Dialog Semiconductor - 5 August 2020

Jose Cano:
Good morning and thanks to everyone for joining us today. I hope you are keeping well. This quarter, while Jalal is recovering from an elective medical operation, our call is being hosted by Wissam Jabre, our CFO. In a moment, I will hand you over to Wissam to talk through the company's Q2 2020 performance.

First of all, as usual 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 the risks associated with them. You can find full explanation of these risks on page two of the investor presentation. The interim report and the press release can also be found on our website. I will now hand you over to Wissam, who will run through the presentation. Wissam, over to you, please.

Wissam Jabre:
Thank you, Jose. And good morning, everyone. I hope you're all healthy and doing well. I spoke with Jalal yesterday on behalf of everyone at Dialog. I wished him a speedy recovery. I know he would rather be speaking to you all today, and I doubt it will be long before you hear from him again. We expect him to be formally back with us around the beginning of September.

In Q2 2020 we delivered a strong set of results. Revenues stood at $302 million, 10 percent above the midpoint of the May guidance and four percent above the high end of the range. We also achieved record underlying gross margin at 50.6 percent. We delivered a sequential improvement in revenue and profitability for the group and in all three business segments. In support of our growth strategy over the last few years, we have invested in the development of new business opportunities, both organically and inorganically, expanding our product portfolio and solidifying our position in key markets.

On the 29th of June, we closed the acquisition of Adesto Technologies, which will accelerate the diversification of our business into industrial IoT. As a result of these investments, as well as the commitment and flexibility of our employees still mostly working from home, Dialog is now poised to enter a multi-year growth cycle with a diverse portfolio of mixed signal products and lower customer concentration.

On slide four, I will discuss the execution of our growth and diversification strategy. First, we are leveraging our power management expertise in new end markets such as automotive, gaming and computing with custom products. We have multiple engagements in these areas, and we expect this revenue stream to build up steadily over the next three years starting this calendar year.

Second, we have expanded our product portfolio and consumer IoT with the introduction of our TWS audio offering and the addition of low power Wi-Fi to our IoT portfolio. In parallel, we continue to invest in the expansion of our Bluetooth low energy offering, targeting high growth opportunities in connected health.

Third, both in mobile and consumer IoT, we have been expanding into adjacent markets. These include next generation products in smart cameras and new display technologies, high power delivery for higher wattage adapters, and next generation battery management products.

Finally, we have created a new business in industrial IoT with the acquisition of Creative Chips and Adesto Technologies. Alongside this, we have continued to broaden our industrial portfolio with, for example, the introduction of high voltage CMICs.

Let me remind you briefly of the strength of the business combination with Adesto on the next slide. By acquiring Adesto, we have increased our addressable market, targeting new growth segments in industrial IoT. Adesto brings to us a comprehensive product offering which complements our existing portfolio. For example, it's industrial wired connectivity portfolio perfectly complements Dialog's leading wireless product tech, which we can now target for smart building and industrial applications.

Cloud connectivity adds further differentiation to Dialog's existing industrial solutions. Adesto also brings us some great people. We have welcomed the team with strong industrial markets, mixed signal and system expertise. With over 5,000 customers, the majority of which are new to Dialog, the combined business will provide a solid platform from which we can leverage an established sales channel.

Finally, the acquisition is expected to be accretive to underlying EPS in the first full calendar year after close, with the potential for considerable revenue synergies thereafter. We are also targeting annual cost synergies of approximately $20 million within the first calendar year after close. The cost synergies are expected to come from identified efficiencies, as well as improvements in supply chain across the combined company.

Before moving to the Q2 financial performance, let me turn to slide six and touch on the first integration steps we have taken since closing the transaction. Adesto will be the third acquisition we have integrated into the Dialog business in the last 18 months. Building on previous experience, we had an initial integration plan in place before the closing. So we were able to kick off the integration activities in early July. We have been working together over the last few weeks, albeit remotely, and employees on both sides are seamlessly embracing this effort. The plan is divided into functional work streams, working on the integration of people and processes. All basic I.T. infrastructure and communication tools were ready from day one, and we have been able to kick off a number of programs focused on product strategy and revenue growth. We are aiming to maintain a strong focus on delivering existing customer commitments while we are re-energizing innovation programs to generate future revenue growth.

Let me now cover Q2 results, starting with the highlights for the quarter on Slide eight. We'll go into more detail shortly, but there are a few points I would like to make here. First, Q2 2020, underlying revenue of $302 million was up 22 percent sequentially, four percent above the high end of our May guidance range and 10 percent below Q2 2019. However, excluding revenue from legacy license main PMIC products underlying revenue was up 11 percent year on year. IFRS revenue was significantly lower year on year, mainly due to the one off license revenue of $146 million in Q2 2019 related to the license agreement with our largest customer.

Second, underlying gross margin reached a record 50.6 percent in line with the May guidance. And third, we generated a cash flow from operating activities of $33 million, which also reflects the recoupment of the prepayment relating to the license agreement. On the next slide, I'd like to give you some additional color on our revenue performance in Q2 2020.

Revenue growth from new mixed-signal products for our largest customer was up 19 percent year on year. Compared to Q2 2019, revenue from advanced mixed-signal was down one percent, led by lower shipments of backlighting drivers for TV's as well as ACDC products, almost offset by strong growth in CMICs.

Revenue in advanced mixed-signal was up 22 percent sequentially. Revenue from connectivity and audio was six percent below Q2 19 due to lower volumes in legacy DECT products and Bluetooth low energy. Revenue in connectivity and audio was up 26 percent sequentially.

Turning to slide 10 to cover gross margin. In Q2 2020, underlying gross margin was in line with our guidance at 50.6 percent, up 90 basis points year on year. The year on year increase was mainly due to the revenue mix and continued savings in manufacturing and overhead costs. On a year to day basis, underlying gross margin was also up 90 basis points year on year at 50.5 percent. As I mentioned last quarter, our fabless business model is resilient and gives us the operational and financial flexibility to successfully navigate periods of economic uncertainty where visibility is lower than usual.

Let's now turn to slide 11 to discuss operating expenses. Q2 2020, underlying operating expenses were $97.8 million, in line with Q2 2019. The additional underlying OPEX from the acquisition of Creative Chips and FCI were offset by cost savings across R&D and SG&A.

As a percentage of revenue underlying operating expenses in the quarter were above Q2 2019 at 32.4 percent, reflecting the lower revenue. Underlying SG&A expenses were down five percent year on year to $29 million, mainly due to cost savings, partially offset by the consolidation of FCI and Creative Chips into the group.

As a percentage of revenue, SG&A was 9.6 percent. Q2 2020, underlying R&D expenses increased two percent year on year to $68.8 million.

The slight increase in underlying R&D expenses was mainly due to the acquisition of Creative Chips and FCI, combined with lower R&D capitalization, partially offset by cost savings. As a percentage of revenue R&D was above Q2 2019 at 22.8 percent. For the first half of 2020, underlying operating expenses were four percent lower than the same period in 2019. We absorbed the additional expenses from the acquisitions of Creative Chips and FCI with savings achieved during the first half of 2020.

Turning to slide twelve to cover operating profit and EPS. In Q2 2020, underlying operating margin was below last year at 20.6 percent as a result of the lower revenue and reduced other operating income, partially offset by higher gross margin.

In Q2 2019 -- the Q2 2019 included $12.5 million of other operating income related to the license agreement. Sequentially, Q2 2020 underlying operating margin of 20.6 percent represents a significant increase over the 13.3 percent underlying operating margin we achieved in Q1 2020. All our business segments contributed to the sequential improvement, reflecting the demand improvement across most business areas.

At the bottom of the slide, you can see the breakdown by business segment. In Q2 2020, underlying operating profit for connectivity and audio improved significantly over Q1 2020 but remain below Q2 2019 at $1.8 million.

The intensity of the investments in connectivity and audio will position the business for higher revenue growth and profitability over the coming years. We expect underlying operating profit of connectivity and audio to improve in Q3.

Advanced mixed-signal performance improved year on year, achieving 8.7 percent underlying operating margin, 40 basis points above Q2 2019. Underlying operating profit for custom mixed signal decreased to $48.3 million dollars and the underlying operating margin to 25.9 percent. The decrease in operating profit was mainly due to the lower revenue from licensed main PMICs.

Corporate improved significantly due to the license revenue, together with the reduction in corporate expenses. The underlying effective tax rate for the quarter was 19.7 percent, 80 basis points below Q2 2019.

Lastly, underlying diluted earnings per share in Q2 20 was 20 percent below the previous year at 0.69 cents and 77 percent above the previous quarter.

From earnings, let's now turn to slide 13 to take a closer look at inventory and cash. Inventory level was one percent below the previous quarter at $127 million and 18 percent below Q2, 2019. Days of inventory were significantly below to Q1 2020 at 76 days.

During Q3 2020, we expect inventory value and days of inventory to increase from Q2 2020.

Cash flow generation improved sequentially in Q2 2020. During the second quarter, we generated cash flow from operating activities of $33 million, and at the end of Q2, our cash and cash equivalents balance was $957 million, slightly below the previous quarter. The main item driving this movement was the first interim settlement of the share buyback for an amount of $18 million.

Before opening the call for questions, I would like to leave you with the key takeaways. The health and safety of our employees and business partners remains a key priority. We continue to successfully run the company mostly remotely thanks to the commitment and flexibility of all our employees. Some of our offices are gradually reopening, albeit at the low capacity and following local guidelines. This resilience has allowed us to continue providing excellent customer support and generate a healthy pipeline of new opportunities across a multitude of customers for 2022 and beyond, including exciting new areas such as battery management, display, and audio. Closing the acquisition of Adesto starts an exciting new chapter in the evolution of our business into industrial IoT. We started the integration effort in early July, and we are powering ahead to make this acquisition a great success and generate long term value for our shareholders.

And lastly, the financial resilience of our fabless business model, together with the strength of our balance sheet and liquidity, will allow us to successfully navigate the uncertainty of the current economic environment.

Before I hand over to the operator, I'll share a quick reminder of our outlook for the next quarter. Including Adesto, we expect Q3 2020 revenue to be in the range of $340 million to $380million and underlying gross margin to be broadly in line with Q2 2020.

With that, I'll hand over to the operator to open the line for questions. Operator, over to you, please.

Operator:
Ladies and gentlemen, if you'd like to ask a question, please, press star followed by one on your telephone keypad now. If you're joining us via the web, please click the request to speak flag icon. If you change your mind, please press star followed by two. When preparing to ask your question, please ensure that your phone is unmuted locally. We have a question from Andrew Gardiner of Barclays. Andrew, your line is now open. Please go ahead.

Andrew Gardiner:
Thank you very much. Good morning, Wissam. If I could just ask two -- one a nearer term one and one perhaps a longer term question. So first, on the on the nearer term, I appreciate you've only just giving us third quarter guidance, but can you help us perhaps more qualitatively as how you think see things trending through the end of the year. You guys have a few different moving parts and perhaps than you have in the past, given the Legacy business declining offset by the growing new business with your biggest customer, as well as what's happening with advanced mixed signal and the acquisitions. So just as we look to the fourth quarter, can you help us with those three or four different moving parts on a sequential basis? And then secondly, perhaps a more longer term question. For the first time, you mentioned 2022 in this morning's press release. Can you give us the whether those wins are incremental, shall we say, or sort of reupping of an existing socket? Thank you very much.

Wissam Jabre:
Good morning, Andrew. Thanks for the questions. So with respect to the near-term question and the transition from Q3 to Q4, as you said, obviously it's premature to guide Q4, but if I think of the transition from Q3 to Q4, and I would say it's probably more like the transition that we experienced in the 2019 year as opposed to prior years. So we're expecting Q4 to be slightly or down from theQ3 seasonality. And that's a result of obviously the licensing agreement with our major customer and the transfer of main PMICs for phone, iPads and watches. But with respect to the seasonality, we expect the seasonality for the rest of the business to remain the same.

With respect to the second question about 2022, we are engaged on several fronts with the design wins and we've made some significant progress. And I would say we've we have design wins in our traditional sockets, but also we've made some progress on some new fronts for the year 2022. We'll probably be sharing a little bit more on that later in the year as we solidify these design wins. But it's not only in terms of the areas that we've traditionally [inaudible].

Andrew Gardiner:
Okay. Thanks very much, Wissam.

Wissam Jabre:
Thank you.

Operator:
We have another question from Achal Sultania from Credit Suisse. Achal, your line is now open. Please go ahead.

Achal Sultania:
Hi. Good morning, Wissam. Two questions if I may. First, on the on the seasonality for the OPEX. I appreciate there a few moving parts around R&D capitalization and credits. So can you help us understand how should we think about R&D for second half -- sorry, the total OPEX for second half of this year from that high 90 million base that you had in Q2? And then for Adesto, I presume that a loss making business at an EBIT level. So is it fair to assume that the business would be EBIT positive in the next couple of quarters? Is that a fair assumption? And what is going to drive that? Is that mainly about OPEX reductions in the near-term, which allows you to get there. Thank you.

Wissam Jabre:
Good morning, Achal. So with respect to the OPEX, the way to think of it, maybe I'll talk a little bit about the business excluding Adesto so you can sort of baseline and then will add Adesto to the discussion. So with respect to the OPEX, you know, as we said at the call in May, the expectation is for the Q3, Q4 to be slightly lower than the run rate in Q1, Q2. And so that expectation is still there. You know, at the time I think we said two to four percent. I expect that -- I expect us to be probably lower to the tune of closer to the two percent than the four percent given where we see the revenue. We're modulating given where we see the revenues coming in.

So that's really sort of the -- for the for the ongoing business. And with respect to that and with respect to Adesto and your question to the around the EBITs, you know, the first couple of quarters the business will be probably -- will experience a bit of operating loss. So and then from there on, we expect it to turn profit. The way to think of it, Achal, is, you know, the first half of the business for -- sorry, the first half of 2020 -- that business was impacted by the slowdown in industrial segments, you know, the closing of factories, commercial buildings and many countries, you know, imposing lockdowns. As the situation has improved, we expect the second half to be considerably better than the first half, but we still expect it to be experiencing a small operating loss. I would say in the low to mid-single digits in dollar terms. So that will hopefully give you also the way to triangulate to the OPEX that comes with the Adesto acquisition.

Achal Sultania:
Thanks. Thanks, Wissam.

Wissam Jabre:
Sorry, maybe I'll add one more comment on that, because, you know, we are still targeting $20 million costs synergies over the first full calendar year and we're still very positive over the long term prospects of the business. And so as we get into the early part of '21, we expect the business to be profitable.

Achal Sultania:
Thank you.

Wissam Jabre:

You're welcome.

Operator:
We have another question from Francois Bouvignies from UBS. Francois, please go ahead. Your line is open.

Francois Bouvignies:
Hi. Thank you very much. The first question I have is Adesto, to just a follow up on that. Can you give us an idea of what was a performance in Q2 for Adesto maybe in [unintelligible] new term? Maybe gross year over year in Q2, or the absolute [unintelligible] and what to expect the revenue will be from Adesto in Q3 in your guidance to have a bit more clarity on the organic and your acquisition from Adesto would be very helpful. And the other question is regarding your main PMIC that is going down. Q2 has been, I mean, the gross decline has been maybe less pronounced than the previous quarter. I was just wondering, how should we think about, you know, Q3, Q4, in terms of this main PMIC, trying to get, you know, the forecast right for the main PMIC could be also helpful. And finally, what is the EBIT margin of this main PMIC compared to the group level just to have an idea of the profitability?

Wissam Jabre:
Thank you, Francois. So, you know, as I noted earlier with my comments on Adesto, that during the first half the business was impacted, unsurprisingly, by COVID-19, a little bit more than our traditional business, given its exposure to the industrial markets, the closing of factories and commercial buildings. And so we expected Q2 to be the lowest point. For the second half, we do expect the business to be significantly better than the first half of 2020. And so when you think of the revenue, if you want to sort of think of the revenue levels for the second half, I would say we're expecting that to be in the 40- to $50 million range. And so we're still, as I said, also expecting the business to be accretive in the first full calendar year, which will be 2021. You know, as we execute very fast on our $20 million of synergies that we're expecting to also deliver in the first full calendar year.

Male Speaker:
Sorry, Francoise. It will be -- this is Jose -- it will only be a second. [unintelligible]

Francoise Bouvignies
No -- it happens.

Wissam Jabre
I apologize. I sincerely apologize about the about this untimely fire alarm. So let me keep going. I was hoping, you know, I was on a roll on the synergies. So, yes. So $20 million of synergy is expected in the first full calendar year. When -- so onto maybe the second part of your question. The main PMIC and the transition sort of year on year and so on. You're right that the rate of decline of the main PMIC in the second quarter when compared to the same quarter in the prior year, was lower than what we've seen in Q1. I would say, you know, in Q3, we expect -- I would expect it to be somewhere in between what we've seen in Q1 and Q2. I wouldn't want to sort of give much more. We don't typically guide down to that level to the to the product line, if you like. But that would be probably the closest, I think I could say.

Francois Bouvignies:

Wissam, just clarify on that. This better performance, if I may say, is it driven by the other Apple products selling a bit better maybe in this environment? What is driving this or?

Wissam Jabre:
Yeah, what's driving this is really, you know, the push to work from home and learn from home. So the demand for tablets and notebooks and wearable products was higher. But we also have new products in these segments as well. You know, we do have still products in all of these going forward. So this is why also you saw the in the second quarter, you saw a growth of 19 percent in the growth portion of that business.

And I think that to your question on the EBIT margin. And also, we don't really disclose EBIT down to that level. We don't split it out. We do disclose the EBIT for the custom mixed signal segment. What I could say, though, on this, I mean, the way to think of it, Francois, is that I mean, obviously, these are products that don't attract a lot of investment. So they will have naturally a slightly higher EBIT percent as the rest of our portfolio.

Francoise Bouvignies:
Great. Thank you very much, Wissam.

Wissam Jabre:
You're welcome.

Operator:
We have a question from Matt Ramsay of Cowen. Matt, your line is open. Please go ahead.

Matt Ramsay:
Thank you very much. Good morning, everyone. Wissam, just a couple of questions from me. The first one just, I guess, a clarification if you could outline for us as you think about the divisional breakdown of the way you guys report revenue. Can you just talk about how Adesto splits out and if it's all in one segment and just how we should think about that? And then I guess in the longer term question, you guys talked a good bit about power and back and particularly battery management in the design win pipeline. And you mentioned some things this morning about 2022, and that's a far way out. But I wonder if it's related to battery management or if you could give a little bit more color on that pipeline. Thank you.

Wissam Jabre:
Thanks, Matt. Good morning. So on the on the revenue and where Adesto will fit within the -- our reporting. Adesto will form the basis of a new industrial segment. And so in the Q3 reporting, it'll probably be reported under a new industrial mixed signal segment. So that's really how we think of it going forward. And with respect to the longer term question and 2022 and battery management, I mean, we've talked quite a bit on battery management in the second quarter. We do have, you know, standard battery management products shipping this quarter. And we as well expect revenue from high volume contracts to begin with new smartphones in the second half of 2021, and also will be obviously accelerating more by 2022 timeframe. With respect to what I talked about with earlier on 2022, it's not necessarily only battery management related. There's some other areas that we're also addressing. And that would be also a bit of a good expansion of the market that we're targeting. And this was, you know, this was related to primarily our discussion with our largest customer, Design Wins.

Operator:

Ladies and gentlemen, we have another question from Adithia Metuku from Bank of America. Adithia, please go ahead. Your line is open.

Adithia Metuku
Good morning, guys. So just two questions. Firstly, just on the automotive design wins you talk about 100 design wins in the press release, I just wondered if you could give us a sense of the opportunity you're talking about here, the dollar opportunity. And just a clarification on and earlier question. Did I hear you say that Apple revenues will go down Q on Q in 4Q or did you mean that the seasonality in 4Q will be lower than it has been historically? Thank you.

Wissam Jabre:
Thanks, Adi. So on the automotive side, we do have a growing number of customer engagements and we mentioned the 100 plus, I think, wins. They are in several areas, you know, the areas that we're -- the market or the market segments that we're primarily targeting are in vehicle infotainment as well as the ADAS systems. So these are the type of opportunities that, you know, that probably have a design cycle between 18 months to 3 years, which is the typical design cycle.

In terms of the dollar amount, I don't think we've sort of broken out the numbers or the value of lifetime revenue, if you like, but it's obviously quite large given the size of it. The way to think of it as the expectations of the revenue from the automotive space is expected to start accelerating. And, you know, it takes -- it is slightly longer window than the rest of our portfolio. So it'll take probably another year or two to start seeing really high acceleration. But, you know, we are we are addressing this market through various products in our portfolio. I mean, we have PMICs going into that space. We do have products from our Bluetooth low energy business, as well as in the configurable mixed signal areas, to name a few.

With respect to the second question -- I'm sorry, could you repeat your second question, Adi? I did not note it.

Adithia Metuku:
Sure. Just on the Apple revenue in response to an earlier question. You said 4Q Apple revenues will go down or do you mean seasonality? [inaudible] I just wondered if you could clarify your comments on how you expect Apple revenues in 4Q.

Wissam Jabre:
Absolutely. You know, as I said obviously earlier, it's a bit premature for me to guide for Q4. But my comments was more on the seasonality of the business. They weren't specifically related to our largest customers -- the revenue from our largest customer.

Adithia Metuku:
Understood. Okay. Thank you.

Wissam Jabre:
Thank you.

Operator:
We have a question from Stephan Houri from ODDO. Stephan, your line item. Please go

ahead.

Stephan Houri:
Yes, hello. I have a question on the configurable mixed signal IC. I see the cmics is up 40 percent during the quarter. So can you talk a little bit about the end demand, the customers and if you expect this growth to continue? And also clarification on the previous question. Are you saying that the revenues for Q4 are going to be down, but this is normal seasonality or that there is something more in the seasonality that, you know, that could impact the revenues? Thank you.

Wissam Jabre:
Thanks, Stephan. So on the CMICs, you know, it's great performance of that business. I mean the nice thing about the configurable mixed signal business it's one of those also very high gross margin business for us. So the, you know, there are several drivers, but the one of the key ones, I would say probably some really strong demand on the notebook side that helped us there. But overall, we expect that some level of good strength to continue in the third quarter for that business. And as I said, it's a good margin business. And in parallel, we're also -- we've also launched some additional the new products in the product family for the GreenPAK. We expect to do a few more product launches in the same product -- for the same product portfolio in the second half of this year. And so that hopefully will help the business to continue to build the momentum and grow at a really good pace.

With respect to the seasonality, your question, you know, this is the normal business seasonality, we expect a normal seasonality to happen. There's nothing out of the ordinary other than obviously, you know, if you look at our transitions in 2019 that the Q4 was lower than Q3 simply because of the license agreement with Apple and some of as some of these products are phasing out.

But with respect to the rest of the business, there's normal seasonality. I wouldn't say that anything that we see today that's extraordinary.

Stephan Houri:
Okay, thank you for the clarification.

Wissam Jabre:
Thanks, Stephan.

Operator:
We have a question from Sebastien Sztabowicz from Kepler Cheuvreux. Sebastien, your line is open. Please go ahead.

Sebastien Sztabowicz:
Yeah, hello. Thanks for taking the question. On Bluetooth low energy the Q2 numbers were soft, going down 10 percent year on year. How do you see the business developing into Q3? When do we expect to return to the more conditional growth trends for the business [unintelligible] more in the 20 percent range? And coming back to Adesto, looking at the comment you made for H2 pipeline for the $40-50 million. If you look at the numbers we put out last year to see the sizable decline of 25 percent year on year in H2, could you help us a little bit to better understand the growth prospects of the Adesto business beyond 2020 and what kind of margin we can expect in the longer term as well for Adesto. Thank you.

Wissam Jabre:
Thanks, Sebastien. So on the Bluetooth low energy, the revenue was slightly softer in the second quarter when compared to the previous year. But then when you sort of compare it to Q1, we really saw a good uptick, quarter on quarter north of the 20 percent. Now, during the quarter, the business experienced some supply chain constraints due to the lockdown's, you know, certain substrates were not available. And so this is what limited our revenue in the second quarter. It wasn't limited by demand. And so we're expecting this to ease up in Q3. And actually, we're expecting the Bluetooth low energy to resume growth in the second quarter -- sorry, in the third quarter of 2020. And so, you know, for the rest of the year, I expect the business to be performing much better than we've seen in the first half, as well as growing relative to last year.

Now with respect to Adesto, yeah, if you compare the second half to last year, you're right to point that there is some decline relative to last year. But this is a business that is primarily focused on the industrial space as well as the building automation space. And, you know, when you have all these lockdowns all over the world, not only do factories shut down, but also, you know, most of us, if not the majority of us, the vast majority of us are working out of our homes and so large commercial buildings are also shut down. So the business was, unsurprisingly, more affected by COVID-19 than the traditional business we have.

But going forward, we expect the 20, you know, while it is a bit too early for me to guide for 2021 or talk more quantitatively about the year, I would say the expectation for 2021 is that the revenue will see a considerable uptick from where we are assuming that the economic conditions hold as we are -- as we see them today.

And then for the last part of your question, Sebastien, which is around the gross margin, as you know, I think the -- if you look at the public filings for the company, they ended 2019 at around 48 percent gross margin, where I expect it to over the long term to converge to the Dialog targets which are 50 to 53 percent, albeit maybe towards the lower end of that range. I hope this answers your question.

Sebastien Sztabowicz:
Yeah, the question was more on the operating margin, because [unintelligible]. What kind of operating margin do you see for this business? In the midterm, do you think it is comparable to the rest of the business, the [unintelligible] margin prospect?

Wissam Jabre:
So with respect to the operating margins, the way to think of it is obviously we're executing on the cost synergies that we plan to deliver over the first calendar year, around $20 million. And so as we execute through this, I expect the operating margins to not only turn positive, but also be at a good pace, at a good percentage for 2021. As we said also before, we're still very excited about the business and we see it as accretive to the EPS for the group in the first calendar year. Now if I think of it long term, you know, as the revenue accelerates, I don't expect the operating expenses to accelerate at the same pace. And we should start seeing some operating margin that would help us expand the margins over the mid to long term. So I don't see any reason not to see Adesto converging over time to the targets that we set -- our long term targets for Dialog, which are 20 to 25 percent. But as I said, on the gross margin, it'll probably be towards the lower end of that range as opposed to the twenty five percent end of that range.

Sebastien Sztabowicz:
Thank you.

Wissam Jabre:
You're welcome.

Operator:
Just as a reminder, ladies and gentlemen, if you'd like to ask a question, please, press star followed by one on your telephone keypad now. If you're joining us by the web, please click the request to speak flag icon.

We have a question from Sandeep from J.P. Morgan. Sandeep, please go ahead. Your line is open. Sandeep, please go ahead. Your line is open.

Sandeep Deshpande:
Hi. Can you hear me?

Wissam Jabre:
Yes, loud and clear, Sandeep.

Sandeep Deshpande:
Yeah, hi. Wissam, I have a question regarding your OPEX plan. You explained a little bit about the OPEX plan in terms of that we should be looking at around two percent decline in the current levels of OPEX and then addition of Adesto to that. Are you also as part of the synergies, planning to reduce Adesto's OPEX over the next few months and few quarters, which is what is the synergies that you're talking about on that? And that will enable the business to turn around or is its gross margin that we intend to turn around at Adesto?

Wissam Jabre:
Great question. So I would say that the quick answer to that, Sandeep, it's both. We're working on, obviously, the synergies of the $20 million are primarily cost synergies. You know, we think of areas where we have duplication, for instance, for eliminating those areas. We're driving efficiencies in other areas. And we're also looking at the supply chain and then looking at the areas where we can take cost out of that supply chain. And so that's sort of the -- on the cost side. That should help the OPEX structure as well as the gross margin structure. In parallel, obviously, our sales teams have been fully engaged on looking at all the opportunities ahead of us in terms of cross-selling. So, you know, we have the Dialog sales team and the Adesto sales team now operating as one organization, looking at areas where we see proximities, as well as areas where, you know, we have introductions, for instance, of the Dialog site to the industrial space, as well as introduction to the Adesto product portfolio to our existing customers.

So, you know, as we've talked about before, for example, in the wearable space, we are a leader in this market. And we've already identified several sockets where our key customers will be working to focus on design or getting qualified. In the areas of the industrial side, as I said, we're engaged with Adesto's top customers to introduce more and more the product portfolio at Dialog, even though these types of wins will probably take some to realize, given the nature of the business.

And with respect to reference designs, for instance, we're working -- our BLE team is working on adding Adesto to all of our reference designs where they can be included. So in terms of the business itself, you'll see we expect the gross margin and operating margin to expand not only because of the synergies -- that would be in the short term, but in the long term, we'll start seeing also the revenue synergies that would add to the existing business that would also help expand the profitability.

Sandeep Deshpande:
Thanks, Wissam. I mean, maybe I have one follow up, I mean, Adesto had a very difficult H1, typically for semiconductor companies when they undergo this sort of, you know, semi inventory correction or very difficult period, then there tends to be a period where things are extremely good because there is pent up demand from that weak period because it was artificially created, which is what it was in the first half of this year. So would you expect that to happen at Adesto at all?

Wissam Jabre:
Well, this is what -- to some extent, yes. You know, I would expect that sort of considerable improvement I mentioned in 2021 to be driven partly by that, because there's much more focus and energy going into the business now. And we can see already the excitement, not only for our own teams, but also from our customers' side as well and the traction we're seeing in the marketplace. So that's what's going to drive part of the transition into 2021.

Sandeep Deshpande:
Thank you.

Operator:
We currently have no further questions.

Jose Cano:
Thanks, Wissam, I have a couple of questions that come through the webcast. The first one is -- I'll read it out loud. It says, "How does the design win pipeline for 2022 compare to the pipeline you described this time last year for 2021? Is it higher?" And this is from Rob, by the way.

Wissam Jabre:
This is a great question. Look, the customer engagements are probably at an all-time high. We continue to engage very well with our customers, despite everybody working remotely from home, and the lack of travel. There is always a very high customer engagement. And so for 2022, we're seeing still similar type of trends. So if you look at -- if you think of it from a year on year growth, if you like, we're seeing similar type of trends that we've seen at this time last year for 2022, relative to what we saw last year for 2021.

Jose Cano:
Right, and then another one from Rob, is there anything you can share in terms of geography trends, for example in China did revenue grow, quarter in quarter or significantly quarter in quarter?

Wissam Jabre:
You know, if I think of the geographic spread. I mean, most of our shipments tend to be in the Asia region. But if I think of where our customers are based, candidly, I can't detect any

abnormal trends. I would say it's similar to what we've seen in the past. So there aren't any sort of pockets. I wouldn't -- I can't point to any pockets of weakness, for instance, in one region versus the other. We're seeing similar trends as we’ve seen based on regional spread. So there isn't anything extraordinary that we're experiencing.

Jose Cano:
Thank you. I just got a final one, Wissam. This is from Harald. He says do you expect an increase in competition from the acquisition of Maxim by Analog Devices?

Wissam Jabre:
I'm sorry, Jose. Could you please repeat the question?

Jose Cano:
Sure. Do you expect any increase in competition from or from the acquisition of Maxim by ADI?

Wissam Jabre:
Good question. Not really. No, we don't see a big impact to us. Actually, we don't see impact to us. They tend to be focused on slightly different markets than we're focused. And so for us, we don't see it as a concern. Short term. Now, I obviously we haven't -- still plenty of time for it to close and understand what their plans are. But from what we see today, that would be my answer.

Jose Cano:
Perfect. Thank you, Wissam. I think that's all from the webcast. I'm going to double check then. Is there anything else on the line?

Operator:
No further questions on the line.

Jose Cano:
Okay. So I've just seen another one of the webcast, but we're just running out of time. So I'll follow up directly on these last questions. So I just want to say thank you to everyone once again for making the time and joining us. And as usual, please, if you have any questions, don't hesitate to reach out.

[end of transcript]