DIALOG SEMICONDUCTOR REPORTS RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017

Q2 2017 revenue above the mid-point of guidance and strong revenue growth momentum into H2 2017

London, UK, July 27, 2017 - Dialog Semiconductor Plc (XETRA: DLG), a provider of highly integrated power management, AC/DC, solid state lighting and Bluetooth® low energy wireless technology, today reports unaudited results for the second quarter ended 30 June 2017.

Q2 2017 financial highlights

- Revenue of US$256 million slightly above the mid-point of May guidance.
- All operational business segments delivered year-on-year revenue growth.
- Gross margin at 46.4% and underlying[1] gross margin at 47.3%, above the May guidance.
- Operating profit of US$20.0 million, 13% below Q2 2016. Underlying[1] operating profit of US$31.6 million, 5% below Q2 2016.
- All operational business segments were profitable on an IFRS basis.
- Diluted EPS of US$0.23, up 5% over Q2 2016 and underlying[1] diluted EPS of US$0.36, up 6% over Q2 2016.
- US$82.9 million returned to shareholders in Q2 2017 through the third tranche of the share buyback programme.
- Cash flow from operating activities of US$19.8 million (Q2 2016: US$13.5 million). US$643.6 million of cash and cash equivalents, US$16.5 million below 1 July 2016.

Q2 2017 operational highlights

- Continued momentum and design-in engagements for custom Power Management ICs (PMICs) at leading OEMs, for next generation smartphones, tablets, computing and wearable products.
- Increasing market interest in our portfolio of differentiated and innovative charging offerings, particularly GaN ICs and RF-based wireless charging.
- Expanded our fast charge portfolio with the launch of the first state machine-based USB Power Delivery (PD) interface IC.
- Launched a complete wall-to-battery fast charge solution with the introduction of the new high-efficiency power converter, the DA9318.
- Bluetooth® low energy shipments surpassed 100 million units since launch in H2 2014.

Subsequent to the end of the quarter the Company invested an additional $15.0 million in Energous, taking the total amount invested to US$25.0 million.

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

"In Q2 2017 we delivered year-on-year revenue growth and IFRS profitability across all operational business segments.

Through focused R&D investments we continue to maintain our technical leadership and expand our technology portfolio. We enter the second half with strong momentum in our highly-integrated Power Management ICs, fast charging technologies and Bluetooth® low energy products. Our pipeline of design wins and the increasing market interest in innovative and differentiated charging technologies, gives me confidence in our growth prospects for the second half of the year and over the medium term."

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

Outlook

Based on our current visibility, we anticipate revenue for Q3 2017 to be in the range of US$340-US$370 million.

Good business momentum and a strong pipeline of key product launches in the second half of the year, give us confidence in expecting 2017 to be a year of good revenue growth.

In line with the revenue performance, we expect gross margin for Q3 2017 and the full year 2017 to be broadly in line with the full year 2016.

Financial overview

IFRS US$ million	Q2 2017	Q2 2016	Q2 Change	H1 2017	H1 2016	H1 Change
Revenue	255.5	245.7	+4%	526.5	487.2	+8%
Gross Margin	46.4%	46.3%	+10bps	45.8%	45.4%	+40bps
R&D %[2]	26.3%	24.3%	+200bps	24.4%	24.1%	+30bps
SG&A %[2]	12.3%	12.7%	-40bps	12.2%	13.9%	-170bps
Other operating income %[2,3]	0.0%	0.1%	-10bps	0.0%	28.3%	nm
Operating profit	20.0	22.9	-13%	49.1	174.1	-72%
Operating margin	7.8%	9.3%	-150bps	9.3%	35.7%	nm
Net income	17.1	16.8	+2%	40.2	159.7	-75%
Basic EPS US$	0.24	0.23	+4%	0.55	2.11	-74%
Diluted EPS US$	0.23	0.22	+5%	0.52	2.02	-74%
Cash flow from operating activities	19.8	13.5	+47%	120.5	120.6	0%

Underlying[1] US$ million	Q2 2017	Q2 2016	Q2 Change	H1 2017	H1 2016	H1 Change
Revenue	255.5	245.7	+4%	526.5	487.2	+8%
Gross margin	47.3%	47.1%	+20bps	46.7%	46.3%	+40bps
R&D %[2]	24.8%	23.1%	+170bps	22.7%	22.7%	0bps
SG&A %[2]	10.1%	10.6%	-50bps	9.8%	10.7%	-90bps
EBITDA	44.8	44.5	+1%	102.2	85.3	+20%
EBITDA %	17.5%	18.1%	-60bps	19.4%	17.5%	-190bps
Operating profit	31.6	33.2	-5%	74.8	63.2	+18%
Operating margin	12.3%	13.5%	-120bps	14.2%	13.0%	+120bps
Net income	27.8	26.7	+4%	62.2	48.3	+29%
Basic EPS US$	0.38	0.36	+6%	0.84	0.65	+29%
Diluted EPS US$	0.36	0.34	+6%	0.80	0.62	+29%

2) R&D, SG&A and other operating income as a percentage of revenue.
3) Other operating income in 2016 includes US$137 million Atmel termination fee.

Revenue in Q2 2017 was up 4% year-on-year to US$255.5 million. All four operational business segments delivered year-on-year revenue growth. Mobile Systems was up 2% year-on-year due to higher sales volumes. Power Conversion delivered 7% year-on-year revenue growth, the seventh consecutive quarter of revenue growth. Connectivity was up 14% year-on-year on the solid performance of Bluetooth® low energy and the moderate revenue growth in DECT products. Automotive & Industrial was up 12% year on year due to higher sales volumes.

Q2 2017 gross margin was 46.4%, 10bps above Q2 2016. Q2 2017 underlying[1] gross margin was 47.3%, above the May guidance and 20bps above Q2 2016. The small year-on-year increase in gross margin is primarily the result of a favourable product mix combined with higher sales volumes.

OPEX, comprising SG&A and R&D expenses, in Q2 2017 was US$98.7 million, 8% above Q2 2016. As a percentage of revenue, OPEX in Q2 2017 was 38.6% of revenue, representing a year-on-year increase of 160bps. Underlying[1] OPEX, comprising of underlying[1] SG&A and R&D expenses, in Q2 2017 was US$89.3 million, 8% above Q2 2016. As a percentage of revenue, underlying[1] OPEX was 34.9%, representing a year-on-year increase of 120bps. On a trailing twelve month basis, underlying[1] OPEX was 27.7% of revenue, 30bps above the previous quarter.

R&D expense in Q2 2017 was up 12% from Q2 2016. As a percentage of revenue, R&D in Q2 2017 was up 200bps year-on-year to 26.3%. On an underlying[1] basis, R&D expense was also up 12% from Q2 2016. As a percentage of revenue, underlying[1] R&D in Q2 2017 was up 170bps year-on-year to 24.8%. The increase in R&D expense was predominantly driven by the on-going investment in large application-specific customer opportunities as well as in programmes supporting new growth areas and the diversification of the business. The year-on-year increase in R&D as a percentage of revenue was the result of the increase in the number of R&D projects.

SG&A expense in Q2 2017 was up 1% from Q2 2016. As a percentage of revenue, SG&A in Q2 2017 was 40bps below Q2 2016. Underlying[1] SG&A expense in Q2 2017 was broadly in line with Q2 2016. As a percentage of revenue, underlying[1] SG&A was 50bps below Q2 2016 at 10.1%. This decrease was mainly the result of the higher revenue.

Operating profit in Q2 2017 was US$20.0 million, down 13% year-on-year. The decrease was due to the increase in R&D expense partially offset by the higher gross margin. All four operational business segments generated operating profit on an IFRS basis. Operating profit margin in the quarter was 7.8%, also below Q2 2016. Underlying[1] operating profit was US$31.6 million, down 5% year-on-year. This was the result of higher underlying[1] R&D expense partially offset by the higher underlying[1] gross margin. Underlying[1] operating margin in the quarter was 12.3%, 120bps below Q2 2016.

The effective tax rate in H1 2017 was 23.2% (FY2016: 15.4%). The low effective tax rate in 2016 reflected the tax treatment of the US$137.3 million Atmel termination fee. The effective tax rate in Q2 2017 was 25.7%, including the effect of a $1.0 million provision release resulting from agreement of prior year items with tax authorities. The underlying[1] effective tax rate in Q2 2017 was 19.1%. Excluding the effect of the $1.0 million provision release in Q2 2017, the underlying[1] effective tax rate in Q2 2017 was 22.0%, down 200bps on the FY2016 underlying[1] effective tax rate of 24.0%.

In Q2 2017, net income was up 2% year-on-year due to the lower income tax expense. Underlying[1] net income was up 4% year-on-year also as a result of the lower underlying[1] income tax expense. Underlying[1] diluted EPS in Q2 2017 was up 6% year-on-year.

In line with our expectations, the inventory value increased during Q2 2017 ahead of the ramp of new products in H2. At the end of Q2 2017, our total inventory was US$149.5 million, 68% above the previous quarter and representing 98 days of inventory, a 44-day increase from the previous quarter. During Q3 2017, we expect inventory value to increase from Q2 2017 albeit at a lower pace, and days of inventory to decrease from Q2 2017.

On 23 June 2017, the final settlement of the third tranche of the buyback programme took place. During Q2 2017, the Company returned €74.9 million (US$ 82.9 million) to shareholders through the share buyback programme. The total number of shares purchased by the Company under the 2016 Approval (first, second and third tranches of the buyback programme) was 4,483,816. This corresponds to 5.8% of the Company's ordinary share capital as at 30 March 2016, at an average price of €37.6 and at an aggregate total cost of €168.7 million (US$ 184.7 million). All shares purchased under the 2016 Approval were cancelled.

Share buybacks continue to be a core element of our capital allocation framework and the company remains committed to returning excess cash to shareholders through the share buyback programme.

At the end of Q2 2017, we had a cash and cash equivalents balance of US$643.6 million. Free cash flow[4] in Q2 2017 was US$1.0 million (Q2 2016: $1.7 million).

4) Free cash flow is defined as cash flow from operating activities less capital expenditure

Operational overview

Our latest generation of highly-integrated PMICs will begin to ramp in high volume production during Q3 2017. During the quarter we made substantial progress on a number of PMIC designs which will start sampling to our customers for products targeting H2 2018 production. These custom engagements offer significant benefits in space and power savings, encouraging a trend of increasing custom mixed signal power content across future platforms for mobile devices, computing and wearables.

In June, the Company held events in China and Taiwan to showcase our portfolio of innovative and differentiated charging offerings, including GaN ICs and RF-based wireless charging. Over 700 engineers from the leading Asian ODMs and OEMs attended the events, a reflection of the increasing importance of charging technologies for smartphone OEMs to differentiate in a highly competitive market. Dialog's Rapid Charge solutions for power adapters continue to gain share with the top China smartphone OEMs. During the quarter we expanded our offering with the launch of two new products:

- Adoption of USB-PD is the next mobile adapter trend. Our new USB-PD IC has been designed to pair seamlessly with our market-leading AC/DC controller ICs, creating complete optimized adapter chipset solutions. The iW656 also supports other fast charge protocols, including Samsung Adaptive Fast Charge (AFC) and Qualcomm® Quick Charge™ 2.0. It powers rapid charge applications in mobile devices with a simplified design and a lower cost.

- With the introduction of the DA9318 charger, Dialog became the first company to offer a complete wall-to-battery fast charging solution. The DA9318 minimises power and heat dissipation making compact consumer applications safer. Together with Dialog's RapidCharge™ AC/DC power conversion chipsets, it provides breakthrough efficiency in high-voltage direct charging over a standard 3 A USB cable. This simultaneously doubles power and drastically reduces costs by up to 35 percent for fast-charging applications.

Bluetooth® low energy shipments surpassed 100 million units since launch. This is a strong indication of the value we bring to customers and the adoption of the technology across a wide range of IoT applications, such as wearables, proximity tags, gaming accessories, advanced remote controls and augmented reality and virtual reality accesories. Since Q4 2014, our SmartBond™ System-on-Chip (SoC) product portfolio delivers the smallest, most power efficient Bluetooth® low energy solutions available. A sustainable investment in innovation ensures our product portfolio expands and evolves with the market and our customers' requirements. Our SmartBond™ Bluetooth® low energy SoC products continue to ramp in production and maintain high growth momentum in 2017.

We see increasing market interest in our SmartBeat™ Audio IC. This digital SoC (DA14195) enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. The DA14195 is being evaluated by a number of customers for applications such as gaming and USB Type-C™ headsets.

Subsequent to quarter end the Company invested an additional $15.0 million in Energous, a NASDAQ-listed wireless charging technology company. The total amount invested in Energous is now $25.0 million. As part of the agreement signed in November 2016, Dialog became the exclusive component supplier of the WattUp® ICs while Energous is able to leverage Dialog's distribution channels and customer relations to accelerate market adoption. During Q2 2017, early customer engagements continued to progress well towards commercial production.

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 for Q2 2017, Q2 2016, H1 2017 and H1 2016 are presented in Section 3 of the Q2 2017 Interim Results Report. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

Income statement items

Q2 2017 US$'000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Effective interest	Strategic investments	Underlying basis
Revenue	255,515	–	–	–	–	255,515
Gross profit	118,589	394	1,773	–	–	120,756
SG&A expenses	(31,384)	3,731	1,824	–	–	(25,829)
R&D expenses	(67,291)	3,868	–	–	–	(63,423)
Other operating income	50	–	–	–	–	50
Operating profit	19,964	7,993	3,597	–	–	31,554
Net finance income/(expense)	3,039	–	–	80	(263)	2,856
Profit before income taxes	23,003	7,993	3,597	80	(263)	34,410
Income tax expense	(5,920)	(591)	(210)	(15)	147	(6,589)
Net income	17,083	7,402	3,387	65	(116)	27,821

Q2 2016 US$'000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Aborted merger with Atmel	Effective interest	Underlying basis
Revenue	245,747	-	-	-	-	245,747
Gross profit	113,737	326	1,755	-	-	115,818
SG&A expenses	(31,179)	3,338	1,900	(15)	-	(25,956)
R&D expenses	(59,816)	2,996	-	-	-	(56,820)
Other operating income	200	-	-	-	-	200
Operating profit	22,942	6,660	3,655	(15)	-	33,242
Net finance income/(expense)	2,497	–	–	–	138	2,635
Profit before income taxes	25,439	6,660	3,655	(15)	138	35,877
Income tax expense	(8,653)	(250)	(217)	–	(27)	(9,147)
Net income	16,786	6,410	3,438	(15)	111	26,730

H1 2017 US$'000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Effective interest	Strategic investments	Underlying basis
Revenue	526,489	–	–	–	–	526,489
Gross profit	241,235	930	3,541	–	–	245,706
SG&A expenses	(63,988)	8,974	3,648	–	–	(51,366)
R&D expenses	(128,242)	8,605	–	–	–	(119,637)
Other operating income	50	–	–	–	–	50
Operating profit	49,055	18,509	7,189	–	–	74,753
Net finance income/(expense)	3,285	–	–	175	710	4,170
Profit before income taxes	52,340	18,509	7,189	175	710	78,923
Income tax expense	(12,140)	(3,944)	(420)	(34)	(171)	(16,709)
Net income	40,200	14,565	6,769	141	539	62,214

H1 2016 US$'000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Aborted merger with Atmel	Effective interest	Underlying basis
Revenue	487,155	–	–	–	–	487,155
Gross profit	221,398	845	3,506	–	–	225,749
SG&A expenses	(67,609)	7,851	3,800	3,591	–	(52,367)
R&D expenses	(117,340)	6,739	–	–	–	(110,601)
Other operating income	137,678	–	–	(137,300)	–	378
Operating profit	174,127	15,435	7,306	(133,709)	–	63,159
Net finance income/(expense)	(1,782)	–	–	1,913	291	422
Profit before income taxes	172,345	15,435	7,306	(131,796)	291	63,581
Income tax expense	(12,668)	(1,701)	(432)	(383)	(58)	(15,242)
Net income	159,677	13,734	6,874	(132,179)	233	48,339

EBITDA

US$'000	Q2 2017	Q2 2016	H1 2017	H1 2016
Underlying measures				
Net income	17,083	16,786	40,200	159,677
Net finance expense	(3,039)	(2,497)	(3,285)	1,782
Income tax expense	5,920	8,653	12,140	12,668
Depreciation expense	7,593	6,633	15,007	13,067
Amortisation expense	9,204	8,307	19,623	16,352
EBITDA	36,761	37,882	83,685	203,546
Share-based compensation and related	7,993	6,660	18,509	15,435
Merger termination fee	-	-	-	(137,300)
Aborted merger costs	-	(15)	-	3,591
Underlying EBITDA	44,754	44,527	102,194	85,272

Earnings per share

US$'000	Q2 2017	Q2 2016	H1 2017	H1 2016
Underlying measures				
Net income	27,821	26,730	62,214	48,339
Loss attributable to non-controlling interests	466	650	513	1,367
Earnings for calculating underlying basic and diluted EPS	28,287	27,380	62,727	49,706

Free cash flow

US$'000	Q2 2017	Q2 2016	H1 2017	H1 2016
Underlying measures				
Cash flow from operating activities	19,805	13,498	120,458	120,575
Purchase of property, plant and equipment	(10,441)	(5,528)	(17,340)	(11,196)
Purchase of intangible assets	(2,364)	(2,139)	(4,054)	(4,619)
Payments for capitalized development costs	(6,031)	(4,136)	(12,243)	(9,877)
Free cash flow	969	1,695	86,821	94,883

*****

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 2017 performance, as well as guidance for Q3 2017. Participants will need to register using the link below labelled 'Online Registration'. 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:

http://members.meetingzone.com/selfregistration/registration.aspx?booking=UDyOpFYm852BWV7M7bEfd5GB5lrW0wbeHdHQ3K4j9aE=&b=d58ae4ab-80e5-47f2-8295-e04d92bbba83

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

http://webcast.openbriefing.com/semiconductor_q2_results_270717/

The full release including the Company's condensed consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and selected notes for the quarter ended 30 June 2017 is available under the investor relations section of the Company's website at: http://www.dialog-semiconductor.com/investor-relations

For further information please contact:

Dialog Semiconductor
Jose Cano
Head of Investor Relations
T: +44 (0)1793 756 961
jose.cano@diasemi.com

FTI Consulting London
Matt Dixon
T: +44 (0)2037 271 137
matt.dixon@fticonsulting.com

FTI Consulting Frankfurt
Anja Meusel
T: +49 (0) 69 9203 7120
Anja.Meusel@fticonsulting.com

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® 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. In 2016, it had US$1.2 billion in revenue and approximately 1,770 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 "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.