

Press release – 6 March 2019

Dialog Semiconductor reports results for the fourth quarter and year ended 31 December 2018

Q4 2018 Revenue within guidance range at \$431 million, increased operating margin and strong cash flow generation

London, UK, 6 March 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 quarter ended 31 December 2018.

Q4 and full year 2018 financial highlights

- Q4 revenue of US\$431 million, within the October guidance range and 7% below Q4 2017. Full year revenue of US\$1,442 million up 7% over 2017.
- Q4 revenue and full year revenue include the contribution of Silego Technology Inc. (“Silego”).
- Q4 gross margin at 48.6% and underlying¹ gross margin at 48.7%. Full year gross margin at 47.9% and underlying gross margin at 48.3%, above 2017 and slightly ahead of the October guidance.
- Q4 operating profit of US\$77.1 million and underlying¹ operating profit of US\$103.4 million. Full year operating profit of US\$199.7 million and underlying operating profit of US\$281.6 million.
- All four operating business segments were profitable for the full year 2018.
- Q4 diluted EPS of US\$0.74 and underlying¹ diluted EPS of US\$1.06. Full year diluted EPS of US\$1.80 and underlying diluted EPS of US\$2.90.
- Q4 cash flow from operating activities of US\$96.5 million (Q4 2017: US\$130.2 million). US\$82.4 million of free cash flow¹ generated in Q4 2018 (Q4 2017: US\$111.0 million). US\$678 million of cash and cash equivalents at 31 December 2018, US\$199 million above 31 December 2017.
- On 11 October 2018, the Company reached an agreement with Apple Inc. to license certain of its power management technologies, transfer certain of its assets and over 300 employees to Apple to support chip research and development.

Q4 and full year 2018 operational highlights

- Design engagement momentum for custom mixed-signal and Power Management ICs (PMICs) at leading smartphone OEM.
- Leveraged our power management technology into new segments, introducing the first fully-integrated nanopower PMIC for low power consumer IoT applications.
- Shipped over four billion units of our Configurable Mixed-signal ICs since launch, leading a new product category enabling short design cycles and a lower component count.
- Maintained a commanding market share in the smartphone rapid charge segment.
- The extended range of LED backlighting products, combined with the acquisition of the ams AG portfolio in 2017, contributed to the expansion of our customer base.
- Fourth consecutive year of robust growth in Bluetooth® low energy, delivering 21% year-on-year revenue growth, with our SmartBond™ SoCs.
- New design engagements with leading customers to provide custom PMIC solutions in next generation game consoles, Digital Single-Lens Reflex (“DSLR”) cameras and Solid State Drives (“SSD”).

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

“2018 was an important year for Dialog. Our agreement with Apple will enable us to generate immediate value for our shareholders while strengthening our long-term partnership. This has put us in a strong position to deliver on the next phase of revenue growth in our primary end-markets of consumer IoT and mobile. Our expertise and IP in mixed-signal ICs are aligned with our customers’ growing requirements for energy-efficient products.

The investments we made in the organic and inorganic expansion of our business have helped us to deliver strong revenue growth during the year, despite specific customer headwinds. In 2018, revenue outside of Mobile Systems grew 33% year-on-year. We now have a healthy and diverse customer design-in pipeline, which coupled with a strong balance sheet and cash flow generation, gives me great confidence in the future of our business.”

¹ Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 6).

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Outlook

Reflecting softer than typical seasonal trends, we anticipate revenue for Q1 2019 to be in the range of \$270 million to \$310 million and gross margin to be broadly in line with FY 2018.

We expect revenue for FY 2019 to decline from FY 2018 by single digit percentage points. As previously communicated, revenue from main PMIC for our largest customer will decline over the next few years.

For FY 2019, we anticipate the combined revenue of our remaining businesses to show strong year-on-year growth. As in previous years, revenue is expected to be second half weighted. Based on the expected revenue performance of the Group, we anticipate gross margin for FY 2019 to be broadly in line with FY 2018.

Financial overview

IFRS basis

US\$ millions unless otherwise stated	Q4 2018	Q4 2017	Change	FY 2018	FY 2017	Change
Revenue	430.7	463.5	-7%	1,442.1	1,352.8	+7%
Gross margin ²	48.6%	46.6%	+200bps	47.9%	47.7%	+20bps
R&D % of revenue ²	19.7%	18.4%	+130bps	22.6%	22.4%	+20bps
SG&A % of revenue	10.9%	9.9%	+100bps	11.7%	10.7%	+100bps
Other operating income % of revenue	-0.1%	-2.1%	+200bps	0.2%	-2.1%	+230bps
Operating profit	77.1	75.4	+2%	199.7	187.0	+7%
Operating margin	17.9%	16.3%	+160bps	13.8%	13.8%	0bps
Net income	57.9	81.9	-29%	139.8	169.4	-17%
Basic EPS \$	0.78	1.15	-32%	1.89	2.34	-19%
Diluted EPS \$	0.74	1.09	-32%	1.80	2.21	-19%
Cash flow from operating activities	96.5	130.2	-26%	288.6	284.7	+1%

Underlying¹

US\$ millions unless otherwise stated	Q4 2018	Q4 2017	Change	FY 2018	FY 2017	Change
Revenue	430.7	463.5	-7%	1,442.1	1,352.8	+7%
Gross margin ²	48.7%	47.1%	+160bps	48.3%	47.9%	+40bps
R&D % of revenue ²	17.5%	16.4%	+110bps	20.4%	20.4%	0bps
SG&A % of revenue	7.2%	7.4%	-20bps	8.5%	8.4%	+10bps
EBITDA	117.7	123.1	-4%	339.6	315.8	+8%
EBITDA margin	27.3%	26.6%	+70bps	23.5%	23.3%	+20bps
Operating profit	103.4	108.1	-4%	281.6	259.5	+9%
Operating margin	24.0%	23.3%	+70bps	19.5%	19.2%	+30bps
Net income	82.8	103.4	-20%	225.4	228.0	-1%
Basic EPS \$	1.11	1.40	-21%	3.05	3.08	-1%
Diluted EPS \$	1.06	1.34	-21%	2.90	2.92	-1%

2 Certain product development costs have been reclassified from cost of sales to research and development expenses (see page 5)

Revenue in Q4 2018 was US\$431 million, 7% below Q4 2017. The lower revenue was due to the decline in Mobile Systems and Automotive & Industrial, partially offset by strong growth in Advanced Mixed Signal and Connectivity. Excluding the contribution of the acquisition of Silego, revenue was 11% below Q4 2017. Mobile Systems revenue was 13% below Q4 2017. The year-on-year performance was driven by softness in consumer demand and the reduction of our share of volume from Apple announced on 31 May 2018, partially offset by content increase in other platforms. In Q4 2018 Advanced Mixed Signal revenue was up 42% year-on-year. Excluding revenue from Silego, Advanced Mixed Signal was 4% below Q4 2017 mainly as a result of lower volumes of LED Solid State Lighting ICs in the residential segment. Connectivity was up 6% year-on-year driven by the solid performance of Bluetooth® low energy and audio ICs. Automotive & Industrial was 15% below Q4 2017 due to lower volumes in the automotive segment.

Q4 2018 gross margin was 48.6%, 200bps above Q4 2017 and Q4 2018 underlying¹ gross margin was 160bps above Q4 2017 at 48.7%. The strong performance in gross margin was mostly due to product mix and lower manufacturing costs.

Operating expenses (OPEX) comprising SG&A and R&D expenses, in Q4 2018 were up 1% year-on-year to US\$131.8 million, or 30.6% of revenue. Underlying¹ OPEX, in Q4 2018 was down 4% year-on-year to US\$106.4 million, or 24.7% of revenue. The year-on-year decrease in underlying OPEX was mainly due to lower G&A expenses.

R&D expense in Q4 2018 was broadly in line with Q4 2017 at US\$85.0 million, including the impact from the consolidation of Silego into the Group. As a percentage of revenue, R&D in Q4 2018 was up 130bps year-on-year to 19.7% (Q4 2017: 18.4%). On an underlying¹ basis, R&D expense decreased 1% from Q4 2017 to US\$75.2 million. As a percentage of revenue, underlying R&D in Q4 2018 was 110bps above Q4 2017 at 17.5% (Q4 2017: 16.4%) due to the lower revenue in Q4 2018.

SG&A expense in Q4 2018 was up 2% from Q4 2017 to US\$46.8 million. This increase was largely due to US\$0.7 million of integration costs relating to the acquisition of Silego. As a percentage of revenue, SG&A in Q4 2018 was 100bps above Q4 2017 to 10.9%. Underlying¹ SG&A in Q4 2018 was down 9% year-on-year to US\$31.2 million mainly due to lower performance-based bonus. As a percentage of revenue, underlying SG&A was 20bps below Q4 2017 at 7.2% (Q4 2017: 7.4%).

Operating profit in Q4 2018 was US\$77.1 million, up 2% year-on-year due to lower other operating costs (Q4 2018: US\$0.6 million; Q4 2017: US\$9.6 million, mostly related to the deconsolidation of Dyna Image), partially offset by the impact of the lower Group revenue coupled with higher OPEX resulting from the consolidation of Silego. Operating profit margin in the quarter was 17.9%, 160bps above Q4 2017. Underlying¹ operating profit was US\$103.4 million, 4% below Q4 2017 mainly driven by the lower year-on-year revenue partially offset by lower OPEX. Underlying operating margin in the quarter was 24.0%, 70 bps above Q4 2017. This increase was mainly due to the higher underlying gross margin partially offset by higher OPEX as a percentage of revenue.

The effective tax rate in 2018 was 28.2% (2017: 13.0%). Our income tax expense for 2018 includes a charge of US\$2.8 million (2017: credit of US\$1.5 million) resulting from the finalisation of prior year tax items with tax authorities. The low effective tax rate in 2017 reflected a non-cash deferred tax credit of US\$6.7 million resulting from US tax reform and a credit of US\$19.3 million due to the tax effects of unpredictable currency exchange rate movements. The underlying effective tax rate in 2018 was 21.8% compared with 14.5% in 2017. Excluding the charge of US\$2.8 million in respect of the finalisation of prior year items (2017: credit of US\$1.5 million), our underlying effective tax rate for 2018 was 20.8%, which compares with 15.0% for 2017. Our underlying effective tax rate for 2017 was unusually low, mainly because of the tax effects of unpredictable, and significant in the year, currency exchange rate movements.

In Q4 2018, net income was 29% below Q4 2017. This decrease was mainly due to the higher income tax expense, and a fair value loss of US\$2.3 million on the Energous warrants. Underlying¹ net income was 20% below Q4 2017. The year-on-year decrease in underlying net income was mostly driven by the operating profit movement and higher income tax expense. Diluted EPS in Q4 2018 was 32% below Q4 2017. Underlying diluted EPS in Q4 2018 was 21% below Q4 2017.

At the end of Q4 2018, our total inventory level was US\$150 million, 6% above Q3 2018 (or ~61 days), representing a 3-day decrease in our days of inventory from the previous quarter. During Q1 2019, we expect inventory value and days of inventory to increase from Q4 2018.

At the end of Q4 2018, we had a cash and cash equivalents balance of US\$678 million. Cash flow from operating activities in Q4 2018 was US\$96.5 million, 26% below Q4 2017 (Q4 2017: US\$130.2 million) mainly as a result of the year-on-year decrease in net income.

On 11 October 2018, the Company reached an agreement with Apple Inc. to license certain of its power management technologies, transfer certain of its assets and over 300 employees to Apple to support chip research and development. Apple will pay \$300 million in cash for the transaction and prepay \$300 million for Dialog products to be delivered over the next three years. The transaction is expected to be completed in H1 2019.

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Operational overview

Innovation is at the core of our business model. Over the past five years, the Company has invested approximately US\$1.4 billion in R&D, making it one of the leading investors in the European technology sector. Our focused R&D approach results in the development of deep expertise in the design of highly-integrated and power-efficient mixed-signal ICs primarily for consumer applications. We continue to invest in the development of innovative and differentiated technology in high-growth segments of our targeted end markets - IoT, mobile, automotive, and computing & storage. Our ability to recruit, develop and retain engineering talent is vital for our success. In 2018, the workforce grew by 1% to 2,100 employees, 76% of whom work in engineering functions (as at 31 December 2018) and we integrated Silego's R&D capabilities into our design centres in North America, Europe and Asia. In 2018, employee turnover was 10.7%, broadly in line with 2017 (2017: 10.3%). Our colleagues are based in 29 different locations across 16 countries and it is this global pool of talent which enables us to maintain strong relationships with our customers and partners and sustain our track record of innovation.

Our solid competitive positioning rests upon delivering technical excellence through short design cycles, enabling our customers a fast go-to-market. To meet the needs of our customers in very competitive markets, our products offer different levels of configurability and programmability which results in more integration and differentiation.

Our primary end markets are the Internet of Things (IoT) and mobile. The increasing number of smart connected devices has contributed to continuing adoption of standard radio technologies, such as Bluetooth® low energy. Energy efficiency is a key requirement in consumer markets and we continue to leverage our power management technologies into new applications beyond mobile devices. The adoption of new rapid charge technologies and the increasing use of backlighting, represent exciting opportunities for our business in mobile. An important element of our strategy is to continue to leverage our products and expertise into automotive and computing & storage. The expansion of high-performance processors into infotainment systems, more complex in-cabin electronics, and increasing requirements for more efficient power management, have created new opportunities for our business in these two end-markets.

In line with our strategic goals, during 2018 we expanded our product portfolio through a combination of organic and inorganic initiatives.

Mobile Systems

In Q4 2018, revenue from the Mobile Systems Segment was 13% below Q4 2017 mostly due to lower volumes and the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform announced on 31 May 2018, partially offset by higher content per device in other platforms. For the FY 2018, revenue was 1% below FY 2017 driven by the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform.

Consumer needs and requirements are evolving, requiring increasing battery life for an array of "always-on" IoT devices. To serve this need, Mobile Systems has expanded its product portfolio of Application Specific Standard Products (ASSP) with the launch of our first fully-integrated nanopower PMIC for low-power IoT applications and the Haptic IC. Our Haptic IC provides a more sophisticated haptics experience for mobile and gaming applications, as well as in touchscreens.

In Q4 2018, we reached an agreement with Apple Inc. to license certain of our main PMIC technologies, and transfer certain of our assets and over 300 employees. Additionally, we were awarded new custom mixed-signal designs for next generation models. These opportunities, and all other opportunities from our largest customer are made available to us on a product by product basis and depend on our ability to work to the highest technical standards, develop leading-edge technology and a commitment to provide high-quality products at appropriate prices and volumes. We will continue to support our largest customer as this relationship evolves and develops over time.

In parallel, we continued to leverage our power management technology into our target end-markets, with increasing design momentum in gaming, SSDs and DSLR cameras. In gaming, we have engaged on a second custom PMIC design for a leading game console brand. In SSD, we are working with a leading manufacturer in the design of a custom PMIC. Lastly, in DSLR cameras, we are winning new designs for power management and motor drivers. The latest product designed for a mobile chipset partner went into volume production in Q4 2018 for the latest Micromax smartphone, a leader in the Indian smartphone market. Our ongoing collaborations with Renesas and Xilinx strengthens Dialog's presence in the automotive segment.

Advanced Mixed Signal

During Q4 2018, revenue from the Advanced Mixed Signal Segment was up 42% year-on-year. Excluding revenue from Silego, Advanced Mixed Signal was 4% below Q4 2017 as a result of lower volumes of LED Solid State Lighting ICs in the residential segment. FY 2018 revenue was up 73% year-on-year, due to the contribution of Silego as well as the solid performance of our Rapid Charge™ products.

The acquisition of Silego in November 2017 contributed to the expansion of our product portfolio. With over four billion units shipped to date, the Configurable Mixed-signal IC (CMIC) enables customers to customise and integrate multiple analog, logic and discrete components into a single chip fast. During 2018, we launched the first CMIC with in-system programming, accelerating the development process and reducing time-to-market. This technology will contribute to the expansion of our customer base and strengthen our presence in all our targeted end-markets. When compared on a full year basis, revenue from CMIC products in 2018 was up 24%⁴ year-on-year.

Market adoption of rapid charge technologies continued in the second half of 2018. During the year our USB Power Delivery (USB PD) chipset was adopted by Hosiden, a leading manufacturer of charger adapters for mobile devices. We expect USB PD Type C, to become more prevalent from the second half of 2019. 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. At the end of 2018, our Rapid Charge™ products for power adapters had approximately 60% market share of the rapid charge adapter market for smartphones.

Our broad product portfolio in LED Solid-State Lighting (SSL) driver ICs and exclusive digital conversion technologies enable high quality solutions with a low cost. The extended range of LED backlighting products (combined with the acquisition of the ams AG portfolio in 2017) contributed to the expansion of our customer base and increased our share of the large panel display market.

⁴ Based on twelve months actual 2017 revenue of US\$84.3 million.

Connectivity

In Q4 2018, revenue from the Connectivity Segment was up 6% year-on-year driven by the solid performance of Bluetooth® low energy and the new range of audio ICs. For the same reasons as in Q4 2018, revenue for FY 2018 was up 9% year-on-year.

During 2018, our Connectivity Segment reached a remarkable milestone, shipping over 200 million SmartBond™ System-on-Chip (SoC) units into the IoT market. For the full year 2018, revenue from SmartBond™, our Bluetooth® low energy SoC grew 21% year-on-year. This is a strong indication of the value we bring to customers and the continuing adoption of the technology across a wide range of applications. We continue to expand our product range and in addition to our targeted verticals, we see increasing medium-term opportunities in new segments such as connected health and automotive. In 2018 we expanded the SmartBond™ product portfolio supporting the Bluetooth® 5.0 standard and launched our Bluetooth® mesh Software Development Kit.

The Connectivity Segment is also targeting the consumer headset market with 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 2018, Jabra selected our technology to enhance the audio quality of their new Engage Headset Series.

Automotive & Industrial

In Q4 2018, revenue from the Automotive & Industrial Segment was 15% below Q4 2017 due to lower volumes in the automotive segment. Automotive & industrial was broadly stable in FY 2018, despite lower volumes of our automotive products during the second half of the year.

Impact of reclassification of certain product development costs

With effect from 1 January 2018, we reclassified the amortisation of capitalised development costs, the amortisation of acquired technology-based intangible assets and royalties payable for the use of intellectual property in our product development activities from cost of sales to research and development (R&D) expenses.

As shown in the table below, we have represented comparative information for FY 2017 and Q4 2017 on a consistent basis.

FY 2017

	IFRS			Underlying ¹		
	As previously reported US\$000	Effect of reclassification US\$000	As reclassified US\$000	As previously reported US\$000	Effect of reclassification US\$000	As reclassified US\$000
Revenue	1,352,841	–	1,352,841	1,352,841	–	1,352,841
Cost of sales	(732,188)	24,217	(707,971)	(721,125)	16,679	(704,446)
Gross profit	620,653	24,217	644,870	631,716	16,679	648,395
R&D expenses	(278,796)	(24,217)	(303,013)	(259,106)	(16,679)	(275,785)
Operating profit	187,017	–	187,017	259,458	–	259,458
Gross margin %	45.9%		47.7%	46.7%		47.9%
R&D % of revenue	20.6%		22.4%	19.2%		20.4%

Q4 2017

	IFRS			Underlying ¹		
	As previously reported US\$000	Effect of reclassification US\$000	As reclassified US\$000	As previously reported US\$000	Effect of reclassification US\$000	As reclassified US\$000
Revenue	463,519	–	463,519	463,519	–	463,519
Cost of sales	(254,190)	6,677	(247,513)	(249,795)	4,455	(245,340)
Gross profit	209,329	6,677	216,006	213,724	4,455	218,179
R&D expenses	(78,462)	(6,677)	(85,139)	(71,467)	(4,455)	(75,922)
Operating profit	75,390	–	75,390	108,128	–	108,128
Gross margin %	45.2%		46.6%	46.1%		47.1%
R&D % of revenue	16.9%		18.4%	15.4%		16.4%

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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 FY 2018 and FY 2017 are presented in Section 3 of the full announcement of our results for Q4 and FY 2018. For ease of reference, we present below reconciliations for the non-IFRS measures for FY 2018, FY 2017, Q4 2018 and Q4 2017.

Income statement items

FY 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	1,442,138	–	–	–	–	–	–	1,442,138
Gross profit	691,068	1,791	3,129	13	–	–	–	696,001
SG&A expenses	(168,228)	17,163	14,757	2,524	11,346	–	–	(122,438)
R&D expenses	(326,309)	22,699	9,148	228	–	–	–	(294,234)
Other operating income	3,176	–	(877)	–	–	–	–	2,299
Operating profit	199,707	41,653	26,157	2,765	11,346	–	–	281,628
Net finance (expense)/income	(3,514)	–	2,220	–	–	50	9,269	8,025
Profit before income taxes	196,193	41,653	28,377	2,765	11,346	50	9,269	289,653
Income tax expense	(55,281)	(2,108)	(3,448)	(555)	(1,024)	(9)	(746)	(63,171)
Profit after income taxes	140,912	39,545	24,929	2,210	10,322	41	8,523	226,482
Share of loss of associate	(1,113)	–	–	–	–	–	–	(1,113)
Net income	139,799	39,545	24,929	2,210	10,322	41	8,523	225,369

FY 2017

US\$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Effective interest	Strategic investments	US tax reform	Underlying basis
Revenue	1,352,841	–	–	–	–	–	–	1,352,841
Gross profit	644,870	1,219	2,306	–	–	–	–	648,395
SG&A expenses	(145,262)	16,285	14,358	1,121	–	–	–	(113,498)
R&D expenses*	(303,013)	17,994	8,050	1,184	–	–	–	(275,785)
Other operating (expense)/income	(9,578)	–	–	–	–	9,924	–	346
Operating profit	187,017	35,498	24,714	2,305	–	9,924	–	259,458
Net finance income	7,786	–	436	–	289	(1,398)	–	7,113
Profit before income taxes	194,803	35,498	25,150	2,305	289	8,526	–	266,571
Income tax expense	(25,369)	(3,476)	(4,187)	(701)	(56)	1,889	(6,658)	(38,558)
Net income	169,434	32,022	20,963	1,604	233	10,415	(6,658)	228,013

* 2017 Gross margin and R&D are presented on a consistent basis. Further information regarding the classification of certain product development costs is presented on page 5 and in note 1 to the interim financial statements.

Q4 2018

US\$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	430,745	–	–	–	–	–	430,745
Gross profit	209,469	359	–	–	–	–	209,828
SG&A expenses	(46,809)	4,507	3,731	662	6,693	–	(31,216)
R&D expenses	(84,951)	7,488	2,275	–	–	–	(75,188)
Other operating expense	(600)	–	600	–	–	–	–
Operating profit	77,109	12,354	6,606	662	6,693	–	103,424
Net finance income	223	–	590	–	–	1,814	2,627
Profit before income taxes	77,332	12,354	7,196	662	6,693	1,814	106,051
Income tax expense	(19,449)	(2,237)	(701)	(113)	(370)	(345)	(23,215)
Profit after income taxes	57,883	10,117	6,495	549	6,323	1,469	82,836
Share of loss of associate	3	–	–	–	–	–	3
Net income	57,886	10,117	6,495	549	6,323	1,469	82,839

Q4 2017

US\$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Effective interest	Strategic investments	US tax reform	Underlying basis
Revenue	463,519	–	–	–	–	–	–	463,519
Gross profit	216,006	(133)	2,306	–	–	–	–	218,179
SG&A expenses	(45,849)	2,749	7,554	1,121	–	–	–	(34,425)
R&D expenses*	(85,139)	5,299	2,734	1,184	–	–	–	(75,922)
Other operating (expense)/income	(9,628)	–	–	–	–	9,924	–	296
Operating profit	75,390	7,915	12,594	2,305	–	9,924	–	108,128
Net finance income	5,925	–	436	–	49	(5,302)	–	1,108
Profit before income taxes	81,315	7,915	13,030	2,305	49	4,622	–	109,236
Income tax credit/(expense)	608	1,998	(3,557)	(701)	(10)	2,522	(6,658)	(5,798)
Net income	81,923	9,913	9,473	1,604	39	7,144	(6,658)	103,438

* 2017 Gross margin and R&D are presented on a consistent basis. Further information regarding the classification of certain product development costs is presented on page 5 and in note 1 to the interim financial statements.

Accounting for business combinations

US\$000	Q4 2018	Q4 2017	FY 2018	FY 2017
Acquisition-related costs	–	3,207	–	4,539
Amortisation of acquired intangible assets	5,657	5,673	22,629	16,461
Consumption of the fair value uplift of acquired inventory	–	2,305	3,129	2,305
Consideration accounted for as compensation expense	336	1,409	1,481	1,409
Forfeiture of deferred consideration	(27)	–	(204)	–
Remeasurement of contingent consideration	640	–	(878)	–
Increase in operating profit	6,606	12,594	26,157	24,714
Unwinding of discount on contingent consideration	590	436	2,220	436
Increase in profit before income taxes	7,196	13,030	28,377	25,150
Income tax credit	(701)	(3,557)	(3,448)	(4,187)
Increase in net income	6,495	9,473	24,929	20,963

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EBITDA

US\$000	Q4 2018	Q4 2017	FY 2018	FY 2017
Net income	57,886	81,923	139,799	169,434
Net finance (income)/expense	(223)	(5,925)	3,514	(7,786)
Income tax expense/(credit)	19,449	(608)	55,281	25,369
Depreciation expense	7,381	8,004	31,455	30,807
Amortisation expense	12,567	12,622	49,130	41,969
EBITDA	97,060	96,016	279,179	259,793
Share-based compensation and related payroll taxes	12,354	7,915	41,653	35,498
Acquisition-related costs	–	3,207	–	4,539
Consumption of the fair value uplift of acquired inventory	–	2,305	3,129	2,305
Consideration accounted for as compensation expense	336	1,409	1,481	1,409
Forfeiture of deferred consideration	(27)	–	(204)	–
Remeasurement of contingent consideration	640	–	(878)	–
Corporate transaction costs	6,693	–	11,346	–
Integration costs	662	2,305	2,765	2,305
Impairment of intangible assets	–	2,790	–	2,790
Impairment of property, plant and equipment	–	1,537	–	1,537
Loss on deconsolidation of Dyna Image	–	5,597	–	5,597
Share of loss of associate	(3)	–	1,113	–
Underlying EBITDA	117,715	123,081	339,584	315,773

Earnings per share

US\$000	Q4 2018	Q4 2017	FY 2018	FY 2017
IFRS measures				
Net income	57,886	81,923	139,799	169,434
Loss attributable to non-controlling interests	–	3,141	–	4,482
Earnings for calculating basic and diluted EPS	57,886	85,064	139,799	173,916
Underlying measures				
Net income*	82,839	103,438	225,369	228,013
Loss attributable to non-controlling interests	–	446	–	1,425
Earnings for calculating basic and diluted EPS	82,839	103,884	225,369	229,438

* Underlying net income is reconciled to net income determined in accordance with IFRS basis in the tables set out under the heading 'Reconciliation of underlying measures to equivalent IFRS measures'.

Free cash flow

US\$000	Q4 2018	Q4 2017	FY 2018	FY 2017
Cash flow from operating activities	96,466	130,238	288,649	284,722
Purchase of property, plant and equipment	(5,900)	(9,907)	(26,145)	(47,938)
Purchase of intangible assets	(2,306)	(2,164)	(6,197)	(6,196)
Payments for capitalised development costs	(5,821)	(6,327)	(24,771)	(20,988)
Capital element of finance lease and hire purchase payments	–	(800)	(1,651)	(4,283)
Free cash flow	82,439	111,040	229,885	205,317

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 Q4 2018 performance, as well as guidance for Q1 2019. 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:

<https://www.incommglobalevents.com/registration/client/1558/dialog-semiconductor-q4-earnings-call/>

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

<http://webcast.openbriefing.com/DS06032019/>

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 selected notes for the year ended 31 December 2018 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 2018, it had US\$1.4 billion in revenue and approximately 2,100 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.