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Dialog Semiconductor Q4 Earnings Call

Wednesday, 04 March 2020

Operator: Ladies and gentlemen, welcome to the Dialog Semiconductor Q4 earnings call. My name is Felicia, and I will be the operator assisting today. During this presentation you will have the opportunity to ask a question by pressing star, followed by one on your telephone keypad. I will now hand you over to your host Jose Cano to begin. Jose, please go ahead.

Jose Cano: Good morning and thanks to everyone for joining us today. Our call is being hosted by Dr Jalal Bagherli, Dialog CEO, and Wissam Jabre, our CFO. In a moment, I will hand you over to Jalal to talk through the company's further quarter and full year performance. First of all, I must remind everyone that today's briefing and some of the answers to your questions may contain forward looking statements.

The statements reflect management views and there are risks associated with them. You can find a full explanation of these risks on page two of the investor presentation. The interim report and the press release can also be found on our website. I will now hand over to Jalal who will run through the business review. Jalal, over to you.

Jalal Bagherli: Thank you, Jose, and good morning, everyone. We closed 2019 with a strong December quarter with revenue above the midpoint of the guidance range. Underlying gross margin at 50.2% and underlying operating margin in line with Q4 2018 at 24%. In 2019, revenue, excluding the main licensed PMIC, was up 38% year-on-year, and the underlying operating margin of the Group was up 330 basis points at 22.8%.

During the year, we made excellent progress towards our strategic objective to build a diverse mixed signal business with a more balanced exposure to our target end markets. In 2019, we made two acquisitions, and more recently, announced the acquisition of Adesto Technologies. In parallel during the year we continue to invest organically in the expansion of our product portfolio.

In that context, let me summarise some of the key growth vectors and opportunities we see across these markets on slide four. As the number of connected devices continues to grow, we are focused on expanding our footprint in IoT. Following the acquisition of FCI in 2019, we launched our first low power Wi-Fi device, which complements our existing portfolio of Bluetooth low energy SoCs.

Venstar, one of the largest global thermostat suppliers, has adopted our low power Wi-Fi device, enabling over a year of battery life for its customers. We continue to expand our presence in consumer IoT. Earlier in the year our most advanced member of the Bluetooth low energy family was adopted by Samsung Galaxy fitness tracker, and in Q4, we launched Bluetooth TINY, the smallest and the most powerful of our BLE products, targeting the next billion connected devices.

As consumers demand higher quality audio experiences, we continue to target the consumer headset market with our SmartBeat Audio IC. Our new audio technology performed strongly in 2019 with revenue up 71% year on year. In IoT, our configurable products strongly complement our connectivity and audio solutions. In the last 12 months we have won several design opportunities with tier one customers where we combine CMICs, connectivity, and audio products.

In mobile, we have been awarded multiple custom designs, which will be realised over the course of the next three years with new high-volume products, ramping from the second half of 2021. In 2019, the non-legacy business with our largest company more than doubled year-on-year. During 2019, we broadened our CMIC product range with the introduction of an industry-leading LDO regulator, attracting strong customer interest from camera modules in mobile phones.

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In automotive, OEMs are increasingly focused on developing vehicles that are connected and with more complex safety and driving systems, and a growing need for power management and power efficient technologies. Many of these are standard technologies, such as power management, LED backlight, and Bluetooth low energy, providing us the opportunity to leverage our expertise into this end market.

In 2019, we started a project to develop a custom solution for a tier one auto supplier, based on our LED backlighting technology. In computing, there's an increasing need for custom power management solutions for gaming applications and solid state drives. Additionally, we are seeing increasing adoption of CMICs and LED technology. In this particular area, we kicked off a customer project using complex LED drivers for Notebook screens.

Lastly, with the acquisition of Creative Chips, we entered into the industrial end market with an extensive IP library for industrial and over 40 custom designs being sold or in development. Last week, we launched a new range of IO-Link products, bringing connectivity to the smallest sensors and actuators.

Earlier in February, we announced the acquisition of Adesto, expanding our presence into the industrial IoT market. I would like to touch on this topic on slide five. The acquisition of Adesto is allowing us to accelerate our diversification strategy, expanding into attractive growth segments of the industrial market.

Our strategy is to build upon our last three acquisitions and capitalise on these capabilities in the future. Creative Chips was our first initiative in the industrial market, bringing industrial IoT custom silicon expertise and products, as well as an established tier one industrial customer base in Europe. As part of our connectivity strategy, we added low power Wi-Fi to our product portfolio with the acquisition of Silicon Motion's mobile division group, FCI, which addresses broad IoT applications.

Turning to slide six, let me run through the benefits of combining Adesto and Dialog technologies. By acquiring Adesto, we are increasing our addressable market, targeting new growth segments of industrial IoT. This should be possible with a comprehensive product offering, which complements our existing portfolio, and a team with strong signal and system expertise for the industrial market.

With over 5,000 customers, the majority of which are new for Dialog, the combined business will provide a solid platform, from which we can leverage an established sales channel. And last, but not least, we are targeting cost synergies of approximately \$20 million from identified efficiencies, as well as improvements in supply chain across the combined company, in addition to considerable revenue synergies. The acquisition of Adesto accelerates our diversification strategy and supports our long term financial targets.

Let me briefly remind you of our targets on slide seven. All our growth vectors remain in place and in 2019, we have made excellent progress towards our revenue targets of mid-teens percentage growth. We are gradually changing the shape of our business, diversifying our customer base, broadening our end market exposure.

This, combined with savings in manufacturing costs, has enabled us to improve our gross margin gradually and continually over the last three years, to a target range of 50% to 53%. As a result of the strong business execution and continuous underlying gross margin expansion, we are targeting an increased underlying operating margin of 20% to 25%. Before I hand over to Wissam to go through the numbers in more detail, let me leave you with a few final remarks on the next slide.

The success of Dialog starts with a core set of capabilities, grounded in mixed-signal expertise and power efficient technologies, which have become increasingly important in today's connected world. We are building on that strong

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foundation, whilst sharpening our focus on fast growing segments of IoT, mobile, automotive, computing, and industrial.

The strong relationship with our largest customer positions Dialog for robust earnings and strong cash generation, with visibility through to 2022, as we continue to win new design engagements in a broader range of mixed-signal products. And lastly, we're investing in the pursuit of our growth strategy, while returning cash to shareholders. We have delivered a strong set of results and we are busy working on opportunities to further expand the business over the next three years. Wissam, let me hand over to you.

Wissam Jabre: Thanks, Jalal. Good morning, everyone. First, let's take a closer look at the highlights of the quarter on slide ten. We will go into more detail shortly, but there are a few points I would like to make here. First, Q4 2019 revenue of \$381 million was slightly above the high end of our November guidance range and 12% below Q4 2018. Excluding revenue from licensed main PMIC products, revenue was up 47% year-on-year.

Second, underlying gross margin reached a record 50.2%, slightly ahead of the November guidance. Third, we delivered underlying operating profit of \$91.3 million and underlying operating margin in line with Q4 2018 at 24%. Finally, we generated free cash flow of \$44 million during the quarter, while continuing to invest in the growth of our business. Adjusting for \$50 million recoupment of the prepayment relating to the licence agreement, free cash flow in the quarter would have been \$94 million and free cash flow margin, approximately 24.8%.

On the next two slides, I'd like to give you some additional colour on our revenue performance in Q4 and the full year 2019, starting with Q4 on slide 11. On the right hand side, you can see the breakdown of the fourth quarter revenue, in which, we deliver strong performance from our main product groups. Looking at the blue section of the chart, Q4 revenue from our largest customer, excluding main PMIC products, was up 94% year-on-year.

In the green section, our key growth products outside of our largest customer continued to perform well and are attracting increasing interest from customers. Compared to Q4 2018, revenue from Advanced Mixed-Signal was up 13% in Q4 and revenue from Connectivity and Audio was up 22%, including the revenue from FCI.

And lastly, at the top of the Q4 2019 bar, you can see the contribution from FCI, Creative Chips, and license revenue. As we anticipated when we announced the Q3 results, the year-on-year growth rate for some of our key growth vectors accelerated in Q4. Let me now summarise the key points on the full year revenue performance on the next slide.

Underlying revenue for the full year was 1.5% below 2018. First, 2019 revenue from our largest customer, excluding licensed main PMIC products, more than doubled year-on-year. Design win momentum continues in this part of the business, and we are expecting revenue from new awards and new mixed-signal areas, such as in-device charging, audio, and display, to begin over the course of the next three years.

And second, our key growth products outside of our largest customer performed well ahead of the industry. The combined revenue from automotive products, advanced mixed-signal, connectivity, and audio, excluding FCI, was up 5% year on year.

In addition to our largest customer, the star performer of the year was connectivity and audio with revenue up 19% year-on-year due to: 34% growth in Bluetooth low energy products as a result of new product launches in fitness trackers and smartwatches, strong revenue performance from audio products, targeting premium consumer headsets, and revenue contribution from the acquisition of FCI.

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Despite softness in the mobile market in the first half of 2019, advanced mixed-signal revenue for the year was up 4%, driven by growth in AC/DC rapid charge products, LED backlighting drivers, and configurable mixed-signal ICs. Revenue from custom products from our largest customer represented 66% of the total company underlying revenue, which is four percentage points lower than in 2018. In line with our long term financial targets, we expect this downward trend to continue over the next few years.

Turning to slide 13 to cover gross margin. In Q4 2019, underlying gross margin was slightly ahead of our guidance at 50.2%, up 100 basis points year-on-year. This increase was mainly due to the revenue mix and lower manufacturing costs. For the full year 2019, underlying gross margin was also up 150 basis points compared to 2018, mainly driven by lower manufacturing costs and product mix, and including contribution from licensed revenue of approximately 60 basis points. Gross margin expansion continues to be a focus area and we are targeting manufacturing cost savings and operational improvements.

Let's now turn to slide 14 to discuss operating expenses. Q4 2019 underlying operating expenses were \$100.5 million, down 6% from Q4 2018 due to lower R&D expenses, partially offset by the first time consolidation of FCI and Creative Chips into the Group. As a percentage of revenue, underlying operating expenses in the quarter were 170 basis above Q4 2018 at 26.4%, reflecting the lower revenue.

Q4 2019 underlying R&D expenses decreased 14% year-on-year to \$64.5 million. As a percentage of revenue, R&D was down 60 basis points to 16.9%. Underlying SG&A expenses were up 15% year-on-year to \$36 million, mainly due to the first time consolidation of FCI and Creative Chips. As a percentage of revenue, SG&A was 9.5%.

For the full year 2019, operating expenses were down 3% year-on-year to approximately \$406 million, 30 basis points lower than 2018 as a percentage of revenue. This was the result of lower R&D expenses, mainly driven by the transfer of employees to our largest customer and additional savings partially offset by the first time consolidation of FCI and Creative Chips.

Turning to slide 15 to cover operating profit and earnings per share. In Q4 2019, underlying operating margin remained in line with Q4 2018 at 24%. For the full year, operating margin was up 330 basis points to 22.8%. The increase in operating margin was due to the higher gross margin as well as lower operating expenses and approximately \$24 million operating income from non-recurring engineering contracts.

At the bottom of the slide, you can see the breakdown by business segment. Underlying operating profit for connectivity and audio was at 11.8%, almost 300 basis points above 2018. This was the result of the strong performance of our key growth vectors in the segment in Bluetooth low energy and new audio products. This result included the first time consolidation of FCI into the Group.

As I have been indicating for the last two quarters, we have continued to invest in the growth of our advanced mixed-signal business, resulting in a lower underlying profit year-on-year. Revenue growth accelerated in Q4 2019, and we expect this segment to continue to grow in 2020. Lastly, underlying operating profit from custom mixed-signal increased significantly to approximately \$282 million and the underlying operating margin improved to 29.2%.

The increased operating profit was mainly due to lower operating expenses and other operating income. Corporate improved significantly due to \$18.5 million of licensed revenue and a 51% reduction in corporate costs. The underlying effective tax rate for the full year 2019 was 19.8%, 200 bases points below 2018. Underlying diluted EPS

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in Q4 2019 was \$1.02, 4% below the previous year. For the full year 2019, underlying diluted EPS was \$3.47, up 20% year-on-year.

From earnings, let's now turn to slide 16 to take a closer look at the inventory and cash. The inventory level was 2% below the previous quarter at \$123 million, representing a sequential four day increase in our days of inventory. During Q1 2020, we expect inventory value to remain broadly in line with Q4 2019 and days of inventory to increase. Cash flow from operating activities during the fourth quarter was approximately \$57 million, lower than Q4 2018, reflecting \$50 million recoupment of the prepayment from our largest customer.

Free cash in Q4 2019 was \$44 million below Q4 2018 due to the lower cash flow from operating activities. At 31st December, our cash and cash equivalents balance was in excess of \$1 billion. The main cash flow items during Q4 were \$80 million outflow for the acquisition of Creative Chips and \$103 million outflow for the share buyback settlement. During 2019, we returned a total of \$252 million of capital to our shareholders.

And last night, we announced the launch of a new tranche of share buyback for €70 million to €90 million, with a maximum maturity date of 24th September 2020. In summary, in Q4 2019, we made great progress. We delivered another good set of results with revenue above the mid-point of the guidance range, record gross margin, and solid underlying operating margin at 24%. In addition, we continued to invest in the expansion of our product portfolio and returned capital to our shareholders.

Before we open the call to questions, I would like to talk about the Q1 and full year outlook. We expect Q1 2020 revenue to be in the range of \$220 to \$250 million and underlying gross margin to be slightly above Q1 2019. This reflects a typical seasonal trend and the impact from the coronavirus outbreak. For the full year 2020, there are three points I'd like to highlight. Revenue, excluding licensed main PMICs, is expected to grow approximately mid-teens percentage points.

As anticipated, revenue from licensed main PMICs for our largest customer will decline, and as a result, total Group revenue is expected to decline approximately mid-teens percentage points. Let me be clear, this outlook excludes any revenue from the announced acquisition of Adesto. As in previous years, we expect revenue to be second half weighted.

And finally, we expect the full year 2020 underlying gross margin for the Group to continue a gradual upward trend. With that, I'll hand over to the operator to open the line for questions.

Operator: Ladies and gentlemen, if you'd like to ask a question, please press star, followed by one, on your telephone keypad. The first question comes from Mitchell Steves from RBC. Mitchell, your line is now open.

Mitchell Steves: Thanks for taking my question. I have two. My first question is regarding the supply chain issue, given the coronavirus outbreak. What are you guys embedding, in terms of when do you think it's going to recover? What I mean by that is what do you think Q2 is going to look like, in terms of people getting production back up to normal capacity? And then secondly, gross margins are going up. Should we assume that your operating margins will also expand, despite the revenue headwinds you're going to see in 2020? That's it for now.

Jalal Bagherli: Just to be clear, when we talk about supply chain in this context, we're talking about the customers' supply chain, i.e., contract manufacturers who are building phones, tablets, PCs, etc. We're not talking about our supply chain into us. So, our supply chain remains pretty much operational with no major issues. One or

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two small issues here and there, but at full operating condition, because mostly, it's outside China, primarily based in Taiwan.

So, the comments we're making about the effect of corona on the supply chain is primarily the contact manufacturers that were based in mainland China. Essentially, what we're talking about here is that in February, like most other companies, we ship to the contract manufacturers. We sold activities at a very minimum level towards the beginning of February.

And as the weeks have passed, they have gradually been building capacity of their lines with workers coming back to the lines, the factories getting de-contaminated, and becoming more operational in more locations. So, right now, we see operations of our customers' suppliers to be roughly in the order of 40%, 50% operation, and every week, we see some improvement.

So, this is why we are pretty confident that by the end of March, they should be very, very close to normal 100% operation. So, that's what we've indicated and included in our estimation of the quarter. So, beyond that, we expect, in Q2, that we shouldn't have major impact from suppliers not having capacity to build. Now, the other aspect is the demand in the market.

There have been some changes, in terms of the backlog, to reflect the fact that they can build. But we don't see any major signal from customers in terms of reduction in their requirements in the following quarters. So, the demand, at this point in time, remains pretty strong and healthy going forward. I hope that answers the first question.

Mitchell Steves: That does. Thank you. And just for operating margin potential. I'm just trying to get clarity there for that.

Wissam Jabre: When you look at the guidance we provided for the year with the mid-teens percentage point decline in the revenue and improved gross margin, it shows continued improvement in gross margin into 2020. But when we look at the Opex, we're expecting our Opex to be below the 2019 level to some extent. After including the annualised impact from the two acquisitions that we made in 2019, FCI and Creative Chips.

At the operating margin level, if you flow through the P&L, the operating margin would probably be slightly below where we were at 2019. Having said that, we're very comfortable with the long term targets that we laid out in November where basically, we highlighted the upgrade to our gross margin for our long term targets to 50% to 53% and our operating margin to 25%. But for 2020, it will probably be operating slightly lower than that.

Operator: Our next question comes from Andrew Gardiner from Barclays. Andrew, your line is now open.

Andrew Gardiner: Good morning, gentlemen, and thanks for taking my questions. I have another one on the mid-term COVID-19 impact. As you've spoken, Alan, on the demand side, on the supply side, are you seeing the drawdown from the inventory largely as you would expect, given your statements around the contract manufacturers' capacity. Has inventory grown within the hub and are you expecting that to work down, as we come through the month of March, to get back to what Wissam described as a flattish overall level of inventory at the end of the quarter?

And then on the demand side, it sounds like you're suggesting, at the moment, that whatever COVID-19 related weakness we're seeing in the first quarter should be reflected as a snuff back in the demand in the second and third

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quarter. Is that what you're currently assuming in the full year guidance? So, no overall unusual level of demand disruption?

Jalal Bagherli: Hi, Andrew. On the supplier issue, we have daily contact with the sub-con manufacturers who pull parts out of their warehouse or inventory to bid, and that was pretty quiet, as I said, earlier in February. But we now see that rate picking up, and on a weekly basis when we measure, it's going up 20% week on week growth, so we're pretty much in line to see by the end of March that we will be using products as normal.

By the way, our shipment relates to what we see, in terms of filling the hub. So, we don't have, if you like, a huge inventory built in the channel or anything like that, because it's a direct shipment to the sub-con who actually build stuff. So, we only fill to the demand. But we see the take-up rate of the products are pulling from the hub continue to increase, in addition to constantly contacting them to make sure the forecast remains up-to-date.

So, the commentary we're making is based on connecting with a lot of people in the contract manufacturers where they use our products. On the demand side, as we said, the demand has impacted Q1, and hence, the guidance for Q1 is lower than it would have been. But we believe that the normal demand for Q2, Q3, Q4 will remain as we predicted it before corona.

Clearly, there will be some impact in some areas, but we don't think it's significant enough for us to change our stance on those three quarters yet. As I say, we don't see any changes in terms of customers' backlog or feedback to us, in terms of usage of existing products, which are planned before. So, I'm not saying all the demand from Q1 will shift into the other three quarters, if that's what your question was.

There may be some, but I don't think, by and large, it will necessarily move to follow-on quarters. In some products, that's true, but in many products, the demand is perishable, so if you can't fulfil in Q1, it's gone. So, that's our assumption.

Andrew Gardiner: Understood. You answering that question has triggered another one in my mind. You talked about plans for existing non-legacy products present in the market at the moment. Has the current supply chain disruption affected any of your customers' plans for new product launches over the course of this year?

Jalal Bagherli: I don't think we've seen any that I can comment on. Nothing major that I'm aware of. I'm sure there will be adjustments in some timing or what have you, but again, we haven't seen a big impact across the customer base in usage of our products. And more importantly for us, if you like, the new design, in terms of discussion with customers about new products, new technologies, new engagement, they remain as robust and strong as before.

And really, the impediment today is the travel restrictions we've imposed on our employees to visit Asia and have direct meetings with customers. So, they do that through teleconferencing, etc., backed up by regional experts we have in Japan, Taiwan, and China. So, in terms of the end markets, appetite for the use of our products remains as strong.

Operator: The next one will be Achal Sultania from Credit Suisse. Achal, your line is now open.

Achal Sultania: Good morning, everyone. Two questions, if I may. First, on the margins in the advanced mixed-signal and connectivity business. Obviously, we are still well below the mid-term target that you have of 20% to 25%, advanced mixed-signal was 6% last year; connectivity was 12%. What needs to happen to actually get close

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to those 20%, 25% levels over the next couple of years? Is it all about revenue growth? Is it about product mix? Any colour on that would be helpful.

Then secondly on gross margins. Wassim, you talked about gross margins going up in 2020. Can you help us understand some of the one-off items in those numbers? I guess the 18 million that you called out was a licensing revenue last year. I presume that number is going increase to 24 million this year for four quarters. But then you also had a 12.5 million one-off in NRE payments last year, that goes away. So, if we take out these two items, will gross margins still be up year-on-year?

Jalal Bagherli: The connectivity business and the AMS business that you talked about, let me talk about those a little bit. Essentially, when we look at the structural aspects of the fabless model for pretty much any of the product portfolio, we often see that it's really a pretty direct influence by the scale of the business. When we have anything that is 100 million, they tend to be lower margin. In some cases, not profitable etc.

And if you look at those two businesses that you mentioned over the last three years, they've been improving the possibility. And I'll come back to the AMS, because it was lower last year and I'll explain that. But generally speaking, they're moving on an upward trend from gross margin, but also, the ability to absorb more cost through scale is important for those businesses. So, the connectivity business at double digits type margins for this scale is reached is pretty good.

It will continue to improve that as the scale, in terms of revenue, goes up. On the AMS, the scale is already higher and you would expect that to be more profitable last year, but it was 6%, as you mentioned. The main reason for that is because we identified a number of opportunities for investment into new products and the R&D was much higher than I would normally spend on that rate of revenue. So, those products, they fill the pipeline of products and new products, which are hitting the market.

We had only one of them released, I think, in Q3, Q4 of last year, which was the LDO we talked about, for camera modules. But we've got at least four other major product releases that are coming this year out of that business that we've been investing in. So, as they come onto the market, you will see the impact in terms of revenue. They all have high growth margins and they will be improving. And we expect to see major improvement in the operating profit of that business in 2020.

Wissam Jabre: For the second question you had, Achal, on gross margin and the licensed revenue and the NRE. Maybe I'll just recap a little bit on what we saw in 2019 in terms of gross margin. In 2019, the impact of the licensed revenue helped us by around 60 to 70 bases points on the gross margin side. So, if we exclude that, we would still see quite a bit of improvement in gross margins relative to the prior year. We reported for 2019 around 49.8% gross margin.

So, if you exclude the 60 to 70 bases points and you compare that to the 48.3% of 2018, you still see some good improvement in gross margin. So, that lays the groundwork for what we're looking at in 2020. We're expecting the licensed revenue to increase slightly, and that's simply the fact of how we account for it. It will probably be around \$8 to \$9 million a quarter for 2020. So, that would help us by around roughly 50 to 60 basis points.

But excluding that, we have other initiatives driving manufacturing costs and cost savings. That would also help us to improve the gross margin, excluding the licensed revenue, into 2020. Now, to the last part of the question, which was related to the NRE. We don't expect that to repeat in 2020. So, that's why when I answered the question

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earlier with respect to the operating margin, that helped our operating in 2019. We don't expect it to repeat to the same level in 2020.

But I want to make sure that it's very clear that we reiterate the confidence we have in our long term targets and the long term model of operating margins, 20%, 25%. Even though, at the time, we did say that if we need to, we may deviate occasionally from that, just to drive the continued growth of the business.

Operator: Another question from Sébastien Sztabowicz from Kepler Cheuvreux. Sébastien, your line is now open.

Sébastien Sztabowicz: Thank you for taking my question. Both AC/DC and your CMIC business rebounded in Q4. How do you see those two segments developing into 2020? And also, looking at the numbers in the share based demand almost doubled sequentially from Q3 to Q4 to \$20 million in Q4. Is this some one-offs or is it the new run rate that should be the model for the coming quarters? And on the clarification side, should we expect the AMS operating margin to improve in 2020 versus 6% in 2019. Thank you.

Jalal Bagherli: The AMS, the advanced mixed-signal business, AC/DC and CMIC. Yes, the AC/DC has rebounded in Q4 relative to the first half in the last year as new products ran to production. Clearly, a lot of that goes into customers like Samsung in Korea, but also in China, a number of mobile customers in China take our AC/DC fast charging products.

So, in terms of designs, that remain strong, but in terms of clearly the corona impact in China, that's going to impact that business somewhat in Q1. We expect that to be a better business for us in the second half of 2020, i.e., to grow. We have a lot of new products based on a high power architecture, which is for much higher wattage travel adaptors, like 45 watt, 50 watt, and 60 watt type technology, as opposed to 15 and 20 watt technology.

So, these are higher ASB, higher margin, and more differentiated. And we have a number of stockists, both in Korea and China, which are going into production in the second half. So, hopefully, that answers your question on AC/DC. Our CMIC business, as we said, grew modestly last year. The year before, it grew much faster, but last year, it grew modestly because we were busy creating new products.

We expect that to grow significantly this year because of brand new products, but also, we see the stockists we already have coming into much higher volume in 2020. So, overall, our AMS business, we will have both growth and much better operating profit. That's our projection for 2020.

Wissam Jabre: Let me take the second question, then we'll go onto the third. On the share based comp, Sébastien, we did have some one-offs in the fourth quarter of 2019. If you look at where we were in Q3, we were at around \$11 million for the quarter, and I expect going forward to be probably closer to around \$11 to \$12 million a quarter in 2020.

Jalal Bagherli: I've probably answered your third question, which was the operating margin for AMS, but essentially, yes, I confirm that we expect that to be much better in 2020 than 2019

Operator: We have another question from Robert Sanders from Deutsche Bank. Robert, your line is now open.

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Robert Sanders: Hello. My first question is on Apple's ability to design its own sub-PMICs beyond 2022, there's been some chatter in the market. If Apple was to do that and do it in house beyond 2022, would you be eligible for some IPR income? And is it fair to assume that by 2022, that will be quite a small portion of your Apple revenue, given your design wins elsewhere? That's my first question.

My second question would just be on the underlying Opex. If I put a 51% gross margin and put underlying Opex down 5%, I get a 19% adjusted operating margin for the full year. So, is that what you're thinking, underlying Opex down 5%? Just to get clarity on that would be great. My last question would just be on the legacy revenue. You did 626 of legacy revenue. Are you still expecting that to go to 300 in 2020 and 80 million in 2021? Thank you.

Jalal Bagherli: Good morning. On the so called sub-PMICs. As we've said, we did a onetime licence to that transferred PMIC technology and the staff to develop PMIC, which are connected to the processes to Apple last year. Sub-PMICs refer to the smaller PMICs that are sitting around other peripherals and not connected to the processors. And as we explained by contract, this was excluded as an area of design until 2021, so nothing can start before 2021, in terms of design.

Now, can they do this beyond that? Of course. Do we get royalties? No. Because we've done a deal that is a one-time and there is no royalty from further licensing. We're not planning to do any further licensing of technology. Is this going to be a big part of our revenue? Well, all the growth that we project in the new businesses, we have to use a shorthand to simplify, because it's quite a complex deal.

Clearly, it has a number of sub-PMICs, which we've been designing for cameras and other peripherals, and it will continue to have those. But in addition, we did mention at the very beginning, and I'll now continue to emphasise this, really, the relationship is such that it's a very good, broad, trustful relationship, which means that we are trusted to do a number of designs in broad mixed-signal technology. It's not just power. So, power is just one part, but we already design chips that touch on charging, audio signal chain, and also display.

So, this will continue to grow alongside our projection. And we have included anything we know is going to be insourced, that was explained to us as part of our contract, in our projections. So, when you get to 2022, we have a projected of pretty much all new businesses, which we've created in the last two years and will continue to create over the next two years, by the time we get to 2022. And the sub-PMIC will be a portion of those.

There will be a lot more in charging display and audio. In addition, that division also deploys the resource and the IP in engaging with other major customers for power products. And I think we've referred to that when we talk about, for example, the SSD market, or gaming markets, or even automotive markets. These are essentially PMIC based products that we've taken to other customers in other segments in addition to major investment we've done in the charging business, which is separate from the historical PMIC, if you like.

And that's a growing business for us, which will also hit that part of our revenue stream. So, I'm hoping that that answers your question. I think the next question was about underlying Opex.

Wissam Jabre: Without providing exact numbers, on the underlying Opex, we expect it to be, roughly speaking, running at around \$90 to \$100 million a quarter, depending on the quarters. There are a few things, and the reason is a little bit wide, there are a few things that typically could move between quarters, things like the capitalisation of R&D development costs, typically, where the timing depends on projects.

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As well as NREs, non-recurring engineering contracts, that we tend to have. But those are also a little bit difficult to predict, because they depend on the timing of the execution of the projects. So, I would say the reasonable range to assume for 2020 is around \$90 to \$100 million. And as we progress throughout the year, we'll be providing more colour on that.

Robert Sanders: On the legacy revenue?

Jalal Bagherli: I didn't quite hear you. Can you just clarify it?

Robert Sanders: You have this legacy system, PMIC revenue, of 626 million in 2019. I was just wondering if that's expected to be 300 in 2020 and then 80 million in 2021?

Jalal Bagherli: I don't think I've provided those kinds of breakdowns, but my expectation is to be in the range of zero to 50 million by 2022. So, this means we haven't guided in the particular steps. Mostly because it's hard to predict it exactly for each year in advance. But the direction of travel is clear and we've been clear on that.

Operator: Ladies and gentlemen, as a reminder, that's star, followed by one, to ask any questions. Sandeep Deshpande from JP Morgan. Sandeep, your line is now open.

Sandeep Deshpande: Hi. My question, can I ask about the operating expenses through the year? You've had some M&A last year; how should we be looking at it? You answered this question with regard to the previous question, but I just want to understand if there's any timing on the Opex, given that there is a timing on the revenue because of COVID-19. How do you see the Opex progressing through the year?

Wissam Jabre: Sandeep, the way to think about it, obviously, all the numbers we've discussed this morning exclude any impact from Adesto, so we'll provide more details as we get closer to closing that transaction. In terms of the timing, the second half, typically, tends to be slightly higher in Opex versus the first half, and that's simply the way we do our variable comp, for instance. It's accrued based on the revenue and profit development throughout the year.

But when you look at the acquisitions we've done over the past year in 2019, both FCI and Creative Chips, the Opex numbers I provided include the impact of all these acquisitions. So, what we'll see is we'll see us absorbing the two deals or two businesses that we acquired, as well as seeing some decline in the underlying Opex, if you factor those out.

The difficulty in providing exact timings on the quarterly profile is obviously, the new contracts, in terms of the non-recurring engineering that we tend to have for our custom business, as well as the capitalisation of R&D that tends to slip between quarters. But overall, I would say if we use a 90 to 100 range per quarter for the year and you annualise that, we should be in the ballpark. And that's what we're driving towards, based on the current revenue profile.

Sandeep Deshpande: Just one quick follow-up for you on your acquisitions. In terms of all the acquisitions you've done, you've built a lot of IP on IoT. The most recent one brings you memory. You've got a lot of the building blocks now. So, is it an indication that you will build out a complete macro control of business or what is the intention of all these different IP blocks that you've built out in the IoT space?

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Jalal Bagherli: As we said, we're not building out a portfolio that does everything that industrial companies do. We're trying to shape the new growth segments and most of these tend to be satisfied with the ARM core we can make using our Bluetooth low energy or Wi-Fi low energy. And they have multiple ARM cores inside that runs application. So, adding things from, for example, Creative Chips would be more wire connectivity in terms of industrial internet.

From Adesto, you'll have flash memories, as well as some of the PRCs, power line type communication. So, we are patching together quite a lot of IP, as you say, but in most cases, if the system is so complex they need a microcontroller, we'd happily partner with people who are franchised, if you like, microcontroller with a platform. If it is an embedded system, ARM core, and we have multiple of those, is sufficient for what they want to do, it's already embedded in our Bluetooth.

It's just a matter of which Bluetooth chip you use. So, we have some at the very low end, which we indicated, like TINY, which is very, very lower power. It purely does very, very restricted amounts of Bluetooth to be low power for connecting very, very small things like actuators, sensors, and things like that. So, all the way with very high performing Bluetooth chips where we have an ARM core that does just Bluetooth.

The second ARM core is a much stronger application processor on the same chip and they run customer application. So, it fulfils the function of the microcontroller, if you will. So, there aren't the requirements today for us to acquire or to be distracted by that. Again, if they find the right assets, the right customers, and right propositions, I'm sure we'll take a look at it.

Operator: There are no further questions on the lines.

Jose Cano: Thank you to everyone who joined us today. As usual, if you have any other questions, please don't hesitate to reach out.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining, you may now disconnect your lines.