Press release – 30 July 2019

Dialog Semiconductor reports results for the second quarter ended 28 June 2019

Q2 2019 Revenue slightly above the high-end of the guidance range at US$482 million, earnings acceleration and strong cash flow generation.

London, UK, 30 July 2019 – Dialog Semiconductor Plc (XETRA: DLG), a provider of highly integrated power management, Configurable Mixed-signal IC, AC/DC, solid state lighting and Bluetooth® low energy wireless technology, today reports unaudited results for the second quarter ended 28 June 2019.

Q2 2019 Financial highlights

– Revenue of US$482 million including US$146 million one-off license revenue. Underlying[1] revenue of US$336 million, slightly above the high end of the guidance range and 14% above Q2 2018.

– Gross margin at 64.7% (Q2 2018: 48.0%) and underlying[1] gross margin at 49.7% (Q2 2018: 48.3%) in line with the May guidance.

– Operating profit of US$217.0 million, over eight times higher than in Q2 2018. Underlying[1] operating profit of US$82.1 million, 95% above Q2 2018.

– All segments were profitable.

– Diluted EPS of US$2.20 (Q2 2018: US$0.23) and underlying[1] diluted EPS of US$0.86 (Q2 2018: US$0.45).

– Q2 cash flow from operating activities of US$300.1 million (Q2 2018: US$55.6 million). US$290.3 million of free cash flow[1] generated in Q2 2019 (Q2 2018: US$36.5 million). US$1,141 million of cash and cash equivalents at 28 June 2019, US$604 million above 29 June 2018.

– On 8 April 2019, the Company completed the transaction with Apple to license certain power management technologies, and transfer certain assets and over 300 employees.

– On 31 May 2019, the Company completed the acquisition of Silicon Motion's mobile communications product line ("FCI") including Ultra-Low-Power Wi-Fi, extending its position in IoT connectivity.

– US$112 million returned to shareholders in Q2 2019 through the 2018 Buyback Programme.

– On 5 June 2019, the Company announced a new share buyback tranche under the 2019 Buyback Programme for an amount between €125 million and €150 million.

– On 22 July 2019, the Company announced an update to its reporting segments, reducing the number from four to three: Custom Mixed Signal, Advanced Mixed Signal and Connectivity & Audio.

Q2 2019 Operational highlights

– Continued design win momentum at our largest customer for the development and supply of mixed-signal integrated circuits. Revenue from the new contracts is expected to be realized over the course of the next three years.

– Maintained a commanding market share in the smartphone rapid charge segment. Adoption of the USB Power Delivery ("USB PD Type-C") standard continues to accelerate in mobile devices. Q2 2019 revenue from our AC/DC charging products was up 52% sequentially, led by growth in rapid charge products.

– Launched the first Configurable Mixed-signal Integrated Circuit (CMIC) incorporating Dialog's differentiated IP, an industry-leading LDO regulator with the lowest noise performance, ideal to power advanced camera and sensor systems.

– Increasing our footprint in the IoT end market with our Bluetooth® low energy products, delivering 26% year-on-year revenue growth.

– As part of our IoT connectivity strategy Dialog launched its first Wi-Fi SoC targeted at battery-powered IoT devices enabling direct connectivity to Wi-Fi networks, while typically supporting a battery power lifetime greater than one year.

– Expanded our product portfolio with a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation ("ANC") to the rapidly-growing wireless headphones market.

– In support of Dialog's growth strategy, on 22 July 2019, the Company communicated an update to its organisational structure including the appointment of Alex McCann as Senior Vice President Global Operations.

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

"This has been an excellent quarter, one where we have delivered revenue growth above the high-end of the guidance range, significantly improved operating profit and strong cash flow generation. Revenue from products in Custom Mixed Signal not covered by the agreement with Apple trebled year-on-year and we continued to increase our footprint in the IoT end-market as our Bluetooth low energy and new audio products delivered another quarter of strong year-on-year growth."

We have a healthy customer design-in pipeline and a robust financial position which is allowing us to make targeted investments to expand our product portfolio and leverage our technology into new markets. These investments are helping to build a vibrant mixed-signal business with a more balanced exposure to fast growing end-markets and create value for shareholders."

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

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Outlook

In Q3 2019, we anticipate revenue to be in the range of US$360 million to US$400 million. Q3 2019 underlying[1] gross margin is expected to be broadly in line with Q2 2019.

As we enter the second half of the year, FY 2019 underlying[1] revenue is now expected to decline from FY 2018 by mid-single digit percentage points and to be second half weighted. FY 2019 underlying[1] gross margin is expected to be above that achieved in FY 2018.

Financial overview

IFRS basis (unaudited)

US$ millions unless otherwise stated	**Q2 2019**	Q2 2018	Change	**H1 2019**	H1 2018	Change
Revenue	**482.0**	295.7	+63%	**776.9**	627.8	+24%
Gross margin	**64.7%**	48.0%	nm	**58.9%**	47.1%	nm
R&D % of revenue	**15.7%**	26.5%	nm	**20.1%**	25.4%	-530bps
SG&A % of revenue	**10.0%**	13.0%	-300bps	**11.9%**	12.5%	-60bps
Other operating income % of revenue	**6.0%**	0.3%	+570bps	**4.3%**	0.2%	+410bps
Operating profit	**217.0**	26.2	+727%	**242.3**	59.1	+310%
Operating margin	**45.0%**	8.9%	nm	**31.2%**	9.4%	nm
Net income	**170.1**	18.1	nm	**188.5**	35.5	+431%
Basic EPS $	**2.33**	0.24	nm	**2.56**	0.48	+433%
Diluted EPS $	**2.20**	0.23	nm	**2.42**	0.46	+426%
Cash flow from operating activities	**300.1**	55.6	+439%	**341.7**	105.3	+225%

Underlying[1] (unaudited)

US$ millions unless otherwise stated	**Q2 2019**	Q2 2018	Change	**H1 2019**	H1 2018	Change
Revenue	**336.2**	295.7	+14%	**631.1**	627.8	+1%
Gross margin	**49.7%**	48.3%	+140bps	**49.6%**	47.7%	+190bps
R&D % of revenue	**20.1%**	24.0%	-390bps	**22.2%**	23.0%	-80bps
SG&A % of revenue	**9.1%**	10.2%	-110bps	**9.8%**	9.8%	0bps
EBITDA	**99.0**	56.7	+75%	**162.3**	123.2	+32%
EBITDA margin	**29.4%**	19.2%	nm	**25.7%**	19.6%	+610bps
Operating profit	**82.1**	42.1	+95%	**129.3**	94.5	+37%
Operating margin	**24.4%**	14.2%	nm	**20.5%**	15.1%	+540bps
Net income	**66.7**	35.3	+89%	**105.0**	76.2	+38%
Basic EPS $	**0.91**	0.48	+90%	**1.43**	1.03	+39%
Diluted EPS $	**0.86**	0.45	+91%	**1.35**	0.98	+38%

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

Revenue in Q2 2019 was 63% above Q2 2018 at US$482 million, including the license revenue relating to the Apple agreement: a one-off license revenue of US$146 million and US$6 million of ongoing license revenue. The license revenue related to the Apple agreement was reported in Corporate. Underlying[1] revenue in Q2 2019 was 14% above Q2 2018 at US$336 million, including the ongoing license revenue. Custom Mixed Signal and Connectivity & Audio were the main drivers of the strong underlying[1] revenue performance in the quarter. Custom Mixed Signal underlying[1] revenue was US$219 million, up 13% over Q2 2018 due to higher volumes and content per device across multiple platforms, partially offset by the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform, as announced in May 2018. Underlying[1] revenue in Custom Mixed Signal from products not covered by the licensing agreement with Apple trebled year-on-year to US$64 million (Q2 2018: US$21 million). In Q2 2019, Advanced Mixed Signal underlying[1] revenue was 1% above Q2 2018. Revenue from AC/DC charging products was up 52% sequentially, led by growth in rapid charge, but below Q2 2018. This was offset by good growth of LED backlighting products. Connectivity & Audio underlying[1] revenue was 25% above Q2 2018 as a result of the strong performance of Bluetooth® low energy and the new audio products.

Q2 2019 gross margin was 64.7%, significantly above Q2 2018 due to the positive contribution from the license revenue as well as favourable product mix and lower manufacturing costs. Q2 2019 underlying[1] gross margin was 49.7%, 140 basis points above Q2 2018, due to the positive contribution from the ongoing license revenue (Q2 2019: US$6 million; Q2 2018: nil) as well as favourable product mix and lower manufacturing costs.

Operating expenses (OPEX) comprising SG&A and R&D expenses, in Q2 2019 were 6% above Q2 2018 at US$123.7 million, or 25.7% of revenue (Q2 2018: 39.5%). The increase in OPEX was mainly due to US$8 million of transaction related costs reported in SG&A and the first time consolidation of FCI into the group. Underlying[1] OPEX in Q2 2019 was down 3% year-on-year to US$98.0 million, or 29.2% of revenue (Q2 2018: 34.2%). The year-on-year decrease in underlying[1] OPEX was mostly due to lower R&D expenses partially offset by the first time consolidation of FCI into the group.

R&D expenses in Q2 2019 were 3% below Q2 2018 at US$75.6 million (Q2 2018 US$78.3 million). The reduction in R&D expenses were mainly due to the transfer of over 300 employees to Apple on 8 April 2019. As a percentage of revenue, R&D in Q2 2019 was significantly below Q2 2018 at 15.7% (Q2 2018: 26.5%) due to the higher revenue and lower R&D expenses. On an underlying[1] basis, R&D expenses were down 5% year-on-year to US$67.5 million (Q2 2018 US$71.0 million). This includes savings from the transfer of employees to Apple. As a percentage of revenue, underlying[1] R&D in Q2 2019 was 390bps below Q2 2018 at 20.1% (Q2 2018: 24.0%), as a result of the higher revenue and the lower R&D expenses.

SG&A expenses in Q2 2019 were up 26% from Q2 2018 to US$48.2 million (Q2 2018 US$38.4 million). This increase was mainly due to US$7.6 million of transaction costs relating to the licensing agreement with Apple and the acquisition of FCI. As a percentage of revenue, SG&A in Q2 2019 was 300bps below Q2 2018 at 10.0% (Q2 2018: 13.0%) due to the higher revenue. Underlying[1] SG&A in Q2 2019 was 1% above Q2 2018 at US$30.5 million (Q2 2018: US$30.2 million) due to the first time consolidation of FCI into the group. As a percentage of revenue, underlying[1] SG&A was 110bps below Q2 2018 at 9.1% (Q2 2018: 10.2%) due to the higher revenue.

Other operating income in Q2 2019 was US$28.9 million (Q2 2018: US$1.0 million), comprised of a one-time US$16.0 million gain on the transfer of assets and US$12.5 million income from engineering contracts, both relating to the Apple license agreement. Underlying[1] other operating income in Q2 2019 was US$13.0 million, materially above Q2 2018 (Q2 2018: US$0.5 million) due to the income from engineering contracts relating to the Apple license agreement.

Operating profit in Q2 2019 was US$217.0 million, materially above Q2 2018, mainly reflecting the higher revenue and other operating income partially offset by transaction related costs. Operating profit margin in the quarter was 45.0%, also materially above Q2 2018, mainly due to the higher revenue and gross margin combined with higher other operating income. Underlying[1] operating profit was US$82.1 million, 95% above Q2 2018 mainly due to the higher revenue and other operating income, as well as lower OPEX. Underlying[1] operating margin in the quarter was 24.4%, 10.2 percentage points higher than Q2 2018 (Q2 2018: 14.2%).

The effective tax rate in H1 2019 was 22.9% (H1 2018: 35.9%) and in Q2 2019 was 22.0% (Q2 2018: 34.5%). The relatively high effective tax rates for H1 2018 and Q2 2018 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[1] effective tax rate in Q2 2019 was 20.5%, down 50bps on the Q2 2018 underlying[1] effective tax rate of 21.0%.

In Q2 2019, net income was materially above Q2 2018 to US$170.1 million (Q2 2018: US$18.1 million). This increase was mostly due to the increase in operating profit. The higher interest income in the quarter of US$6.5 million (Q2 2018: US$2.3 million) reflects the higher average cash balance and higher US dollar interest rates. Interest expense of US$3.1 million was also higher than in Q2 2018 (Q2 2018: US$0.7 million) due to the interest on lease liabilities recognised under IFRS 16 and US$1.8 million interest expense recognised in relation to the US$300 million prepayment received from Apple. Other finance expense was US$2.4 million, compared to an income of US$0.3 million in Q2 2018. In Q2 2019, we recognised a net currency translation loss on monetary assets and liabilities of US$1.7 million. Underlying[1] net income was up 89% year-on-year. The year-on-year increase in underlying[1] net income was mainly driven by the underlying[1] operating profit movement. Diluted EPS in Q2 2019 was materially up year-on-year to US$2.20 (Q2 2018: US$0.23). Underlying[1] diluted EPS in Q2 2019 was up 91% year-on-year.

At the end of Q2 2019, our total inventory level was US$156 million, broadly in line with the previous quarter (or ~83 days), representing a 11-day decrease in our days of inventory from Q1 2019. This includes approximately US$4 million of inventory from FCI. During Q3 2019, we expect inventory value to increase from Q2 2019 due to seasonality and days of inventory to be below Q2 2019.

On 31 May 2019, the settlement of the 2018 Share Buyback Programme took place. The Company purchased 3,941,852 ordinary shares at an average price of €25.37 for a total amount of €100 million (US$112 million). On 5 June 2019, the Company announced a new tranche under the 2019 Share Buyback Programme for an amount between €125 million and €150 million and a latest maturity date of 5 December 2019.

At the end of Q2 2019, we had a cash and cash equivalents balance of US$1,141 million. Cash flow from operating activities in Q2 2019 was US$300.1 million, over five times higher than in Q2 2018 (Q2 2018: US$55.6 million) mainly as a result of the closing of the Apple license agreement on 8 April 2019. Free cash flow in Q2 2019 was US$290.3 million, almost eight times higher than Q2 2018 (Q2 2018: US$36.5 million) mostly due to the higher cash flow from operating activities. Free cash flow margin (as a percentage of revenue) in Q2 2019 was above Q2 2018 at 60.2% (Q2 2018: 12.4%).

On 8 April 2019, the Company completed the agreement with Apple receiving US$300 million in respect of the license arrangement and US$300 million prepayment in relation to future purchase of products.

In support of our IoT connectivity strategy, on 31 May 2019, the Company completed the acquisition of Silicon Motion's mobile communications business ("FCI"). Dialog funded the US$45 million purchase price in an all-cash transaction from its balance sheet.

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

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Operational 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) 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 with 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, built on innovative low power products which enable our customers to get to market fast.

Custom Mixed Signal

During Q2 2019, revenue from the Custom Mixed Signal business segment was 13% above Q2 2018. This was due to higher content per device and volumes across multiple platforms being partially offset by the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform announced on 31 May 2018. In Q2 2019, revenue from those products not covered by the Apple license agreement trebled year-on-year to US$64 million. We continue to receive a number of requests for quotes (RFQ) for new custom designs for 2021 and beyond in diverse areas of power, display and audio technologies.

On 8 April 2019, the Company closed the transaction with Apple to license certain power management technologies and transfer certain assets to Apple. Additionally, more than 300 Dialog professionals became Apple employees. According to the agreement signed in October 2018, Dialog received $600 million in total, consisting of a payment from Apple of $300 million in cash for the transaction and a prepayment of $300 million for Dialog products to be delivered over the next three years. Dialog has also been awarded a broad range of new contracts from Apple for the development and supply of other mixed-signal integrated circuits. Revenue from the new contracts is expected to be realized over the course of the next three years.

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 and Xilinx strengthen Dialog's presence in the automotive segment. There are currently over 40 automotive customer engagements in place which are expected to go into production over the next three years.

Advanced Mixed Signal

During Q2 2019, Advanced Mixed Signal revenue was 1% above Q2 2018, mainly as a result of lower demand for charging products due to softness in the Chinese smartphone market. This was partially offset by the good performance of our LED backlighting products.

We expect market adoption of new charging technologies, like USB PD Type-C, to continue during the next quarter. In Q2 2019, revenue from our AC/DC charging products grew 52% sequentially, led by growth in rapid charge. 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 protocols. Our RapidCharge™ solutions for power adapters had approximately 60% share[2] of the rapid charge adapter market for smartphones at the end of 2018.

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. LED backlighting performed strongly during Q2 2019, contributing to the expansion of our customer base in the high-end TV market, as well as targeting the mobile and automotive display markets over the medium term. We have started our first engagement to develop a custom chip based on our LED backlight technology for an automotive tier 1 supplier as well complex LED drivers for notebook screens.

With over 4.0 billion CMICs having been shipped since launch, 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. In Q2 2019, we launched a new CMIC device with industry-leading LDO regulator with the lowest noise performance, ideal to power advanced camera and sensor systems. This new device is part of our strategic objective of bringing Dialog's low power IP into the CMIC, increasing its use cases and the value it brings to our customers. This product was sampled to major customers, and already has seven mobile phone sockets secured in Japan, Taiwan and the United States. We are looking to release to the broader market and customers in Q3 and expect further design-ins at high end DSLR Cameras as well as smartphones to follow in second half 2019. This technology will contribute to the expansion of our customer base and strengthen our presence in IoT, mobile computing and automotive.

Connectivity and Audio

During Q2 2019, the Connectivity & Audio segment was 25% above Q2 2018 due to strong performance of Bluetooth® low energy and the new audio products.

Revenue from our SmartBond™ System-on-Chip (SoC) was 26% above Q2 2018, due to the ramp of new products from customers in Korea and China. The DA1469x family, the latest addition to Dialog's SmartBond line, was adopted by Samsung's Galaxy Fit fitness tracker. Our most advanced SmartBond product enables the Galaxy Fit seamless smartphone connectivity while conserving energy to extend battery life. The Bluetooth® low energy market is estimated to grow at 19% CAGR over the 2018-2022 period[3], a reflection of the continuing adoption of the technology across a wide range of applications. Our strategy remains focused on targeted verticals, like wearables, proximity tags, smart home, gaming accessories and connected health. Building on our success in fitness trackers, we are extending our market presence into new areas such as new digital watch designs in China incorporating our Bluetooth low energy solutions.

In support of our IoT connectivity strategy and following the closing of the acquisition of FCI we launched the first low-power Wi-Fi device in our new VirtualZero™ product line. The FC9000 complements our existing portfolio of leading Bluetooth low energy SoC's for connected devices and is the first in a series solving major pain points for both manufacturers and end-users around IoT network compatibility and power consumption. Venstar, a leading energy management system supplier and one of the largest global thermostat suppliers, is utilizing the FC9000 enabling its customers reliable Wi-Fi sensors and over a year of battery life.

New audio technology performed strongly during Q2 2019, delivering more than twice as much revenue as in Q2 2018. The Connectivity Segment is targeting the consumer 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. In Q2 2019, we announced the DA740x, a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation ("ANC"), providing optimal audio performance in any environment to the rapidly-growing wireless headphones market.

2 Source: Company estimates.
3 Source: IHS Technology Q4 2018 Tracker and Company estimates.

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 Q2 2019 Interim report. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

Q2 2019

US$000	IFRS basis	Licence and asset transfers to Apple	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	481,968	(145,750)	–	–	–	–	–	336,218
Gross profit	311,758	(145,750)	672	403	–	–	–	167,083
SG&A expenses	(48,176)	–	5,253	4,711	111	7,611	–	(30,490)
R&D expenses	(75,556)	–	5,576	2,460	–	–	–	(67,520)
Other operating income	28,936	(15,898)	–	–	–	–	–	13,038
Operating profit	216,962	(161,648)	11,501	7,574	111	7,611	–	82,111
Net finance income	1,076	–	–	–	–	–	634	1,710
Profit before income taxes	218,038	(161,648)	11,501	7,574	111	7,611	634	83,821
Income tax expense	(47,934)	33,907	(2,171)	(894)	(29)	96	(121)	(17,146)
Net income	170,104	(127,741)	9,330	6,680	82	7,707	513	66,675

Q2 2018

US$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	295,664	–	–	–	–	–	–	295,664
Gross profit	141,856	506	406	–	–	–	–	142,768
SG&A expenses	(38,378)	3,284	3,682	474	773	–	–	(30,165)
R&D expenses	(78,273)	4,956	2,288	–	–	–	–	(71,029)
Other operating income	1,022	–	(522)	–	–	–	–	500
Operating profit	26,227	8,746	5,854	474	773	–	–	42,074
Net finance income	1,897	–	460	–	–	17	720	3,094
Profit before income taxes	28,124	8,746	6,314	474	773	17	720	45,168
Income tax expense	(9,691)	1,197	(784)	(100)	(83)	(3)	(27)	(9,491)
Profit after income taxes	18,433	9,943	5,530	374	690	14	693	35,677
Share of loss of associate	(377)	–	–	–	–	–	–	(377)
Net income	18,056	9,943	5,530	374	690	14	693	35,300

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H1 2019

US$000	IFRS basis	Licence and asset transfers to Apple	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	776,854	(145,750)	–	–	–	–	–	631,104
Gross profit	457,236	(145,750)	1,340	403	–	–	–	313,229
SG&A expenses	(92,395)	–	10,432	9,234	196	10,659	–	(61,874)
R&D expenses	(156,189)	–	11,615	4,728	–	–	–	(139,846)
Other operating income	33,651	(15,898)	–	–	–	–	–	17,753
Operating profit	242,303	(161,648)	23,387	14,365	196	10,659	–	129,262
Net finance income	2,035	–	–	315	–	–	366	2,716
Profit before income taxes	244,338	(161,648)	23,387	14,680	196	10,659	366	131,978
Income tax expense	(55,876)	33,907	(3,024)	(1,668)	(37)	(256)	(70)	(27,024)
Net income	188,462	(127,741)	20,363	13,012	159	10,403	296	104,954

H1 2018

US$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	627,819	–	–	–	–	–	–	627,819
Gross profit	295,624	1,148	2,794	13	–	–	–	299,579
SG&A expenses	(78,493)	7,922	7,353	922	773	–	–	(61,523)
R&D expenses	(159,178)	10,024	4,601	228	–	–	–	(144,325)
Other operating income	1,157	–	(364)	–	–	–	–	793
Operating profit	59,110	19,094	14,384	1,163	773	–	–	94,524
Net finance (expense)/income	(2,541)	–	1,171	–	–	50	4,256	2,936
Profit before income taxes	56,569	19,094	15,555	1,163	773	50	4,256	97,460
Income tax expense	(20,328)	1,958	(1,986)	(245)	(83)	(9)	206	(20,487)
Profit after income taxes	36,241	21,052	13,569	918	690	41	4,462	76,973
Share of loss of associate	(749)	–	–	–	–	–	–	(749)
Net income	35,492	21,052	13,569	918	690	41	4,462	76,224

Accounting for business combinations

US$000	**Q2 2019**	Q2 2018	**H1 2019**	H1 2018
Acquisition-related costs	**777**	–	**1,675**	–
Amortisation of acquired intangible assets	**6,103**	5,657	**11,760**	11,314
Consumption of the fair value uplift of acquired inventory	**403**	406	**403**	2,794
Consideration accounted for as compensation expense	**305**	350	**625**	804
Forfeiture of deferred consideration	**(14)**	(36)	**(98)**	(163)
Remeasurement of contingent consideration	**–**	(523)	**–**	(365)
Increase in operating profit	**7,574**	5,854	**14,365**	14,384
Unwinding of discount on contingent consideration	**–**	460	**315**	1,171
Increase in profit before income taxes	**7,574**	6,314	**14,680**	15,555
Income tax credit	**(894)**	(784)	**(1,668)**	(1,986)
Increase in net income	**6,680**	5,530	**13,012**	13,569

EBITDA

US$000	Q2 2019	Q2 2018	H1 2019	H1 2018
Net income	170,104	18,056	188,462	35,492
Net finance (income)/expense	(1,076)	(1,897)	(2,035)	2,541
Income tax expense	47,934	9,691	55,876	20,328
Depreciation expense	10,317	8,043	20,483	15,936
Amortisation expense	12,637	12,239	24,353	24,025
EBITDA	239,916	46,132	287,139	98,322
Licence and asset transfers to Apple	(161,648)	–	(161,648)	–
Share-based compensation and related payroll taxes	11,501	8,746	23,387	19,094
Acquisition-related costs	777	–	1,675	–
Consumption of the fair value uplift of acquired inventory	403	406	403	2,794
Consideration accounted for as compensation expense	305	350	625	804
Forfeiture of deferred consideration	(14)	(36)	(98)	(163)
Remeasurement of contingent consideration	–	(523)	–	(365)
Corporate transaction costs	7,611	773	10,659	773
Integration costs	111	474	196	1,163
Share of loss of associate	–	377	–	749
Underlying EBITDA	98,962	56,699	162,338	123,171

Free cash flow

US$000	Q2 2019	Q2 2018	H1 2019	H1 2018
Cash flow from operating activities	300,129	55,638	341,701	105,287
Purchase of property, plant and equipment	(2,024)	(7,729)	(6,985)	(16,783)
Purchase of intangible assets	(1,063)	(1,462)	(2,187)	(3,238)
Payments for capitalised development costs	(4,014)	(9,100)	(8,571)	(15,219)
Capital element of lease payments	(2,759)	(832)	(5,681)	(1,650)
Free cash flow	290,269	36,515	318,277	68,397

On 22 July the Company published an update on organisational structure and segment information. On Table 1, the revenue figures for the year ended 31 December 2017 for Advanced Mixed Signal and Connectivity & Audio were incorrectly placed. Advanced Mixed Signal should have shown (in US$000) US$147,603 and Connectivity & Audio US$137,834.

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Press release – 30 July 2019 continued

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 2019 performance, as well as guidance for Q3 2019. 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://www.incommglobalevents.com/registration/client/1937/dialog-semiconductor-q2-results-2019/

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

http://webcast.openbriefing.com/dialogQ2-2019/

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 condensed consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and financial notes for the quarter ended 28 June 2019 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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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. It currently has approximately 2,000 employees worldwide. In 2018, it had approximately US$ 1.44 billion in revenue. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax and MDAX indices.

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.