

Press release – 6 May 2020

Dialog Semiconductor reports results for the first quarter ended 27 March 2020

Q1 2020 revenue at the high-end of the guidance range at US\$248 million, underlying gross margin at 50.4%, and strong balance sheet.

London, UK, 6 May 2020 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the first quarter ended 27 March 2020.

US\$ millions unless stated otherwise	IFRS basis (unaudited)		Underlying basis ¹ (unaudited)		
	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Change
Revenue	248.5	294.9	248.5	294.9	-16%
Gross margin	49.8%	49.3%	50.4%	49.6%	+80bps
Operating expenses ²	114.8	124.9	95.2	103.7	-8%
Operating profit	17.5	25.3	33.0	47.2	-30%
Operating margin	7.0%	8.6%	13.3%	16.0%	-270bps
Diluted EPS	\$0.19	\$0.23	\$0.39	\$0.49	-20%
Free cash flow			(59.0)	28.0	

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 5).

2 Comprising SG&A and R&D expenses.

Q1 2020 Financial highlights

- Revenue of US\$248 million at the high end of the guidance range and 16% below Q1 2019.
- Gross margin at 49.8% (Q1 2019: 49.3%) and underlying gross margin at 50.4% (Q1 2019: 49.6%) slightly ahead of the March guidance.
- Operating profit of US\$17.5 million (Q1 2019: US\$25.3 million) and underlying operating profit of US\$33.0 million 30% below Q1 2019.
- Diluted EPS of US\$0.19 (Q1 2019: US\$0.23) and underlying diluted EPS of US\$0.39 (Q1 2019: US\$0.49).
- On 3 March 2020, the Company announced a second tranche of the 2019 Buyback Programme for an amount of €70 to €90 million.
- Q1 2020 cash outflow from operating activities of US\$49.0 million (Q1 2019: cash inflow US\$41.6 million) included US\$50 million recoupment of the prepayment and higher income tax paid.
- At the end of Q1 2020, we held cash and cash equivalents of US\$965 million (Q1 2019: US\$690 million).
- On 20 February 2020, the Company announced it had signed a definitive agreement to acquire Adesto Technologies, broadening its presence in the Industrial IoT market.

Q1 2020 Operational highlights

- Continued design-in momentum at our largest customer for the development and supply of a number of mixed-signal integrated circuits. Revenue from awarded high-volume contracts is expected to begin with new smartphones for the second half of 2021. In addition, we are progressing on a number of designs scheduled for 2022 production.
- Growing opportunity for next generation Battery Management systems in consumer IoT and mobile.
- Revenue excluding licensed main PMIC was up 34% year-on-year.
- As part of the Industrial IoT strategy, we launched the latest member of our IO-Link product family, the CCE4503.
- Q1 2020 revenue from AC/DC charging products was up 22% year-on-year, led by growth in rapid charge products.
- Increased our footprint in consumer IoT with our Bluetooth® low energy (BLE) products, which delivered 16% year-on-year revenue growth.

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Commenting on the results, Dialog Chief Executive, Dr Jalal Bagherli, said:

“Revenue for the first quarter came at the high-end of the guidance range and we delivered record underlying gross margin. Products supporting mobile computing, consumer audio accessories, and wearables performed strongly.”

“Our fabless business model and strong balance sheet provide us with the operational and financial flexibility to successfully navigate the current economic environment. Over the course of the last few weeks, the health and safety of our employees and business partners has been our main priority. It has been encouraging to see the commitment and resilience of our employees, delivering excellent customer support and pushing ahead in an increasing number of development projects across high-growth areas. Due to the economic uncertainty, and in line with the rest of the industry, in the short term we are experiencing lower visibility into our outlook for the second half of the year.”

“The recently announced acquisition of Adesto, broadens and enhances our presence in the Industrial IoT market with a range of connectivity products highly-optimised for building and industrial automation. This builds on the acquisition of Creative Chips, supporting our growth strategy and accelerating the diversification of our business.”

Outlook

In Q2 2020, we anticipate revenue to be in the range of US\$260 million to US\$290 million and underlying gross margin to be broadly in line with Q1 2020.

Although the situation of our supply chain and contract manufacturers is close to being fully operational, and the level of customer engagements continues as planned, the ongoing economic uncertainty caused by the COVID-19 pandemic is resulting in lower than usual visibility in our outlook for the second half of the year. Due to this, we have withdrawn the FY 2020 outlook communicated on 4 March 2020.

Update on COVID-19

Protecting the health and wellbeing of our employees and business partners remains our main priority. Over the last few weeks, our employees have worked remotely, in line with applicable national guidelines. We have maintained a minimal staff presence in our test labs, only where absolutely required, and adhering to recommended safe working practices. Our supply chain is close to being fully operational and our customers' contract manufacturers are operating at almost full capacity. Customer engagements are managed remotely and so far, we have not seen any significant decrease in our levels of activity.

Our business remains resilient. Our fabless business model and the strength of our balance sheet provide us with financial resilience and operational flexibility to navigate the current circumstances. We continue to invest in the development of key business capabilities to build a more diverse mixed-signal business, focused in high-growth segments of our target end markets.

Q1 2020 Financial overview

Revenue was 16% below Q1 2019 at US\$248 million driven by the expected decline in licensed main Power Management ICs (PMICs), partially offset by growth in mixed-signal products with our largest customer, Bluetooth® low energy and AC/DC charging. Group revenue excluding licensed main PMICs was up 34% year-on-year. License revenue of US\$9 million related to the Apple agreement was reported in Corporate.

Gross margin was 49.8% and underlying gross margin was 50.4%, up year-on-year 50bps and 80bps respectively. This increase was mainly due to the positive contribution from license revenue (Q1 2019: nil), and continuing savings in manufacturing costs. Adjusting for the 80bps positive movement from non-recurring items in Q1 2019, underlying gross margin in Q1 2020 was up 160bps year-on-year.

Operating expenses (OPEX), comprising SG&A and R&D expenses, and underlying OPEX in Q1 2020, were 8% below Q1 2019, representing 46.2% (Q1 2019: 42.3%) and 38.3% of revenue (Q1 2019: 35.2%) respectively. This decrease was mostly the result of lower R&D expenses, partially offset by the acquisitions of FCI and Creative Chips. In line with its long-term financial objectives, the Company has saving initiatives in place to reduce its cost base over time. Following the closing of Adesto in Q3 2020, the Company intends to execute the cost synergies plan. All these initiatives seek to protect profitability and strengthen cash flow generation.

R&D expenses in Q1 2020 were 10% below Q1 2019 representing 29.1% of revenue (Q1 2019: 27.3%). Underlying R&D expenses were down 11% year-on-year representing 25.9% of revenue (Q1 2019: 24.5%). The decrease in R&D expenses was mainly due to the transfer of over 300 employees to Apple on 8 April 2019, partially offset by the acquisitions of FCI and Creative Chips.

SG&A expenses in Q1 2020 were 4% below Q1 2019, representing 17.1% of revenue (Q1 2019: 15.0%). Underlying SG&A expenses in Q1 2020 were 2% below Q1 2019 representing 12.4% of revenue (Q1 2019: 10.6%). The decrease in SG&A expenses was mainly the result of cost savings partially offset by the acquisitions of FCI and Creative Chips.

Other operating income in Q1 2020 was US\$8.5 million (Q1 2019: US\$4.7million), which comprised a US\$5.3 million change in estimate of the contingent consideration payable for Creative Chips, and income from R&D contracts. Underlying other operating income in Q1 2020 was US\$3.1 million, which comprised income from R&D contracts, was below Q1 2019 (Q1 2019: US\$4.7 million).

Operating profit in Q1 2020 was US\$17.5 million, 31% below Q1 2019, mainly reflecting the lower revenue partially offset by higher gross margin together with lower operating expenses. For the same reasons, underlying operating profit was 30% below Q1 2019, at US\$33.0 million.

The effective tax rate in Q1 2020 was 30.4% (Q1 2019: 30.2%). Our high effective tax rates for Q1 2020 and Q1 2019 are principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments. The underlying effective tax rate in Q1 2020 was 19.7%, down 80bps on the Q1 2019 underlying effective tax rate of 20.5%.

Net income was 26% below Q1 2019 at US\$13.6 million (Q1 2019: US\$18.4 million). This decrease was mostly due to the decrease in operating profit.

Underlying net income was 27% lower year-on-year. The year-on-year movement in underlying net income was mainly driven by the decrease in underlying operating profit.

Diluted EPS in Q1 2020 was 17% below Q1 2019 at US\$0.19 (Q1 2019: US\$0.23). Underlying diluted EPS in Q1 2020 was 20% below year-on-year to US\$0.39 (Q1 2019: US\$0.49).

At the end of Q1 2020, our total inventory level was US\$129 million (or ~93 days), which is 5% above the previous quarter, representing a 35-day increase in our days of inventory from Q4 2019, mainly due to the lower revenue. During Q2 2020, we expect inventory value to be broadly in line with Q1 2020 and days of inventory to be lower than Q1 2020.

On 12 March 2020, the Company announced details of the second tranche of the 2019 Buyback Programme. Under this tranche the Company committed to purchase shares for an amount between €70 million and €90 million, and a latest maturity date of 25 September 2020.

At the end of Q1 2020, we held cash and cash equivalents of US\$965 million (Q1 2019: US\$690 million). Cash outflow from operating activities in Q1 2020 was US\$49.0 million compared to a cash inflow in Q1 2019 of US\$41.6 million. The year-on-year movement was due to the US\$50 million recoupment of the prepayment, higher income tax paid, and working capital movements. In Q1 2020, the Group generated negative free cash flow of US\$59.0 million, which was below Q1 2019 (Q1 2019: US\$28.0 million) due to the cash outflow from operating activities.

In support of our growth strategy and the diversification of our business, on 20 February 2020, the Company announced it had signed a definitive agreement to acquire Adesto Technologies Corporation (Adesto) for US\$12.55 per share in cash, representing an enterprise value of approximately US\$500 million, to be funded from our existing cash balances. Adesto accelerates Dialog's expansion into the growing Industrial IoT market that enables smart buildings and industrial automation (Industry 4.0), seamlessly driving cloud connectivity. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that fully complements Dialog's manufacturing automation products.

Q1 2020 Segmental overview

Dialog is a fabless semiconductor company primarily focused on the development of highly integrated mixed-signal products for consumer electronics and other high-growth markets. Our highly skilled engineers, partnership approach, operational flexibility and the quality of our products are sources of competitive advantage. Our primary end markets are consumer markets such as the Internet of Things (IoT), Computing and Mobile. The increasing adoption of standard technologies, such as Bluetooth® low energy or LED lighting, and the expansion of high-performance processors into infotainment systems, has contributed to the expansion of our presence in the automotive segment. In line with our strategic goals, we intend to continue the expansion of our product portfolio through a combination of organic and inorganic initiatives. Our ambition is to build a vibrant mixed-signal business, with a balanced end market exposure, on innovative low power products which enable our customers to get fast to market.

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Underlying results by segment

US\$ millions unless stated otherwise	Revenue			Operating profit/(loss)		Operating margin	
	Q1 2020	Restated ³ Q1 2019	Change	Q1 2020	Restated ³ Q1 2019	Q1 2020	Restated ³ Q1 2019
Custom Mixed Signal	153.4	211.6	-28%	30.1	45.0	19.6%	21.2%
Advanced Mixed Signal	51.5	50.9	+1%	0.1	1.0	0.1%	2.0%
Connectivity & Audio	34.7	32.4	+7%	(3.3)	5.0	(9.3)%	15.5%
Total Segments	239.6	294.9	-19%	26.9	51.0	11.2%	17.3%
Corporate and other unallocated items	8.9	–	nm	6.1	(3.8)	68.4%	nm
Total Group	248.5	294.9	-16%	33.0	47.2	13.3%	16.0%

3 Restated to reflect the segment reorganisation and measurement changes that became effective at the beginning of Q2 2019.

Custom Mixed Signal (CMS)

In Q1 2020, revenue was US\$153 million, 28% below Q1 2019 due to the expected decline in legacy licensed main PMICs partially offset by growth in new mixed-signal products. Revenue in CMS from our largest customer's products not covered by the licensing agreement was up 62% year-on-year to US\$74 million (Q1 2019: US\$46 million). Underlying operating profit for CMS decreased 33% year-on-year to US\$30.1 million, mainly due to the lower revenue partially offset by lower operating expenses.

During the quarter, we continued to receive requests for quotations from a multitude of customers, for new custom designs for 2022 and beyond in diverse areas of power, charging, display and audio technologies.

There is a growing market opportunity for next generation Battery Management solutions, capable of supporting higher wattage chargers, safe and short charging times, as well as secondary charging from phones to other devices. Dialog is well positioned to capitalise on this opportunity, with a range of products built on our strong expertise in the design of mixed-signal and power-efficient ICs, meeting the requirements of a wide range of customers in mobile and consumer IoT end markets.

In parallel, we continue to leverage our power management technology into new markets and geographies through the expansion of our platform reference designs. The collaborations with Renesas, Xilinx, and Telechips strengthen Dialog's presence in the automotive segment, in particular Intelligent In-Vehicle Infotainment and Advanced Driver-Assistance Systems. There are currently over 80 automotive customer engagements in place, most of which are expected to go into production over the next three years.

As part of our Industrial IoT strategy, during the quarter we launched the CCE4503, the first IO-Link IC to be launched following the acquisition of Creative Chips in November 2019. This product complements the Company's well-established family of IO-Link Device and Master ICs, meeting our customers' demand for smaller, highly-optimised, and more cost-efficient IO-Link products that enable the next generation of Industry 4.0 devices.

Advanced Mixed Signal (AMS)

During Q1 2020, AMS revenue was 1% above Q1 2019 led by growth in AC/DC charging products offset by lower revenue of backlighting and the phasing of customer orders for CMICs. Earlier in the quarter, revenue from AMS was adversely impacted due to its exposure to Chinese smartphone OEMs. However, the situation has continued to improve as the restrictions imposed by the lockdown are gradually being lifted. During the quarter we continued to invest in the development of new products, resulting in lower underlying operating profit year-on-year.

Dialog has successfully maintained a commanding market share in the rapid charge market through a combination of differentiated technology, speed of execution and wide support of rapid charge products, leading the industry in high power density AC/DC chargers.

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

Dialog's configurable technology, including the highly successful GreenPAK™ product family, has become established as the leading choice in the market. Low power consumption and in-system programming enables customers to rapidly customise and integrate multiple analog, logic, and discrete components into a single chip. During the last twelve months, we have expanded our product range with the launch of the first automotive grade CMIC, and the introduction of Dialog's industry-leading LDO regulator for smartphone cameras. With additional new products to be launched in Q2 2020, our expanded configurable product range will give our customers the flexibility to keep pace with rapidly changing market needs. The CMIC, along with other members of the GreenPAK™ family, replace dozens of components in a wide range of applications to optimize flexibility, footprint and a reduction of the bill of materials.

Connectivity and Audio (C&A)

During Q1 2020, revenue was 7% above Q1 2019 as a result of the strong performance of BLE and the revenue contribution from the acquisition of FCI, partially offset by a decline in the legacy audio DECT business. C&A generated a US\$3.3 million operating loss in Q1 2020, which was below Q1 2019 operating profit (Q1 2019: US\$5.0 million) mainly due to higher investment in the development of next generation technology for audio and BLE products, as well as the acquisition of FCI. The intensity of these investments are taking advantage of market opportunities and position the segment for higher revenue growth and profitability over the coming years.

Revenue from our SmartBond™ BLE System-on-Chip (SoC) was 16% above Q1 2019, due to the ramp of new products from customers in Asia. Following the launch of SmartBond TINY™ in November 2019, during the quarter we launched the SmartBond TINY™ module, empowering customers to build the next generation of connected devices. The SmartBond TINY™ module was specifically optimized to significantly reduce the cost of adding Bluetooth® low energy functionality to an IoT system. Its easy-to-use design and software allow developers to quickly and intuitively develop highly functional connected devices, targeting the next generation of connected consumer, connected medical, smart home and smart appliance applications.

The C&A Segment is targeting the rapidly-growing consumer wireless headset market with our SmartBeat™ wireless Audio IC. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. Our product portfolio targeting the headset market also includes a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation (ANC), providing optimal audio performance in any environment.

Non-IFRS measures

Underlying measures of performance and free cash flow quoted in this press release are non-IFRS measures. Our use of underlying measures and reconciliations of the underlying measures to the nearest equivalent IFRS measures are presented in Section 3 of the Q1 2020 Interim report. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

Q1 2020

US\$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Strategic investments	Underlying basis
Revenue	248,481	-	-	-	-	248,481
Gross profit	123,805	598	712	-	-	125,115
SG&A expenses	(42,411)	4,100	7,353	77	-	(30,881)
R&D expenses	(72,345)	5,534	2,466	-	-	(64,345)
Other operating income	8,467	-	(5,347)	-	-	3,120
Operating profit	17,516	10,232	5,184	77	-	33,009
Net finance income	2,026	-	218	-	(361)	1,883
Profit before income taxes	19,542	10,232	5,402	77	(361)	34,892
Income tax expense	(5,943)	448	(1,442)	(13)	69	(6,881)
Net income	13,599	10,680	3,960	64	(292)	28,011

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Q1 2019

US\$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Strategic investments	Corporate transaction costs	Underlying basis
Revenue	294,886	–	–	–	–	294,886
Gross profit	145,478	668	–	–	–	146,146
SG&A expenses	(44,219)	5,179	4,616	–	3,048	(31,376)
R&D expenses	(80,633)	6,039	2,268	–	–	(72,326)
Other operating income	4,715	–	(8)	–	–	4,707
Operating profit	25,341	11,886	6,876	–	3,048	47,151
Net finance income	959	–	315	(268)	–	1,006
Profit before income taxes	26,300	11,886	7,191	(268)	3,048	48,157
Income tax expense	(7,942)	(853)	(782)	51	(352)	(9,878)
Net income	18,358	11,033	6,409	(217)	2,696	38,279

Accounting for business combinations

US\$000	Q1 2020	Q1 2019
Acquisition-related costs	2,419	983
Amortisation of acquired intangible assets	7,163	5,657
Consumption of the fair value uplift of acquired inventory	712	–
Consideration accounted for as compensation expense	260	319
Forfeiture of deferred consideration	(23)	(83)
Remeasurement of contingent consideration	(5,347)	–
Increase in operating profit	5,184	6,876
Unwinding of discount on contingent consideration	218	315
Increase in profit before income taxes	5,402	7,191
Income tax credit	(1,442)	(782)
Increase in net income	3,960	6,409

EBITDA

US\$000	Q1 2020	Q1 2019
Net income	13,599	18,358
Net finance income	(2,026)	(959)
Income tax expense	5,943	7,942
Depreciation expense	8,434	10,166
Amortisation expense	13,097	11,716
EBITDA	39,047	47,223
Share-based compensation and related expenses	10,232	11,886
Acquisition-related costs	2,419	983
Consumption of the fair value uplift of acquired inventory	712	–
Consideration accounted for as compensation expense	260	319
Forfeiture of deferred consideration	(23)	(83)
Remeasurement of contingent consideration	(5,347)	–
Integration costs	77	–
Corporate transaction costs	–	3,048
Underlying EBITDA	47,377	63,376

Free cash flow

US\$000	Q1 2020	Q1 2019
Cash flow from operating activities	(49,030)	41,572
Purchase of property, plant and equipment	(2,492)	(4,961)
Purchase of intangible assets	(1,564)	(1,124)
Payments for capitalised development costs	(3,887)	(4,557)
Capital element of lease payments	(2,028)	(2,922)
Free cash flow	(59,001)	28,008

Dialog Semiconductor invites you today at 09.30 am (London) / 10.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q1 2020 performance, as well as guidance for Q2 2020. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

<https://webcast.openbriefing.com/dialog-may20/>

In parallel to the call, the presentation will be available at:

<https://webcast.openbriefing.com/dialog-may20/>

The presentation will also be available under the investor relations section of the Company's website at:

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

A replay will be posted on the Dialog website four hours after the conclusion of the presentation and will be available at:

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

The full release including the Company's unaudited consolidated financial statements for the quarter ended 27 March 2020 is available under the investor relations section of the Company's website at:

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

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About Dialog Semiconductor

Dialog Semiconductor provides highly integrated standard (ASSP) and custom (ASIC) mixed-signal integrated circuits (ICs), optimised for smartphone, tablet, IoT, LED Solid-State Lighting (SSL), and Smart Home applications. Dialog brings decades of experience to the rapid development of ICs while providing flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner. With world-class manufacturing partners, Dialog operates a fabless business model and is a socially responsible employer pursuing many programs to benefit employees, the community, other stakeholders and the environment we operate in. Dialog's power saving technologies including DC-DC configurable system power management deliver high efficiency and enhance the consumer's user experience by extending battery lifetime and enabling faster charging of their portable devices. Its technology portfolio also includes audio, Bluetooth® Low Energy, Rapid Charge™ AC/DC power conversion and multi-touch. Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. It currently has approximately 2,000 employees worldwide. In 2019, it had approximately US\$ 1.42 billion in revenue. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006).

Forward Looking Statements

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