook covered. I'll turn now to Slide 8, and I can provide some context for our performance. As we anticipated since the beginning of the year, business momentum is building into Q4. Mobile Systems delivered a strong sequential increase -- revenue increase in Q3 2017. This follows the successful ramp of our latest generation of highly-integrated PMICs and the increasing content per device. The team is focused on continuing to deliver that ramp through the course of Q4.

Connectivity posted a record revenue performance with double-digit revenue growth in our Bluetooth low-energy portfolio for the ninth consecutive quarter. The Bluetooth low-energy market continues to grow fast as the technology is adopted across a range of Internet of Things applications and other end markets.

Finally, charging technologies are a key differentiator for smartphone OEMs, and we are one of the few companies who can offer a complete end-to-end chipset adapter solution. Capitalizing on the market growth and the strength of our product portfolio, we are now ramping production of our Rapid Charge products across a number of Tier 1 customers in China.

Let's now take a closer look at the competitive positioning of our product portfolio on Slide 9. Technical excellence is at the core of our business. To maintain it, we have adopted a focused R&D approach. During the last three years, we have invested approximately 18 percent of our revenue in R&D programs. Over time, through organic development and acquisitions, we have built a product portfolio composed of technologies with a leading presence in their respective markets.

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Our custom PMICs are at the forefront of power management technology for mobility and IOT. We pioneered the programmable Power Management IC years ago and our knowhow in integration and power efficiency allows us to deliver best-in-class, highly-integrated ICs in short design cycles.

In order to generate new revenue growth opportunities, we are leveraging our power management technologies in two ways. First, we are entering new markets, like PMICs for automotive and DSLR cameras, or more recently FPGAs. Second, we are creating a new range of high-efficiency chargers, which support faster and safer ways to charge mobile devices.

Our product portfolio in Power Conversion continues to evolve. We have built a commanding market share in smartphone rapid charge market. This was possible thanks to our differentiated technology and being the first to market the product which supports the latest fast-charging protocols. During 2017, we've introduced a new USB-PD IC and in 2018 we will launch a complete gallium nitride based solution. The introduction of GaN products will allow us to increase our dollar content per application and target the notebook market.

Our Bluetooth low-energy products have enabled our customers a faster go-to-market, substantial energy savings, and smaller form factor. We have built an entire product range of innovative SoCs, which are being gradually introduced across a wider range of markets and customers.

Earlier in 2017, we launched our first CSP audio product targeting the high-end consumer headset market. I'm pleased to say consumer and customer interest is good, and we are currently working on a number of design opportunities for 2018 in Asia. Our investment in Energous gives us an optionality into the wireless charging market with an innovative technology based on radiofrequency.

Last, but not least, just a few weeks ago we announced the acquisition of Silego Technology. With this acquisition, we add another innovative technology to our product portfolio, the leader in the high-growth Configurable Mixed-Signal IC market.

So, let's move on to Slide 10 to take a closer look at the opportunity that Silego Technology will bring. What Silego has developed is truly unique, a Mixed-Signal IC which customers can configure to their design requirements, drastically reducing the time to bring their products to market. CMICs enable several things: customers can configure multiple analog, digital, and power functions in a small form factor; high levels of integration allowing customers to easily replace standard analog, logic, and discrete board components; faster design cycles reducing the time required from months to days. All of this reduces the overall system cost and helps to simplify the supply chain.

On the next slide, Slide 11, I'd like to briefly remind you of the main synergies. Silego and Dialog will be able to address applications in tandem, allowing us to add new customers, deepen our relationship with existing customers, and increase our content, particularly in the IOT, mobile computing, and also automotive markets.

Access to Dialog's global sales channel and Tier 1 customer base will have Silego accelerate growth in this new product category, especially in China where Silego has a comparatively small presence. It is early days, but we have had a very positive initial reaction from our customers.

In terms of the integration process, we have only just completed the acquisition, so we'll update you all on our progress in due course. However, it is worth noting that Silego is a very lean, fabless business. It has similar manufacturing and supply chain to Dialog. Our focus for the integration will be on combining the very best practices from both organizations. Before I hand over to Wissam, let me summarize the key takeaways on the next slide.

At this stage of the year, the company is focused on delivering a successful ramp of new products - business momentum continues to build into Q4. We have a strong backlog, and we expect demand for PMICs to remain strong. The company is well positioned to capitalize on the growth opportunities in mobility and IoT. This is based on our technical excellence on power management and power efficiency technologies, and a differentiated product portfolio built through a combination of internal development programs and acquisitions.

Dialog has a number of technologies with leading market position, and we continue to develop highly-integrated products, which enable our customers a faster go-to-market.

In this context, the acquisition of Silego Technology brings a complementary and innovative technology with many of the attributes we value in Dialog.

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Our expanding product portfolio covers a wide range of markets and contributes to the growth of our pipeline of opportunities. Based on this, we remain confident in our growth prospects for 2018 and over the medium-term. Now, let me turn over to Wissam. Over to you, please.

Wissam Jabre:
Thanks, Jalal. Good morning, everyone. First, let's take a closer look at revenue performance on Slide 14. Revenue of $363 million was up 5 percent year-on-year and slightly above the midpoint of our July guidance. The year-on-year increase was driven by growth in Mobile Systems and Connectivity. Mobile Systems grew 4 percent on higher sales volumes and, as Jalal mentioned earlier, Connectivity delivered record quarterly revenue of $40.3 million. The strong growth in Bluetooth low-energy combined with moderate increase in shipments of tech products resulted in 21 percent year-on-year growth for the segment.

Our Bluetooth business has now been growing at a strong double-digit rate for 9 consecutive quarters. Revenue for the company for the first 9 months of the year was up 7 percent year-on-year. This follows solid performances across the board with Mobile Systems growing 5 percent and growth almost three times faster in all other business segments combined.

Turning to Slide 15 to cover gross margin. Q3 2017 underlying gross margin was 47.5 percent, up 90 basis points year-on-year. This increase is mainly the result of cost saving initiatives and the higher fixed cost absorption resulting from the anticipated inventory build. Q3 2017 was also above our July guidance, mostly due to the favorable product mix and the somewhat higher fixed cost absorption as a result of the inventory build.

Year-to-date, underlying gross margin is 47 percent, an increase of 50 basis points compared to the same period last year. In line with our revenue guidance, we expect gross margin for the full year 2017 to be slightly above the full year 2016.

Let's now turn to Slide 16 to cover operating expenses. Q3 2017 underlying operating expenses were $95.7 million, up 9 percent from Q3 2016, whereas the percentage of revenue they were down 10 basis points year-on-year. Underlying R&D expenses were up 11 percent from Q3 2016.

As Jalal mentioned, our focused R&D approach is mostly centered on a large number of application-specific customer opportunities and programs supporting new growth areas and the diversification of the business.

As a percentage of revenue, underlying R&D expenses were up 100 basis points year-on-year. Underlying SG&A increased by 7 percent over Q3 2016 and as a percentage of revenue was down 10 basis points at 7.6 percent. The main drivers of this increase was the investment we are making on expanding our sales network in order to increase our customer reach.

The first 9 months of the year give a different view of operating expenses. Year-to-date underlying operating expenses were down 10 basis points. This decline was the result of 60 basis points reduction in underlying SG&A, which offset a 50 basis points increase in underlying R&D.

On a trailing 12-month basis, operating expenses as a percentage of revenue were 20 basis points above the previous quarter. We continue to carefully manage SG&A costs and invest in R&D projects to enhance our technical leadership and expand our technology portfolio. Let's move on to Slide 17 to take a look at operating profit and EPS.

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In Q3 2017, underlying operating profit was 4 percent above Q3 2016. This was mostly due to the higher underlying gross profit I mentioned previously, partially offset by increase in R&D. In the year-to-date, underlying operating profit was up 11 percent year-on-year at a rate almost twice as fast as our revenue growth.

As we scale up the smaller businesses, profitability continues to improve. On a year-to-date basis, the underlying operating margin in Connectivity increased from 2.9 percent in 2016 to 11.3 percent in 2017. And Power Conversion almost doubled its operating margin from 4.3 percent in 2016 to 8.1 percent in 2017.

The underlying effective tax rate in the 9 months of 2017, excluding the effect of a $1.2 million credit related to prior years, was 22 percent. The increase in underlying operating profit and the lower underlying tax expense resulted in underlying diluted EPS for Q3 2017 of 81 cents, up 14 percent over Q3 2016. Year-to-date underlying diluted EPS was up 21 percent year-on-year, three times faster than revenue growth.

From earnings, let's now turn to Slide 18 to take a closer look at inventory and cash. As we indicated last quarter, we have built up inventory ahead of the seasonal ramp. Days of inventory declined to 87 days. In Q4 2017, we expect inventory value and days of inventory to decline from Q3 2017.

Cash and cash equivalents balance was $636 million. The decrease from Q2 was mostly due to the inventory build during the quarter. During Q3, we signed a three-year revolving credit facility of $150 million, which is committed and available for general corporate purposes. No amounts have yet been drawn.

Our capital allocation framework aims to generate value for our shareholders. First, investing in the future growth of our business through R&D programs. Second, we continue to look at strategic initiatives including M&A. On the 1st of November, we completed the acquisition of Silego Technology valued at $276 million plus a contingent consideration of up to $30.4 million. Third, we remain committed to returning capital to our shareholders through our share buyback program.

In summary, I am pleased with the financial performance of the company in Q3 2017. During the first 9 months of the year, we have grown revenue and increased profitability, while maintaining a healthy level of investment in research and development programs in order to create new growth opportunities. We remain in a solid financial position and move into the final quarter of 2017 with strong momentum as we continue to ramp new products. With that, I can wrap up the presentation and I will now ask the operator to open the call for questions. Dave, over to you please.

Male Speaker:
Thank you. Ladies and gentlemen, it you'd like to ask a question, please press star one on your telephone keypad to open up your line. The first question is from the line of Mitch Steves from RBC. Please go ahead, Mitch.

Mitch Steves:
Yeah, I still think -- is this -- I guess it is different from what we've seen previously with your [unintelligible] --

Wissam Jabre:
Hey, Mitch? Hey, Mitch, could you please repeat the question? We can't hear you.

Jalal Bagherli:
I think you're on cellphone maybe.

Mitch Steves:
Yeah?

Jalal Bagherli:
Can you repeat the question please?

Mitch Steves:
Yes. So, for these businesses, similar to what you guys have seen in the last, call it, three or four years, was there any reason that the seasonality should be different '17 and going into -- ?

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Jalal Bagherli:
I think he is asking about the Q1 seasonality. Did you say '17 going into Q1 '18?

Mitch Steves:
Right, yes.

Jalal Bagherli:
Okay. Sorry, we only hear every other word of what you say. So, okay, I guess the -- you know, -- we're here to talk about Q4 primarily. So, the Q4 backlog remains strong and we've guided for 20 percent growth, sequentially. And, you know, the backlog reflects what we see in terms of customer orders, both existing products and of course new products. Some of these new products date to September, some date to November release. So, there isn't a, you know -- if you like consistent statistics on all of these products because some of them are running shorter period of time, only couple of months this quarter. And we expect from everything we see, given that

limited data, that the strength of product shipment will continue into Q1. But beyond that, I can't be more specific than that.

Mitch Steves:
And close now? Is it fair to assume that long term that the margin profile should be similar at least to what Dialog is running at today?

Jalal Bagherli:
Did you ask about Silego?

Mitch Steves:
Yes, so the margin profile if it will be similar to Dialog long term, the core business?

Jalal Bagherli:
Alright, thanks. So, the Silego business is running at a 50 percent plus gross margin. And we've only completed I guess a week or so ago. And we expect that to continue. We have every reason to believe that the gross margin would be better than our corporate average. And we'll update you after it has, you know, a quarter or two of running the business and seeing the products of performing and, you know, assessing and using our own financial analysis. But our expectation is that it'll be running at a higher number relative to our corporate gross margin.

Mitch Steves:
Got it. Thank you.

Male Speaker:
And the next question comes from Adithya Metuku from Bank of America, Merrill Lynch. Please, go ahead.

Adithya Metuku:
Yeah. Good morning, guys. So, I had a couple of questions. Firstly, looking at the gross margins trend in Q3, I'm surprised you're not guiding for higher gross margins in the full year 2017 especially given the nearly 100 BPS beat in Q3. So, any comment there on why you're not more optimistic would be helpful.

And then, secondly just looking at your CapEx to sales over the last two quarters, that seems to have gone up to about 6 percent of sales. Historically, over the last three years it's been around 3 percent. So, any comment on what is driving this and how we should expect it to trend forward would be really helpful. Thank you.

Wissam Jabre:
Thanks, Adi. So, let me start with the gross margin question. We did experience good strength of margin in Q3 and that was driven by a few moving parts. One is that we did have better cost absorption with the increases in inventory build. The second element is driven by the product mix. And the third element is driven by mostly our cost-saving initiatives. So, we were a little bit ahead of track for the quarter on our cost saving initiatives.

As we move into Q4 some of these dynamics change a little bit. We do expect a little bit of change in the product mix as we ship a more weighted new products portfolio, and so that will put some pressure on margin. And then as we see, the inventory are draining a little bit into the quarter. That would also basically reverse a little bit of the element of the cost absorption.

And then, the third element in the quarter is we will have a full quarter of amortization of some of our capitalized R&D projects that we started amortizing late in Q3. And so, these three elements will be a little bit -- will work basically against some of the dynamics we saw in Q3. And so, this is why we're guiding slightly above 2016 for the year. So, it still is a good progression year-on-year.

With respect to the second question on the CapEx, we did have a slightly, a small uptick in CapEx in the second and third quarter of this year, and that's driven by acquisition of, or purchase of some capital equipment primarily testers because of the higher ramp that we had -- that we started in late Q2 early Q3.

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But we don't -- I expect us to revert back to our averages after 2017 is over. So, I don't expect the trend to continue at this pace going forward.

Adithya Metuku:
Okay. Very clear. Thank you.

Male Speaker:
The next question comes from the line of Sandeep Deshpande from J.P. Morgan. Please go ahead.

Sandeep Deshpande:
Yes. Thanks for letting me on. My question, Jalal, is regarding the business into 2018. I mean clearly, you've had new products ramping into 2017. How do you see your products into 2018 in your core mobile business and then beyond?

And then secondly, how you see any development that you're doing in terms of your products into 2019 and whether the development of the products has progressed? Thank you.

Jalal Bagherli:
Good morning, Sandeep. So on the -- again, you know, we primarily focus on talking about Q4 today. I will explain as much as I'm able to for '18 and crystal gazing into '19. But the issue -- I guess in terms of pipeline for '18, we see pretty strong pipeline. In fact, stronger than, say, this time last year just because the amount of content in the shipping has increased into high-value phones, and this will clearly continue into '18. So, that's one area.

Second, is our new products being launched that we arranged relative to a year ago. So that perhaps -- I've talked about the strengths of our Connectivity business, which includes Bluetooth growth continuing and also the audio DSP chip for USB headsets. This is a brand new product we'll launch. This is gaining traction in terms of design circuits, some of which will start going into production. In fact, most of them should go into production at different points in 2018.

Our AC/DC business is doing again strong going forward. We have high hopes on the optimized USB TV product that we released. In fact, the first customer is already in volume production as we speak in Japan. And we see a number of those going into production in China next year. We've got a pretty good sweep of majority of the big brand names in Chinese smartphone for the next generation quick charging.

And, again, this product shipment to some of them this year but a majority of the volume is going to be in 2018. And, of course, we've closed Silego. That gives us additional high-growth products. We expect 15 percent plus growth in their product portfolio going forward into next year as a minimum.

And so, these all give us very high confidence on '18, including our core business Power Management. In terms of '19, I think, you know, two years away, in terms of timetable, we're on the right timetable of engagement with our customers in terms of exchanging specs, developing IPs, test chips, getting ready for developing products for the '19. But, you know, the technical exchange is going on we are yet to really get awarded and have the commercial elements tied down. So that's as much as I can say, Sandeep.

Sandeep Deshpande:
Just a quick follow up on that, Jalal. I mean, in terms of your R&D, you've mentioned that there is some new ASIC developments you're going, are these going to ramp up in 2018 in terms of revenue or 2019?

Jalal Bagherli:
It's a mix. I think most of them, probably 60 or 70 percent of '18, there is a proportion that fall into '19 in terms of ramp. Some of these, I mean you should know, like for example, the work we have done on Spreadtrum type projects, they actually start to ramp. The first product will start to ramp this December and the volume will be in Q1. There are second and third chips in the pipe for that customer, for that partner.

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We have developed parts for automotive partner which we've announced before, Renesas, for example, these are going to ramp. We've got something in the order of six to seven design engagements with automotive clients for this car management for infotainment. Again, there's those ramping in '18. Camera, DSLR, power management is ramping in '18. So, these are all in our R&D numbers that actually we convert into products in '18.

Sandeep Deshpande:
Thank you very much.

Jalal Bagherli:
Okay.

Male Speaker:
And the next question comes from Francois Meunier from Morgan Stanley. Please go

ahead, Francois.

Francois Meunier:
Yes, thank you. That's me. Okay, so actually in the statement, there is something quite interesting regarding H2 2018, you're saying you've made substantial progress on the number of [unintelligible] designs, no sampling to a sub customers for product targeting production in H2 2018 and you're also talking about further ASP increased in that. So, is there anything you could add to that statement that could make us understand how we should model ASP increased in '17, '18, and '19, please in the mobile segment? Thank you very much.

Jalal Bagherli:
Good morning, Francois. I don't believe you said what we said. I think what we said was that we're making substantial progress in delivering power management products for customers' adoption in '18, which is true. I don't think we have commented on any content increase and we can't.

I think the thing you can model is that you have the information on the 2017 in the content increase on the new products and clearly those products run all over 18 and the first probably, I would say, eight, nine months of '18, those are the dominant products and we will carry that content increase, so you can model that for sure. I'm not able to comment on content increase on new products beyond that at this point. Thank you.

Francois Meunier:
Okay, so basically what you're saying is basically because the new range of payments is arriving relatively later in '17 compared to maybe what was expected earlier this year. You should have more ASP increase in '19 than in '17 on a blended basis?

Jalal Bagherli:
It's just on the calendar month basis, yes. I mean, you get --

Francois Meunier:
Yes. Yeah.

Jalal Bagherli:
-- we get 12 months next year, so it's not rocket science, right?

Francois Meunier:
Okay, thank you. See you next week.

Jalal Bagherli:
Thank you.

Male Speaker:
We have question from Rob Sanders, Deutsche Bank. Please go ahead with your question.

Rob Sanders:
Yeah, hi, good morning. Just a question on your largest customer, they have a new

flagship model which has a dual battery designed as well as having an OLED screen. So, I was just wondering what does that do to your opportunity in pre-make versus the two models that started shifting in September? And I have a follow up. Thank you.

Jalal Bagherli:
I'm afraid that I can't specifically talk about, you know, individual models by customers, Rob, as much as I love to. I know what we've said, which I repeat is, we see this year new models, content increase and what I can say is that that is across, similarly across all product launches. It's not unique to one model.

Rob Sanders:
Okay and just my follow up, which is be on OpEx. When we think about Q1 '18 onwards, I guess this is a question for Wissam, when we include Silego, what is the OpEx run rate from Q1 onwards or what would it have been in Q3 including Silego? Thanks.

Wissam Jabre:
Hey, Rob. We will be providing a little bit more clarity on the Silego as we report the year-end results to help you guys model a little bit more on the company. I mean, obviously there will be some uptake. The way to think of it is, as we said when we were on the call that announced the transaction, is that they do have higher gross margin than our average of 50 percent-plus. But short term, they have also a little bit lower operating profit than ours. So, I'm hoping that this would help you at the time being and then in Q1, we will be sharing a little bit more granularity around that.

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Rob Sanders:
Got it. So the effects of sales of Silego is higher. Okay. Thank you.

Wissam Jabre:
Likely higher than ours, yeah.

Male Speaker:
The next question is from Lee Simpson from Stifel. Please go ahead, Lee.

Lee Simpson:
Great. Thanks for letting me on. Two, if I could. First off, just give me some of the late seasonality in the role out of device from a key customer, do we think the seasonal pattern going into the start of next year could be slightly different? In other words, the drop in Q1 relative to Q4 could be more muted this year? And may be just as follow-up, trying to get a sense for why you think power conversion -- I mean at least to me it looked a little light in Q3. Sales were down year-on-year. Any sort of main reasons for that and what is that due for setting a base, going into the GaN production next year? Thanks.

Jalal Bagherli:
Hi, Lee. I think I probably answered the first question earlier, which is, you know, all I can look at is our strong backlog and the number of months in the quarter remaining to shift such a backlog. So, you know, whether some of, you know -- it's not just us

shipping. Clearly, there's like, you know, hundreds of other suppliers have to all deliver for -- and manufacturing capacity to be there to manufacture, right?

So, depending on how all of that orchestrated which I don't have any visibility to beyond what I have as backlog. You know, we've guided for a strong 20 percent sequential growth in Q4. Now, you know, the -- and some of these products are very new in the market. It remains to be seen in terms of popularity maintaining which we hope that it would be the case. You know, if all positives play out, then your assumption may well be correct that there would be stronger Q1 history. But, you know, at this point, with limited number of days of shipping, it's very hard to give you a satisfyingly concrete answer, unfortunately. But that's all I can share.

So, it's strong Q4, we expect Q1 to be also strong, but it's just early to predict that. On the power conversion, I think that the business is actually doing very well in terms of the uptake of the good charging across most of Asia, you know, totally because all of Japan, a numbers of customers in China adopting as I said earlier and ramping because all the big names using Dialog. I think the main issue that the reason why you will might ask is not as -- or stronger than this time last year because I guess we introduced a number of new products this time last year which was used by our Korean customers.

And as you recall, the issue in Korea with the power problem with the famous tablet has resulted in somewhat of a cautious approach in adoption of new products related to charging of any source whether it's inside the phone, the adaptor, or elsewhere and we have seen that across the board. So almost reversion to a previous generation of charging just because of burnt fingers.

And what it means is we are compensating for that lack of adoption by higher growth in China right now, so it doesn't -- so what does that mean for future? We expect the Korean market will rebound in 2018, particularly as the worlds will move into USB-PD 3.0 standard and we already have sampled these products to Korean customers as well as other customers. And I think I mentioned earlier with the first adoption already happening in Japan as we speak, in the low volume production.

So we think '18 would be a much stronger year for power conversion in terms of growth primarily because majority of our Chinese customers have been volume production and also Korea will come back online starting to adopt the U.S. specifically.

Lee Simpson:
Great. Thanks so much.

Male Speaker:
The next question's from David O'Connor from Exane BNP Paribas. Please go ahead, David. In fact, David's line just dropped. But, we have a question from Charles Lepetitpas from Natixis. Please go ahead.

00:40:07

Charles Lepetitpas:

Yes, hello. Good morning. Two questions on my side. First, given the severe ramp of new products, I mean outside of Mobile Systems next year, so is it fair to assume that the growth in 2018 will be significantly higher in outside of Mobile Systems? That's my first question and second question on the M&A, could you tell us a bit on the potential other operations you have in the pipeline or maybe not? Thank you.

Wissam Jabre:
Good morning. So, I think you are asking about growth outside Mobile System in 2018. I think it's fair to say given the strength of our connectivity portfolio the new product ramping and also what I just earlier mentioned about our Power Conversion business with U.S. adoption, so those are the two main drivers for growth in our non-mobile application. And thirdly, the addition of Silego as a growth engine to our portfolio that we would expect 2018 to have a high growth non-mobile product line. So, you're correct.

On the M&A pipeline, you know, as we've said before we are constantly, you know, watching the market. However, they we should not that we've just completed one. So clearly for a small, relatively small size company, we're focused on integrating what we've just bought rather than immediately necessarily looking at others. But, you know, we're open to ideas and we constantly scan the market for the right opportunities. But, you know -- and we do have two or three ideas to look at but, you know clearly our priority right now is to capitalize on what we just completed.

Charles Lepetitpas:
Understood. Thank you.

Male Speaker:
We have a question from Quang Lee from Credit Suisse. Please go ahead.

Quang Lee:
Hi. Thank you for taking my question. Most of them are already answered. But I'd like to ask more about this Silego acquisitions. So, will you be already consolidating the Silego numbers in your Q4 and does your guidance includes that? And I have a follow-up.

Wissam Jabre:
Okay. So, I think, you know, the -- in terms of consolidation of the numbers, of course we have to consolidate the two months that become the owner of the business which will be November and December. And I would say we've got in our numbers a high single-digit figure allocated for Silego performance for the back end of this year.

Quang Lee:
And if I can have a follow-up then, because obviously many will be expecting the main driver of your growth in Q4 to be driven by your Mobile Systems, how much of it is Silego then if you could quantify it?

Wissam Jabre:
I just said, there is a high single-digit figure.

Quang Lee:

High single-digit, got it. And this is in terms of millions, right, high single-digit in millions?

Wissam Jabre:
Million, yes. That's right. Millions of dollars.

Quang Lee:
Thank you.

Wissam Jabre:
You're welcome.

Male Speaker:
We have a question from Guenther Hollfelder with Baader-Helvea. Please go ahead with your question.

Guenther Hollfelder:
Thank you. Just one follow-up on the Silego question so with the higher singles-digit U.S. dollar for Silego, it's on track to reach this $80 million in 2017 as expected?

Jalal Bagherli:
Yes, this is -- in fact over $80 million. Yes.

Guenther Hollfelder:
Okay. Great. And one on Energous, do you expect any sales related to Energous to your partnership in the fourth quarter in '17?

Wissam Jabre:
We have not assumed any revenue in the numbers we've put in the guidance. It's because it is awaiting the FCC approval for the products. So that may happen sometime this quarter, and I think they have a public company call in a day or so, that you may want to listen to. I don't have additional information but that we're targeting Q4 to get that approval. Should the approval happen, there are two or three small early adopters who have already designed in the production. You know clearly they would be placing orders. I would think if that happened there would still be very minimal number for Q4. But, you know, the key thing is to sit start to generate revenue. But we don't have any numbers projected for Q4.

00:45:14

Guenther Hollfelder:
Thanks, and last one on the GaN business, when -- do you expect first sales in the first quarter 2018 and could you -- would it be possible to reach like a double-digit sales amount in the full year '18?

Wissam Jabre:
It's a very brand new technology for us, Guenther. I'm not trying to avoid your question. But I don't -- I think the first full solution in terms of controllers and the device would be available in Q1 for sampling to customers. How fast they adopt, it remains to be seen because it's brand new technology handling gallium nitride people

will take probably more cautious than usual because they're just new to them. So, I think I would like to see their reaction once we've sampled a full solution to the customers before I guide for that. I suspect some revenue in '18 but it's very hard to predict at this point, because we haven't released the part of the market.

Guenther Hollfelder:
Fair enough. Many thanks. Yep.

Wissam Jabre:
You're welcome.

Male Speaker:
That concludes the Q&A section of the call. So, I now hand back to the host to conclude the call. Thank you.

Jalal Bagherli:
Thank you, Dave. And I just want to thank everyone for joining us today and as usual if you have any other questions please don't hesitate to contact me or a member of the FTI team. Thank you.

[end of transcript]