# DIALOG SEMICONDUCTOR REPORTS SECOND QUARTER RESULTS ENDED 3 JULY 2015

***Company delivers second quarter year on year revenue growth of 44%***

**London, UK, 30 July 2015** - Dialog Semiconductor plc (FWB: DLG), a provider of highly integrated power management, AC/DC, solid state lighting and Bluetooth® Smart wireless technology, today reports results for its second quarter ending 3 July 2015.

## Q2 2015 financial highlights

- Revenue up 44% over Q2 2014 to $316 million
- IFRS gross margin at 46.5%
- Underlying (*) EBITDA (**) up 114% to $81.0 million or 25.6% of revenue
- IFRS operating profit (EBIT) up 292% over Q2 2014 to $62.5 million or 19.7% of revenue
- Underlying (*) basic and diluted EPS up 122% and 113% respectively over Q2 2014. IFRS basic and diluted EPS up 392% and 400% respectively over Q2 2014[1]
- $59 million of cash generated from operations, up 171% over Q2 2014

(1) 2014 IFRS Net Income has been adjusted. Please refer to Note 2 of the Q2 2015 Interim Report

## Q2 2015 operational highlights

- Design win momentum continues for Power Management smartphone and tablet designs
- Widespread adoption of SmartBond™ across multiple IoT segments
- Sub-PMIC in MediaTek's reference platforms approaching H2 ramp
- Power Conversion quick charge solutions gathered momentum with several Asian OEMs
- Launched our first highly integrated Power Management IC for computing systems

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

*"I am extremely pleased with business momentum in the second quarter, delivering exceptionally strong year-on-year revenue growth and solid gross margin. We are now preparing to deliver a ramp up of new, high volume products in the second half with strong demand for our Power Management, Bluetooth® Smart and quick charge technologies.*

*Dialog continues to invest in R&D and deliver differentiated and highly integrated solutions such as the new Power Management IC for computing systems. Our relentless pursuit of innovative product design has driven the strong numbers we have reported today, and this gives me confidence that we will deliver a strong second half."*

**Outlook**

Given our current visibility, we expect 2015 to be another year of good growth driven by a solid ramp of high volume new products. Revenue performance will be weighted towards the second half of the year.

We expect revenue for Q3 2015 to be in the range of $325 to $355 million.

Gross margin in Q3 2015 will remain broadly in line with H1 2015 and improve on a year-on-year basis. Gross margin for the full year 2015 is expected to be above the full year 2014.

## Financial overview

| **IFRS** | **Second Quarter** | | | **First Half** | | |
|---|---|---|---|---|---|---|
| **US$ million** | **2015** | **2014** | **Var.** | **2015** | **2014** | **Var.** |
| **Revenue** | 316.5 | 219.3 | +44% | 627.7 | 440.1 | +43% |
| **Gross Margin** | 46.5% | 43.2% | +330bps | 46.2% | 42.7% | +350bps |
| **R&D %** | 17.7% | 23.1% | (540)bps | 17.5% | 21.9% | (440)bps |
| **SG&A %** [1] | 9.1% | 12.8% | (370)bps | 10.0% | 11.9% | (190)bps |
| **EBIT** | 62.5 | 15.9 | +292% | 118.1 | 38.9 | +204% |
| **EBIT %** | 19.7% | 7.3% | +1,240bps | 18.7% | 8.9% | +980bps |
| **Net income**[2] | 42.9 | 7.8 | +447% | 81.7 | 38.9 | +110% |
| **Basic EPS $**[2] | 0.59 | 0.12 | +392% | 1.15 | 0.58 | +98% |
| **Diluted EPS $**[2] | 0.55 | 0.11 | +400% | 1.08 | 0.56 | +93% |
| **Operating cash flow** | 58.8 | 21.7 | +171% | 191.2 | 150.6 | +27% |
| | | | | | | |
| **Underlying** | **Second Quarter** | | | **First Half** | | |
| **US$ million** | **2015** | **2014** | **Var.** | **2015** | **2014** | **Var.** |
| **Gross Margin** | 47.1% | 44.5% | +260bps | 46.9% | 43.9% | +300bps |
| **EBITDA** | 81.0 | 37.8 | +114% | 161.2 | 79.1 | +104% |
| **EBITDA %** | 25.6% | 17.2% | +840bps | 25.7% | 18.0% | +770bps |
| **EBIT** | 71.2 | 28.4 | +151% | 142.1 | 60.6 | +135% |
| **EBIT %** | 22.5% | 12.9% | +960bps | 22.6% | 13.8% | +880bps |
| **Net income** | 52.1 | 21.7 | +141% | 107.6 | 45.3 | +137% |
| **Basic EPS $** | 0.71 | 0.32 | +122% | 1.51 | 0.68 | +122% |
| **Diluted EPS $** | 0.66 | 0.31 | +113% | 1.37 | 0.65 | +111% |

(1) Including other operating expenses/income
(2) 2014 IFRS amounts have been adjusted. Please refer to Note 2 of the Q2 2015 Interim Report

Revenue in Q2 2015 was up 44% to $316 million. The strong revenue performance was the result of:

- Mobile Systems – up 56% over Q2 2014
- 25% year-on-year revenue growth in Connectivity driven by strong momentum in Bluetooth® Smart and wireless audio (DECT based solutions)

Q2 2015 IFRS gross margin was 46.5%, significantly above Q2 2014 and 50bps above Q1 2015. The year-on-year increase was the result of:

- The lower allocation per unit of the fixed component of Cost of Goods Sold;
- Positive product mix contribution from the latest generation of products in Mobile Systems and Connectivity ;and
- The continuing realisation of the benefits of manufacturing cost optimisation.

In Q2 2015 underlying (*) net OPEX as a percentage of revenue was at 24.6%, 700bps below Q2 2014. The value of underlying net OPEX in Q2 2015 increased 13% over Q2 2014.

Investments in R&D increased through the second quarter. On an underlying (*) basis, R&D investment was up 12% over Q2 2014, in line with our strategy of continuing innovation and diversification of our product portfolio. However, as a percentage of revenue, underlying R&D in Q2 2015 decreased to 17.0% (Q2 2014: 21.8%). This reduction was primarily the result of the strong top line growth during the period.

Underlying (*) SG&A in Q2 2015 was in line with Q1 2015 at 7.8% of revenue, but 220bps below Q2 2014 primarily as a result of the strong growth of the business.

In Q2 2015 we achieved IFRS and underlying (*) EBIT of $62.5 million and $71.2 million respectively, 292% and 151% over Q2 2014. Underlying EBIT margin in the quarter was 22.5% (Q2 2014: 12.9%). The Q2 2015 underlying EBIT increase of 151% was primarily driven by good performance in the Mobile Systems segment and the anticipated turnaround in the Connectivity segment. On an underlying basis, the Connectivity segment contributed $4.1 million EBIT profit in Q2 2015 (Q2 2014 EBIT loss: $0.6 million).

In total, a net tax charge of $17.1 million was recorded in Q2 2015, resulting from applying an effective tax rate of 28.5% (adjusted Q2 2014: 38.0%). The effective tax rate for the year ending 31 December 2014 was 29.0% (excluding one-off non-cash deferred tax credit). The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property with the commercial structure of the group. This has allowed Dialog to fully recognise previously unrecognised UK trading loss carry forwards and to benefit from the favourable UK tax regime for technology companies. We believe this gradual decrease is sustainable and will now accelerate from 2016, thus continuing to drive further reductions in our effective tax rate in the years to come.

In Q2 2015, underlying (*) net income and underlying EPS more than doubled from Q2 2014 levels. Underlying diluted EPS in Q2 2015 was 113% higher than in the same quarter of 2014.

On 6 May 2015 Dialog Semiconductor acquired a 41% minority stake in Dyna Image for a purchase price with a fair value of $13.6 million of which $12.9 million was paid in cash at the time of acquisition. The parties agreed on a call option that would allow Dialog to acquire some or all of the outstanding non-controlling interests at their fair value at any time over a period of three years. Based on these additional potential voting rights, the Company assessed that effective control of Dyna Image could be obtained if the call option was triggered. On that basis, Management concluded that full consolidation of Dyna Image was appropriate in Q2 2015. For full disclosure please refer to Note 3 of the Q2 2015 Interim Report.

At the end of Q2 2015, our total inventory level was $120 million (or ~64 days), an increase of $15 million over the prior quarter and broadly in line with Q2 2014.This represents an increase of eight days in our days of inventory over the prior quarter. We are managing our inventory levels tightly at an appropriate level to service our current customer backlog. During Q3 2015 we expect inventory value and inventory days to increase from Q2 2015 in anticipation of a number of high volume product launches during the second half of the year.

At the end of Q2 2015, we had cash and cash equivalents balance of $448 million. In the second quarter we generated almost three times more operating cash than in Q2 2014 and $15 million of free cash flow (***).

All outstanding Bonds were cancelled on 5 May 2015. The Company issued 6,797,025 new ordinary shares and the total number of ordinary shares issued by Dialog is now 77,865,955.

*(*) Underlying results (net of tax) in Q2-2015 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$4.7 million, excluding US$0.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$0.9 million non-cash effective interest expense in connection with the convertible bond, excluding US$0.2 million non-cash effective interest expense related to a licensing agreement, excluding US$0.1 million acquisition and integration expenses in connection with the purchase of iWatt and excluding US$3.2 million of amortisation and depreciation expenses associated with the acquisition of iWatt.*

*(*) Underlying results (net of tax) in Q2-2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$6.8 million, excluding US$0.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$2.0 million non-cash effective interest expense in connection with the convertible bond, excluding US$0.2 million non-cash effective interest expense related to a licensing agreement, excluding US$0.6 million acquisition and integration expenses in connection with the purchase of iWatt, excluding US$3.9 million of amortisation and depreciation expenses associated with the acquisition of iWatt, US$0.8 million of expenses associated with the merger discussions with ams AG and excluding the gain of US$0.7million from the release of an earn out provision in relation to the iWatt acquisition.*

*Underlying results (net of tax) in H1-2015 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$12.0 million, excluding US$0.4 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$3.0 million non-cash effective interest expense in connection with the convertible bond, excluding US$0.4 million non-cash effective interest expense related to a licensing agreement, excluding US$3.8 million acquisition and integration expenses in connection with the purchase of iWatt (of which US$3.4 million correspond to a litigation provision) and excluding US$6.4 million of amortisation and depreciation expenses associated with the acquisition of iWatt.*

*Underlying results (net of tax) in H1-2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$10.6 million, excluding US$0.8 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$7.5 million of amortisation and depreciation expenses associated with the acquisition of iWatt, excluding US$4.0 million non-cash interest expense in connection with the convertible bond, US$0.4 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US$0.8 million acquisition and integration expenses associated with the acquisition of iWatt, US$0.8 million of expenses associated with the merger discussions with ams AG and excluding the gain of US$0.7million from the release of an earn out provision in relation to the iWatt acquisition.*

*The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures. Underlying results (net of tax) have been fully reconciled to IFRS results (net of tax) above. All other underlying measures disclosed within this report are a component of this measure and adjustments between IFRS and underlying measures for each of these measures are a component of those disclosed above.*

*(**) EBITDA in Q2 2015 is defined as operating profit excluding depreciation for property, plant and equipment, (Q2 2015:US$5.7 million, Q2 2014:US$6.0 million), amortisation of intangible assets (Q2 2015:US$7.6 million, Q2 2014:US$8.3 million) and losses on disposals and impairment of fixed assets (Q2 2015:US$0.2 million, Q2 2014:US$0.2 million).*

*EBITDA in H1 2015 is defined as operating profit excluding depreciation for property, plant and equipment (H1-2015: US$11.0 million, H1 2014: US$11.4 million), amortisation for intangible assets (H1-2015: US$15.1 million, H1-2014: US$16.2 million) and losses on disposals and impairment of fixed assets (H1-2015: US$0.3 million, H1-2014: US$0.3 million).*

*(***) Free Cash Flow in Q2 2015 is defined as net income of US$42.9 million (Q2 2014:US$7.8 million), plus amortisation and depreciation (Q2 2015:US$13.3 million, Q2 2014:US$14.3 million), plus net interest expense (Q2 2015:US$1.1 million, Q2 2014:US$3.5 million), minus change in working capital (Q2 2015:US$19.4 million, Q2 2014:US$14.5 million) and minus capital expenditure (Q2 2015:US$22.6 million, Q2 2014:US$8.8 million).*

## Operational overview

During the quarter we completed a number of our highly integrated PMIC designs which will be sampled to our customers for products targeting H2 2016 production.

Widespread adoption of SmartBond™ - Bluetooth® Smart – connectivity continued to gain momentum across multiple IoT segments. Our pipeline of customer engagements remained strong across a wide range of applications demanding long battery lifetime, such as wearables, smart home and proximity tags. Following the success of the DA14580 we launched the industry's first Wearable-on-chip™ SoC (DA14680). The second generation of Bluetooth® Smart is currently being evaluated by several customers and we are expecting high volume production to start in Q4.

During the quarter, our efforts to reach out to Asian OEMs progressed on two fronts:

- Firstly, our collaboration with MediaTek continued to move forward and we are expecting a number of customers to ramp in H2 with our sub-PMIC - DA9210 - powering MediaTek's MT6795 octa-core reference platform.
- Secondly, the shift to higher power and faster charging continued as the China and Korean smartphone market transitions through 2015. Our quick charge solutions gained momentum with large ODMs in Asia beginning the ramp of new products which accommodate the latest proprietary quick charge protocols of various companies.

During the quarter, Dialog entered the white goods sector with an expanded Power Conversion product portfolio. We announced two power control integrated circuits that address the most critical reliability issue in white goods while reducing manufacturers' Bills-of-Materials (BOM) costs without compromising power supply performance. The household appliance market is growing at 3.8% annually and will reach 430 million units by 2017 (Market analyst, Freedonia Group, 2014). Dialog's new digital controllers are designed for use in dishwashers, refrigerators, cooking ranges, microwaves and other high volume appliance applications.

In Q2 we also significantly increased the total addressable market for our power saving technologies with the launch of our first highly integrated Power Management IC for computing systems. Adopting this integration approach for computing will replace the discrete power management solutions which have dominated computing systems to date. The DA9312, enables the design of smaller, thinner notebook computers and tablets powered by dual cell stacked (2S) Li-ion or Li-Polymer batteries. The notebook and tablet industries are moving towards designs powered by 2-cell batteries. Dialog is supporting this trend with the most integrated power management solution currently available.

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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 Q2 2015 performance, as well as guidance for Q3 2015. Participants will need to register using the link below labelled 'Online Registration'. A full list of dial in numbers will also be available.

**Online Registration:**
http://wcc.webeventservices.com/r.htm?e=1018041&s=1&k=3A4E1C87F8B4404926E522991DCAEF10

**Conference Number:** +44 (0) 1452 541003
**Conference ID:** 74853617

In synchronicity with the call, the analyst presentation will be webcasted on our website at: http://www.dialog-semiconductor.com/investor-relations. A replay will be posted at the same address four hours after the conclusion of the presentation and will be available for 30 days.

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## Note to editors

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 the employees, 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® Smart, 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. In 2014, it had $1.16 billion in revenue and was one of the fastest growing European public semiconductor companies. It currently has approximately 1,500 employees worldwide. The company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index.

## 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: 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 "Risks and their management" 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.