

DIALOG SEMICONDUCTOR REPORTS RESULTS FOR THE THIRD QUARTER ENDED 29 SEPTEMBER 2017

Q3 2017 revenue up 42% sequentially and Company guides to 19% year-on-year revenue growth in Q4 2017 at the mid-point of the guidance range

London, UK, 7 November 2017 - Dialog Semiconductor Plc (XETRA: DLG), a provider of highly integrated power management, AC/DC power conversion, charging and low power connectivity, today reports unaudited results for the third quarter ended 29 September 2017.

Q3 2017 financial highlights

- Revenue of US\$363 million, a record Q3 revenue, up 5% year-on-year and 2% above the mid-point of the July guidance range.
- Mobile Systems revenue up 54% sequentially.
- Gross margin at 46.9% and underlying¹ gross margin at 47.5%, above the July guidance.
- Operating profit of US\$62.6 million, 2% above Q3 2016. Underlying¹ operating profit of US\$76.6 million, 4% above Q3 2016.
- All operational business segments were profitable on an underlying basis.
- Diluted EPS of US\$0.62, up 5% over Q3 2016 and underlying¹ diluted EPS of US\$0.81, up 14% over Q3 2016.
- Cash flow from operating activities of US\$33.5 million (Q3 2016: US\$39.3 million). US\$636.2 million of cash and cash equivalents, US\$12.4 million below 30 September 2016.

On 1 November 2017, the Company completed the acquisition of 100% of the voting equity interests in Silego Technology Inc., a leader in Configurable Mixed-Signal ICs (CMICs) for US\$276.0 million, on a cash and debt-free basis, subject to adjustments for cash and working capital, and additional contingent consideration of up to \$US30.4 million.

Q3 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.
- Rapid Charge™ AC/DC power conversion adapter products continue high-volume ramp at top Chinese smartphone OEMs.
- Dialog's Bluetooth® low energy products continue to be adopted across a wide range of applications, helping to deliver a record quarterly revenue for the Connectivity segment.
- Bluetooth® low energy market success extended to automotive tyre pressure monitoring system with first production shipments.
- Early success with first design win of new wireless audio IC for consumer headset application at Asian OEM.
- First GaN based WattUp™ RF based wireless charging reference designs, supporting higher power and efficiency, announced with strategic partner Energous.

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

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

“Q3 2017 was a record Q3 quarter, with year-on-year revenue growth and gross margin ahead of our July guidance. Mobile Systems delivered robust sequential revenue growth and Connectivity posted record quarterly revenue, as we continue to capitalise on strong demand for power management and power efficient technologies.

With the acquisition of Silego Technology we now open a new business opportunity built on an innovative and differentiated technology platform. Together, we can increase the value we bring to our customers and establish a new leadership position in a high growth emerging market. Our deep and focused investment in R&D ensures we can establish a differentiated technology portfolio covering a range of markets and add to a strong pipeline of opportunities with Tier 1 customers. As a result, we remain confident in our growth prospects for next year and over the medium term.”

Outlook

Based on our current visibility, we anticipate revenue for Q4 2017 to be in the range of US\$415 -US\$455 million. At the mid-point, this will result in full year 2017 revenue up 11% year-on-year to US\$1,324 million. We have a robust order backlog and we expect demand for our new products to remain strong.

In line with the revenue performance, we now expect gross margin for the full year 2017 to be slightly above the full year 2016.

Financial overview

IFRS

US\$ millions	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Revenue	362.8	345.8	+5%	889.3	832.9	+7%
Gross margin	46.9%	46.0%	+90bps	46.2%	45.7%	+50bps
R&D % ²	19.9%	18.6%	+130bps	22.5%	21.8%	+70bps
SG&A % ²	9.8%	9.6%	+20bps	11.2%	12.1%	-90bps
Other operating income % ^{2 3}	0.0%	0.0%	0bps	0.0%	16.5%	nm
Operating profit	62.6	61.4	+2%	111.6	235.6	-53%
Operating margin	17.3%	17.8%	-50bps	12.5%	nm	nm
Net income	47.3	46.3	+2%	87.5	206.0	-58%
Basic EPS \$	0.65	0.62	+5%	1.19	2.74	-57%
Diluted EPS \$	0.62	0.59	+5%	1.14	2.61	-56%
Cash flow from operating activities	33.5	39.3	-15%	153.9	159.9	-4%

Underlying¹

US\$ millions	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Revenue	362.8	345.8	+5%	889.3	832.9	+7%
Gross margin	47.5%	46.6%	+90bps	47.0%	46.5%	+50bps
R&D % ²	18.7%	17.7%	+100bps	21.1%	20.6%	+50bps
SG&A % ²	7.6%	7.7%	-10bps	8.9%	9.5%	-60bps
EBITDA	90.5	86.6	+5%	192.7	171.8	+12%
EBITDA %	24.9%	25.0%	-10bps	21.7%	20.6%	+110bps
Operating profit	76.6	73.4	+4%	151.3	136.6	+11%
Operating margin	21.1%	21.2%	-10bps	17.0%	16.4%	+60bps
Net income	62.4	55.5	+12%	124.6	103.8	+20%
Basic EPS \$	0.85	0.74	+15%	1.68	1.39	+21%
Diluted EPS \$	0.81	0.71	+14%	1.60	1.32	+21%

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

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 Q3 2017 was up 5% year-on-year to US\$362.8 million. On a sequential basis, revenue was up 42%. This was mostly driven by Mobile Systems which delivered record sequential Q3 revenue growth of 54%. Year-on-year, Mobile Systems was up 4% mostly due to higher sales volumes. Power Conversion was 1% below the previous year. Connectivity delivered record quarterly revenue of US\$40.3 million, up 21% year-on-year on the solid performance of Bluetooth® low energy and the moderate growth in DECT products. Automotive & Industrial was up 13% year-on-year due to higher sales volumes.

Q3 2017 gross margin was 46.9%, 90bps above Q3 2016. Q3 2017 underlying¹ gross margin was 47.5%, above the July guidance and 90bps above Q3 2016. The year-on-year increase in gross margin was primarily due to cost saving initiatives and the higher fixed cost absorption resulting from the anticipated inventory build-up.

Operating expenses (OPEX), comprising SG&A and R&D expenses, in Q3 2017 was US\$107.5 million, 10% higher than Q3 2016. As a percentage of revenue, OPEX in Q3 2017 was 29.7%, representing a year-on-year increase of 150bps. Underlying¹ OPEX, comprising underlying¹ SG&A and R&D expenses, in Q3 2017 was US\$95.7 million, 9% above Q3 2016. As a percentage of revenue, underlying¹ OPEX was 26.3%, representing a year-on-year increase of 90bps. On a trailing twelve month basis, underlying¹ OPEX was 27.9% of revenue, 20bps above the previous quarter.

R&D expense in Q3 2017 was up 12% from Q3 2016. As a percentage of revenue, R&D in Q3 2017 was up 130bps year-on-year to 19.9%. On an underlying¹ basis, R&D expense was up 11% from Q3 2016. As a percentage of revenue, underlying¹ R&D in Q3 2017 was up 100bps year-on-year to 18.7%. 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 Q3 2017 was up 7% from Q3 2016. As a percentage of revenue, SG&A in Q3 2017 was up 20bps from Q3 2016. Underlying¹ SG&A expense in Q3 2017 was up 5% from Q3 2016. As a percentage of revenue, underlying¹ SG&A was down 10bps year-on-year at 7.6%. The increase in SG&A costs was mostly due to the expansion of our sales network.

Operating profit in Q3 2017 was US\$62.6 million, up 2% year-on-year. This was due to the increase in revenue and gross margin, partially offset by higher R&D expenses. Operating profit margin in the quarter was 17.3%, 50bps below Q3 2016. Underlying¹ operating profit was US\$76.6 million, an increase of 4% year-on-year. This was also the result of higher underlying¹ revenue and gross margin, partially offset by higher underlying¹ operating expenses. Underlying¹ operating margin in the quarter was 21.1%, broadly in line with Q3 2016. All four operational business segments were profitable on an underlying¹ basis.

The effective tax rate in 9M 2017 was 22.9% (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 Q3 2017 was 22.6%, including the effect of a credit in respect of prior years of US\$1.2 million resulting from the agreement of the Bilateral Advance Pricing Agreement and other prior year items with tax authorities. The underlying¹ effective tax rate in Q3 2017 was 20.5%. Excluding the effect of the US\$1.2 million credit in respect of prior years in Q3 2017, the underlying¹ effective tax rate in Q3 2017 was 22.0%, down 200bps on the FY2016 underlying¹ effective tax rate of 24.0%.

In Q3 2017, net income was up 2% year-on-year due to the higher operating profit and the lower income tax expense, partially offset by higher other finance expense. Underlying¹ net income was up 12% year-on-year as a result of higher operating profit combined with higher interest income and the lower underlying¹ income tax expense. Underlying¹ diluted EPS in Q3 2017 was up 14% year-on-year, almost three times more than revenue growth.

In line with our expectations, the inventory value increased during Q3 2017 ahead of the ramp of new products in H2. At the end of Q3 2017, our total inventory was US\$187.3 million, 25% above the previous quarter and representing 87 days of inventory, an 11-day decrease from the previous quarter. During Q4 2017, we expect inventory value and days of inventory to decrease from Q3 2017.

At the end of Q3 2017, we had a cash and cash equivalents balance of US\$636.2 million. Free cash flow⁴ in Q3 2017 was US\$6.7 million (Q3 2016: US\$28.3 million).

On 28 July 2017, the Company entered into a US\$150 million 3-year revolving credit facility. No amounts have been drawn. The facility contains various provisions, covenants and representations commensurate with such financing, including certain financial covenants. Under certain conditions, the size of the facility can be increased by a further US\$75 million, and its maturity can be extended by a further year on both the first and second anniversaries. The facility is committed and available for general corporate purposes.

⁴ Free cash flow, which is a non-IFRS measure, is defined as cash flow from operating activities less capital expenditure.

Subsequent to quarter end, on 1 November 2017, the company completed the acquisition of 100% of the voting equity interests in privately-held Silego Technology Inc., the leading provider of Configurable Mixed-signal ICs (CMICs). We acquired Silego for US\$276.0 million, on a cash and debt-free basis, subject to adjustments for cash and working capital. Additional consideration of up to US\$30.4 million may be payable contingent on Silego's revenue for 2017 and 2018. Headquartered in Santa Clara, California with approximately 235 employees worldwide, Silego is the pioneer and market leader in CMICs which integrate multiple analog, logic, and discrete component functionality into a single chip. The acquisition of Silego Technology Inc. will complement Dialog's market leadership by increasing Dialog's content at existing customers and expanding its customer base. The breadth of the new product portfolio will strengthen the Company's presence in the IoT, computing and automotive markets.

Operational overview

During the quarter we successfully ramped the production of our latest generation of highly-integrated PMICs supporting recently launched trend setting smartphone models. Additionally, we made substantial progress on a number of PMIC designs now sampling to our top customers for products targeting production in H2 2018. These custom IC designs offer significant benefits in efficiency and power savings, encouraging a trend of increasing custom mixed signal power content across future platforms for mobile devices, computing and wearables.

Fast charging technology is a key differentiator in the highly competitive smartphone market. Dialog's Rapid Charge™ solutions for power adapters continue to be increasingly adopted by top Chinese smartphone OEMs. Dialog is leading the market with a range of AC/DC power conversion products that support most fast charging protocols. The combination of our USB-PD IC and market-leading AC/DC controller ICs create a unique complete adapter chipset solution for mobile devices.

Our Connectivity segment delivered a record quarterly revenue in Q3 2017. SmartBond™, our Bluetooth® low energy System-on-Chip (SoC) delivers one of the smallest, most power efficient Bluetooth® low energy solutions ("BLE") available in high volume production today. We continue to invest in BLE innovation to ensure our product portfolio expands and evolves with the market needs. This is helping to drive adoption of the technology across a wide range of new applications, including automotive where during the quarter we entered production with both a European and Chinese automotive OEM for Tyre Pressure Monitoring Systems (TPMS).

Our latest SmartBeat™ wireless Audio IC, DA14195, continues to gain attention in the market achieving the first major OEM design win for a consumer headset application during the quarter. This technology 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 leading consumer brands for gaming and USB Type-C™ headsets.

During the quarter, the Company invested an additional US\$15.0 million in Energous, a NASDAQ-listed wireless charging technology company. The total amount invested in Energous is now US\$25.0 million. As part of the agreement signed in November 2016 with Energous, Dialog became the exclusive component supplier of their WattUp® RF wireless charging ICs with Energous leveraging Dialog's distribution channels and customer relations to accelerate market adoption. During Q3 2017, early customer engagements continued to progress towards commercial production starting next quarter. Additionally, we announced a GaN based reference design enabling increased efficiency and higher output power designs of up to 10 watts.

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 Q3 2017, Q3 2016, 9M 2017 and 9M 2016 are presented in Section 3 of the Q3 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

Q3 2017

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Effective interest	Strategic investments	Underlying
Revenue	362,833	–	–	–	–	362,833
Gross profit	170,089	422	1,775	–	–	172,286
SG&A expenses	(35,425)	4,562	3,156	–	–	(27,707)
R&D expense	(72,092)	4,090	–	–	–	(68,002)
Operating profit	62,572	9,074	4,931	–	–	76,577
Other finance income/(expense)	(1,424)	–	–	65	3,194	1,835
Profit before income taxes	61,148	9,074	4,931	65	3,194	78,412
Income tax expense	(13,837)	(1,530)	(210)	(13)	(461)	(16,051)
Net income	47,311	7,544	4,721	52	2,733	62,361

Q3 2016

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Effective interest	Underlying
Revenue	345,751	–	–	–	–	345,751
Gross profit	158,913	473	1,762	–	–	161,148
SG&A expenses	(33,075)	4,902	1,849	(201)	–	(26,525)
R&D expense	(64,407)	3,185	–	–	–	(61,222)
Operating profit	61,431	8,560	3,611	(201)	–	73,401
Other finance income/(expense)	(487)	–	–	–	125	(362)
Profit before income taxes	60,944	8,560	3,611	(201)	125	73,039
Income tax expense	(14,648)	(2,678)	(217)	–	(25)	(17,568)
Net income	46,296	5,882	3,394	(201)	100	55,471

9M 2017

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Effective interest	Strategic investments	Underlying
Revenue	889,322	–	–	–	–	889,322
Gross profit	411,324	1,352	5,316	–	–	417,992
SG&A expenses	(99,413)	13,536	6,804	–	–	(79,073)
R&D expense	(200,334)	12,695	–	–	–	(187,639)
Other operating income	50	–	–	–	–	50
Operating profit	111,627	27,583	12,120	–	–	151,330
Other finance income	1,861	–	–	240	3,904	6,005
Profit before income taxes	113,488	27,583	12,120	240	3,904	157,335
Income tax expense	(25,977)	(5,474)	(630)	(46)	(633)	(32,760)
Net income	87,511	22,109	11,490	194	3,271	124,575

9M 2016

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Effective interest	Underlying
Revenue	832,906	–	–	–	–	832,906
Gross profit	380,311	1,318	5,268	–	–	386,897
SG&A expenses	(100,684)	12,753	5,649	3,390	–	(78,892)
R&D expense	(181,747)	9,924	–	–	–	(171,823)
Other operating income	137,678	–	–	(137,300)	–	378
Operating profit	235,558	23,995	10,917	(133,910)	–	136,560
Other finance income/(expense)	(2,269)	–	–	1,913	416	60
Profit before income taxes	233,289	23,995	10,917	(131,997)	416	136,620
Income tax expense	(27,316)	(4,379)	(649)	(383)	(83)	(32,810)
Net income	205,973	19,616	10,268	(132,380)	333	103,810

Accounting for business combinations

	Third quarter		First nine months	
	Three months ended 29 September 2017 US\$000	Three months ended 30 September 2016 US\$000	Nine months ended 29 September 2017 US\$000	Nine months ended 30 September 2016 US\$000
Acquisition-related costs	1,332	–	1,332	–
Amortisation of acquired intangible assets	3,599	3,611	10,788	10,917
Increase in profit before income taxes	4,931	3,611	12,120	10,917
Income tax credit	(210)	(217)	(630)	(649)
Increase in net income	4,721	3,394	11,490	10,268

Earnings per share

	Third quarter		First nine months	
	Three months ended 29 September 2017 US\$000	Three months ended 30 September 2016 US\$000	Nine months ended 29 September 2017 US\$000	Nine months ended 30 September 2016 US\$000
Underlying				
Net income	62,361	55,471	124,575	103,810
Loss attributable to non-controlling interests	466	601	979	1,971
Earnings for calculating underlying basic and diluted EPS	62,827	56,072	125,554	105,781

EBITDA

	Third quarter		First nine months	
	Three months ended 29 September 2017 US\$000	Three months ended 30 September 2016 US\$000	Nine months ended 29 September 2017 US\$000	Nine months ended 30 September 2016 US\$000
Net income	47,311	46,296	87,511	205,973
Net finance (income)/expense	1,424	487	(1,861)	2,269
Income tax expense	13,837	14,648	25,977	27,316
Depreciation expense	7,796	6,868	22,803	19,935
Amortisation expense	9,724	9,905	29,347	26,257
EBITDA	80,092	78,204	163,777	281,750
Adjustments:				
Share-based compensation and related payroll taxes	9,074	8,560	27,583	23,995
Acquisition-related costs	1,332	–	1,332	–
Merger termination fee	–	–	–	(137,300)
Aborted merger costs	–	(201)	–	3,390
Underlying EBITDA	90,498	86,563	192,692	171,835

Free cash flow

	Third quarter		First nine months	
	Three months ended 29 September 2017 US\$000	Three months ended 30 September 2016 US\$000	Nine months ended 29 September 2017 US\$000	Nine months ended 30 September 2016 US\$000
Cash flow from operating activities	33,465	39,281	153,923	159,857
Purchase of property, plant and equipment	(21,863)	(6,974)	(39,203)	(18,170)
Purchase of intangible assets	(2,528)	(2,156)	(6,582)	(6,775)
Payments for capitalised development costs	(2,418)	(1,839)	(14,661)	(11,716)
Free cash flow	6,656	28,312	93,477	123,196

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 Q3 2017 performance, as well as guidance for Q4 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=lrwa2GI8udGxQZ4QmYLy3W6n7GLCzNKOWYJJNFZ3FS0=&b=d58ae4ab-80e5-47f2-8295-e04d92bbba83In> parallel to the call, the presentation will be available at:

http://webcast.openbriefing.com/semiconductor_q3_results_071117/

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 29 September 2017 is available under the investor relations section of the Company's website at:

<http://www.dialog-semiconductor.com/investor-relations>

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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. In 2016, it had US\$1.2 billion in revenue and approximately 1,770 employees worldwide. 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 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.