

Dialog Semiconductor Q3 2018 Results

OCTOBER 31, 2018

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Forward looking statement

This presentation 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 supercede any previous statement.

Agenda

- **Business Review**
- Financial Review
- Q&A



Licensing Agreement with Apple Strengthens Long-Standing Partnership

A Landmark Agreement



Strengthens Dialog and Apple's long-standing partnership and fosters deeper collaboration between the two companies



Delivers immediate value from certain PMIC technologies and assets being licensed to Apple



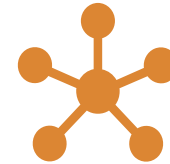
Awarded a broad range of new contracts for the development and supply of power management, audio subsystem, charging and other mixed-signal ICs for high-volume applications



Revenue from new contracts is expected to be realized starting in 2019 and accelerate in 2020

Building on our Strengths

Power Management | Connectivity | **Differentiated Mixed-Signal ICs** | Power Conversion | LED Backlighting | Charging | Configurable Mixed Signal (CMIC) | Audio



IoT

30+ Years of Mixed-Signal Expertise with proven management team



Mobile

World-Class Power-Efficient IP



Automotive

Rapid Design Cycle and Fast Ramp to High-Volume Production



Computing
& Storage

Agenda

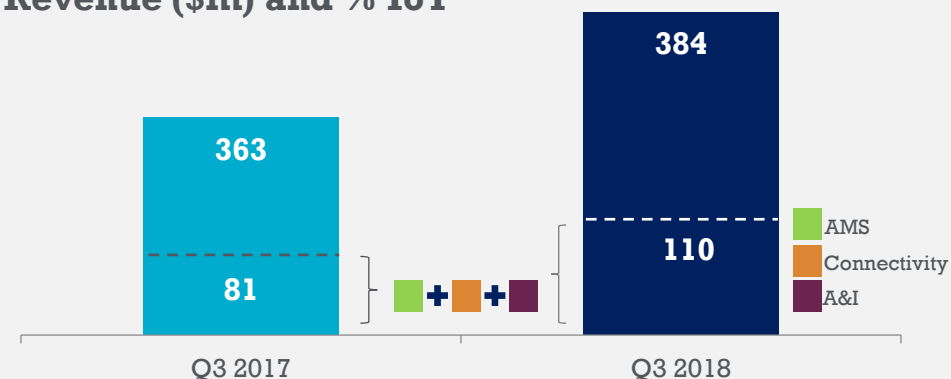
- Business Review
- Financial Review
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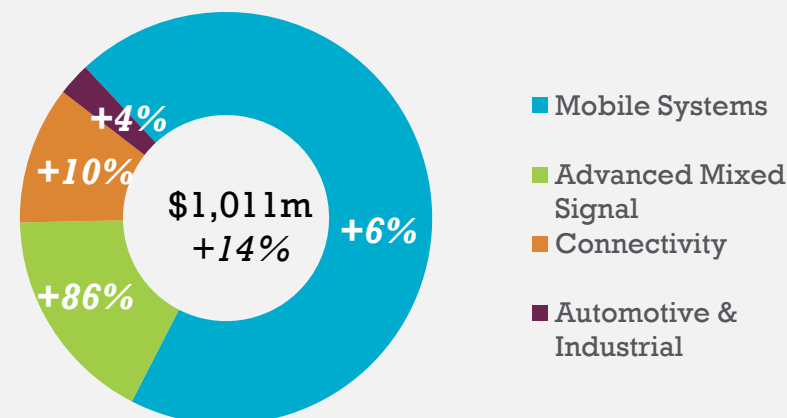
Q3 2018 – Revenue Growth

- Q3 2018 revenue up 6% year-on-year:
 - Mobile Systems – impact from reduced share of volume announced in May
 - Advanced Mixed Signal – contribution from Silego acquisition and good performance of backlighting products
 - Connectivity – growth in audio products
 - Automotive & Industrial – lower volumes in automotive
- 9M 2018 revenue up 14% year-on-year
- 5% year-on-year revenue growth excluding the contribution from Silego

Revenue (\$m) and % YoY

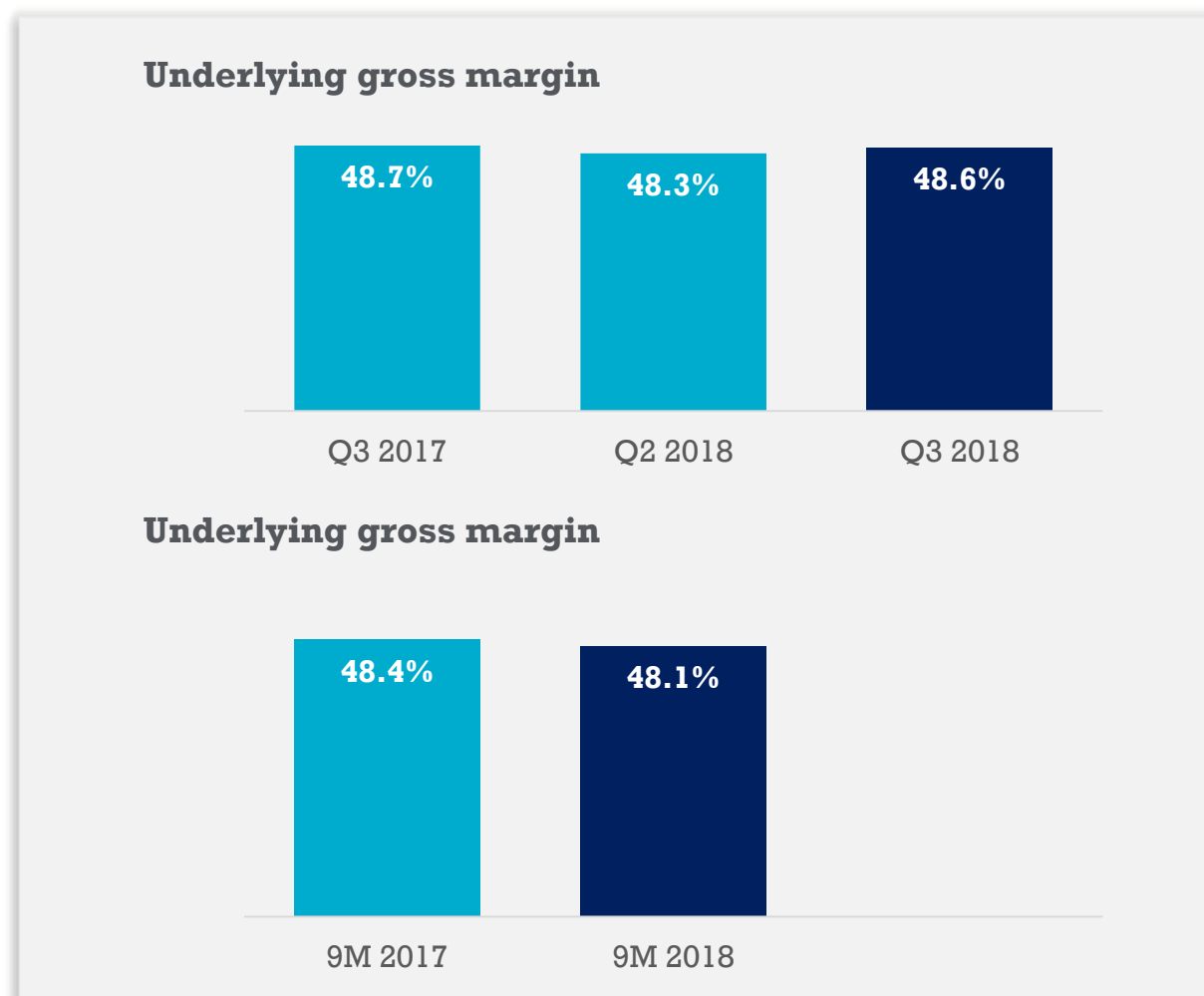


9M18 revenue (\$m) and % YoY



Sequential Gross Margin Improvement

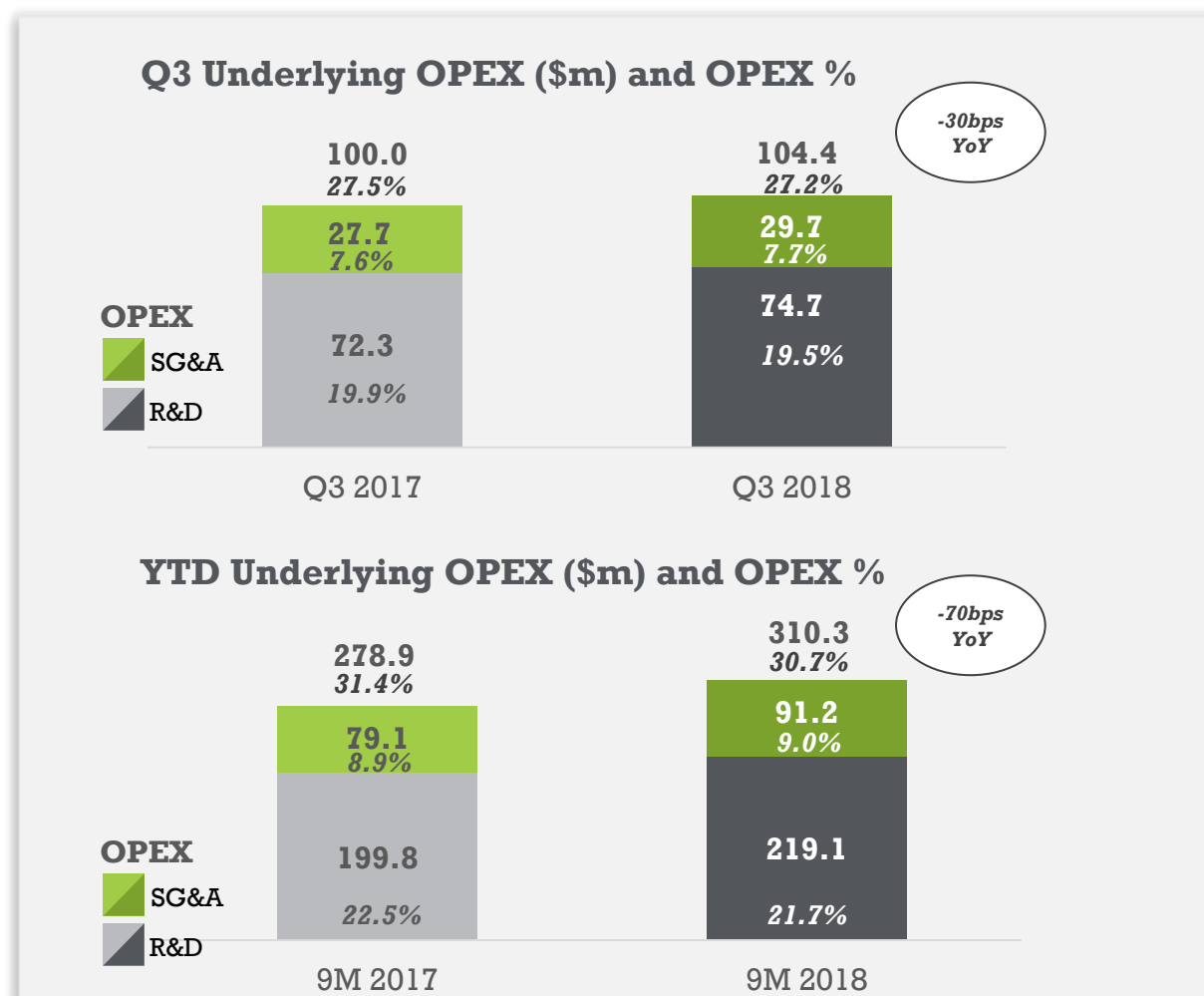
- Q3 2018 underlying gross margin:
 - In line with August guidance
 - 30bps above Q2 2018
 - Broadly in line with Q3 2017: product mix impact offset by lower manufacturing costs
- 9M 2018 underlying gross margin:
 - 30bps below 9M 2017



Operating Leverage in Q3 and YTD 2018

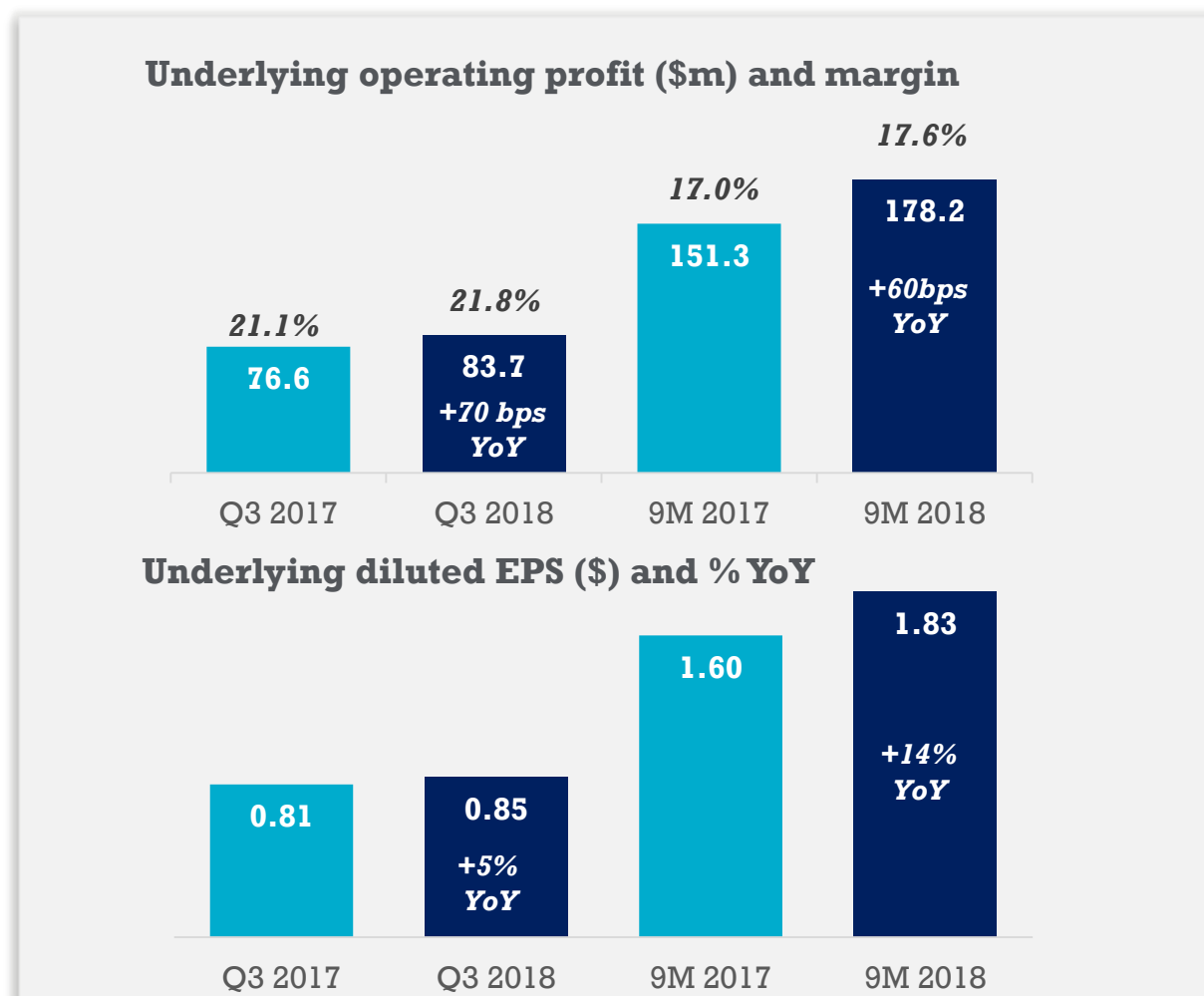
Investing in future revenue growth

- Q3 2018 underlying OPEX up 4% year-on-year
- Q3 2018 underlying R&D up 3% year-on-year:
 - Impact of Silego consolidation
 - 40bps below Q3 2017
 - Programmes supporting new growth areas and business diversification
- Q3 2018 underlying SG&A up 7% year-on-year
 - Impact of Silego consolidation



Underlying Earnings Growth

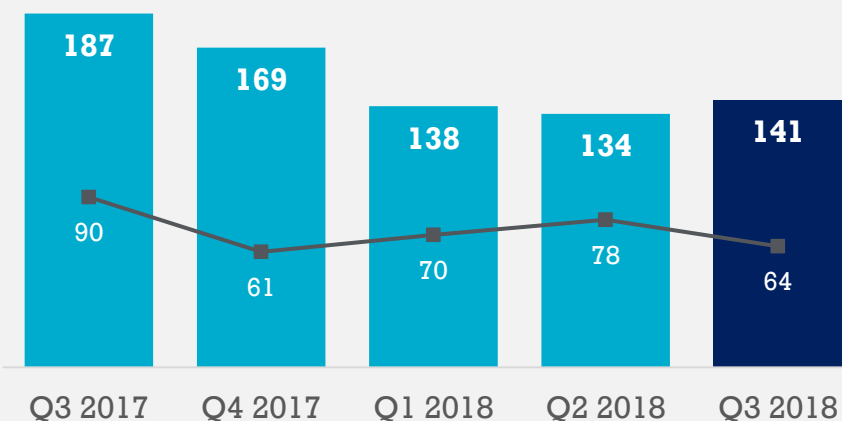
- Q3 2018 underlying operating profit up 9% year-on-year
- Q3 2018 AMS+Connect.+A&I \$17.5 million, approximately 54% above Q3 2017 (Q3 2017:\$11.4 million)
- Q3 2018 underlying operating margin 70bps above Q3 2017
- Underlying effective tax rate at 22.6% including a \$1.4 million charge in respect of prior year items
- Q3 2018 underlying diluted EPS up 5% year-on-year



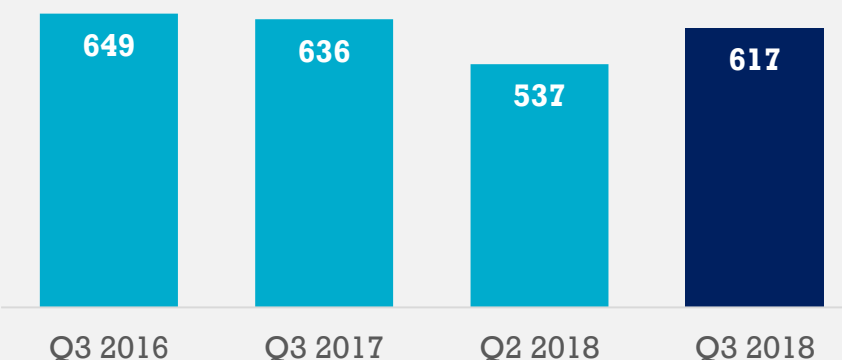
Strong Balance Sheet and Cash Flow Generation

- Inventory value 5% above Q2 2018 but 25% below Q3 2017
- Q3 2018 cash flow from operating activities of \$87 million, more than double Q3 2017 (Q3 2017: \$34 million)
 - Working capital movements
 - Timing of tax payments
- Q3 2018 free cash flow at \$79 million, significantly higher than Q3 2017 (Q3 2017: \$7 million) mainly due to the higher cash flow from operating activities
- 9M 2018 free cash flow at \$147 million, 56% above 9M 2017 (9M 2017: \$94 million)

Inventory (\$m) and DIO



Cash and cash equivalents (\$m)



Agenda

- Business Review
- Financial Review
- Q&A



Appendix



At a Glance – Q3 2018

Revenue
+6% YoY

\$384m

(Q3 2017: \$363m)

Underlying gross margin
-10bps YoY

48.6%

(Q3 2017: 48.7%)

Underlying OPEX %
-30bps YoY

27.2%

(Q3 2017: 27.5%)

Underlying EBIT %
+70bps YoY

21.8%

(Q3 2017: 21.1%)

Underlying diluted EPS
+5% YoY

85 cents

(Q3 2017: 81 cents)

Cash from operating activities +154% YoY

\$87m

(Q3 2017: \$34m)

Underlying Reconciliation

For the three months ended 28 September 2018

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	383,574	–	–	–	–	–	383,574
Gross profit	185,975	284	335	–	–	–	186,594
SG&A expenses	(42,926)	4,734	3,673	940	3,880	–	(29,699)
R&D expenses	(82,180)	5,187	2,272	–	–	–	(74,721)
Other operating income	2,619	–	(1,113)	–	–	–	1,506
Operating profit	63,488	10,205	5,167	940	3,880	–	83,680
Net finance (expense)/income	(1,196)	–	459	–	–	3,199	2,462
Profit before income taxes	62,292	10,205	5,626	940	3,880	3,199	86,142
Income tax expense	(15,504)	(1,829)	(761)	(197)	(571)	(607)	(19,469)
Profit after income taxes	46,788	8,376	4,865	743	3,309	2,592	66,673
Share of loss of associate	(367)	–	–	–	–	–	(367)
Net income	46,421	8,376	4,865	743	3,309	2,592	66,306

Underlying Reconciliation

For the three months ended 29 September 2017

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations (note i)	Effective interest	Strategic investments	Underlying basis
Revenue	362,833	–	–	–	–	362,833
Cost of sales	(186,683)	422	–	–	–	(186,261)
Gross profit	176,150	422	–	–	–	176,572
Gross margin %	48.5%					48.7%
SG&A expenses	(35,425)	4,562	3,156	–	–	(27,707)
R&D expenses	(78,153)	4,090	1,775	–	–	(72,288)
Operating profit	62,572	9,074	4,931	–	–	76,577
Operating margin %	17.3%					21.1%
Net finance (expense)/income	(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 (note ii)	47,311	7,544	4,721	52	2,733	62,361
EBITDA (note iii)	n/a					90,498
EBITDA margin %	n/a					24.9%

Underlying Reconciliation

For the nine months ended 28 September 2018

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations (note i)	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	1,011,393	–	–	–	–	–	–	1,011,393
Cost of sales	(529,794)	1,432	3,129	13	–	–	–	(525,220)
Gross profit	481,599	1,432	3,129	13	–	–	–	486,173
<i>Gross margin %</i>	<i>47.6%</i>							<i>48.1%</i>
SG&A expenses	(121,419)	12,656	11,026	1,862	4,653	–	–	(91,222)
R&D expenses	(241,358)	15,211	6,873	228	–	–	–	(219,046)
Other operating income	3,776	–	(1,477)	–	–	–	–	2,299
Operating profit	122,598	29,299	19,551	2,103	4,653	–	–	178,204
<i>Operating margin %</i>	<i>12.1%</i>							<i>17.6%</i>
Net finance (expense)/income	(3,737)	–	1,630	–	–	50	7,455	5,398
Profit before income taxes	118,861	29,299	21,181	2,103	4,653	50	7,455	183,602
Income tax expense	(35,832)	129	(2,747)	(442)	(654)	(9)	(401)	(39,956)
Profit after income taxes	83,029	29,428	18,434	1,661	3,999	41	7,054	143,646
Share of loss of associate	(1,116)	–	–	–	–	–	–	(1,116)
Net income (note ii)	81,913	29,428	18,434	1,661	3,999	41	7,054	142,530
EBITDA (note iii)	n/a							221,869
<i>EBITDA margin %</i>	<i>n/a</i>							<i>21.9%</i>

Underlying Reconciliation

For the nine months ended 29 September 2017

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Effective interest	Strategic investments	Underlying basis
Revenue	889,322	–	–	–	–	889,322
Gross profit	428,864	1,352	–	–	–	430,216
SG&A expenses	(99,413)	13,536	6,804	–	–	(79,073)
R&D expenses	(217,874)	12,695	5,316	–	–	(199,863)
Other operating income	50	–	–	–	–	50
Operating profit	111,627	27,583	12,120	–	–	151,330
Net 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

Business Segment Breakdown

Underlying US\$ millions	Revenue			Operating profit/(loss)			Operating margin	
	Q3 2018	Q3 2017	Change	Q3 2018	Q3 2017	Change	Q3 2018	Q3 2017
Mobile Systems	273.1	280.1	-2.5%	69.1	76.6	-9.8%	25.3%	27.3%
Connectivity	41.1	40.3	1.8%	5.9	5.8	+2.5%	14.5%	14.4%
Automotive & Industrial	7.2	8.1	-11.1%	2.5	3.1	-20.0%	34.5%	38.3%
Advanced Mixed Signal	62.2	32.8	+89.6%	9.1	2.5	263.6%	14.6%	7.6%
Total segments	383.6	362.8	+5.7%	86.7	84.4	+9.3%	19.4%	24.3%
Corporate activities	42	1.5	-97.2%	(3.0)	(11.5)	-73.9%		
Total Group	383.6	362.8	+5.7%	83.7	76.6	+9.3%	21.8%	21.1%

Underlying US\$ millions	Revenue			Operating profit/(loss)			Operating margin	
	9M 2018	9M 2017	Change	9M 2018	9M 2017	Change	9M 2018	9M 2017
Mobile Systems	702.9	666.2	+6%	153.6	154.6	-0.7%	21.9%	23.2%
Connectivity	109.4	99.3	+10%	11.7	11.2	+4.5%	10.6%	11.3%
Automotive & Industrial	26.1	25.2	+4%	10.0	10.1	-1%	38.4%	40.1%
Advanced Mixed Signal	172.9	92.7	+86%	24.1	7.5	221.3%	14.0%	8.1%
Total segments	1,011.3	883.4	+14%	199.4	168.4	+18.4%	19.7%	19.1%
Corporate activities	0.1	5.9	-99%	(21.2)	(32.1)	-34.0%		
Total Group	1,011.4	889.3	+14%	178.2	151.3	+18%	17.6%	17.0%

Condensed Consolidated Statement of Income

For the three and nine-month periods ended 28 September 2018

		Three months ended 28 September 2018 US\$000 (Unaudited)	Three months ended 29 September 2017* US\$000 (Unaudited)	Nine months ended 28 September 2018 US\$000 (Unaudited)	Nine months ended 29 September 2017* US\$000 (Unaudited)
	Note				
Revenue	2, 4	383,574	362,833	1,011,393	889,322
Cost of sales		(197,599)	(186,683)	(529,794)	(460,458)
Gross profit		185,975	176,150	481,599	428,864
Selling and marketing expenses		(20,432)	(16,914)	(62,739)	(48,477)
General and administrative expenses		(22,494)	(18,511)	(58,680)	(50,936)
Research and development expenses		(82,180)	(78,153)	(241,358)	(217,874)
Other operating income		2,619	–	3,776	50
Operating profit	4	63,488	62,572	122,598	111,627
Interest income		2,654	1,663	6,565	4,860
Interest expense		(664)	(222)	(2,322)	(479)
Other finance expense		(3,186)	(2,865)	(7,980)	(2,520)
Profit before income taxes		62,292	61,148	118,861	113,488
Income tax expense		(15,504)	(13,837)	(35,832)	(25,977)
Profit after income taxes		46,788	47,311	83,029	87,511
Share of loss of associate		(367)	–	(1,116)	–
Net income		46,421	47,311	81,913	87,511
Attributable to:					
– Shareholders in the Company		46,421	47,899	81,913	88,852
– Non-controlling interests		–	(588)	–	(1,341)
Net income		46,421	47,311	81,913	87,511
Earnings per share (US\$)	5				
Basic		0.63	0.65	1.11	1.19
Diluted		0.60	0.62	1.05	1.14
Weighted average number of shares (in thousands)	5				
Basic		73,966	73,846	73,850	74,641
Diluted		77,971	77,184	77,754	78,270

Consolidated Balance Sheet

Total assets

	Note	As at 28 September 2018 US\$000 (Unaudited)	As at 31 December 2017* US\$000 (Audited)
Assets			
Cash and cash equivalents	6	616,521	479,295
Trade and other receivables		98,178	78,186
Other current financial assets		25	6,649
Inventories	7	141,451	168,947
Income tax receivables		3,753	12,739
Other current assets		20,897	14,656
Total current assets		880,825	760,472
Goodwill	8	439,508	439,508
Other intangible assets	8	222,137	235,637
Property, plant and equipment	9	78,962	83,870
Investment in associate	10	13	1,100
Other investments	10	21,275	46,155
Other non-current financial assets		1,970	2,090
Other non-current assets		462	503
Deferred tax assets		1,009	7,451
Total non-current assets		765,336	816,314
Total assets		1,646,161	1,576,786

Consolidated Balance Sheet

Total liabilities and equity

	Note	As at 28 September 2018 US\$000 (Unaudited)	As at 31 December 2017* US\$000 (Audited)
Liabilities and equity			
Trade and other payables		112,716	107,195
Other current financial liabilities		22,740	16,041
Provisions		4,786	3,474
Income taxes payable		2,630	13,356
Other current liabilities		55,349	59,619
Total current liabilities		198,221	199,685
Non-current financial liabilities		1,274	17,378
Provisions		2,786	3,725
Deferred tax liabilities		1,817	4,017
Other non-current liabilities		9,946	9,560
Total non-current liabilities		15,823	34,680
Ordinary shares		14,204	14,204
Share premium account		403,660	403,660
Retained earnings		1,030,635	915,482
Other reserves	13	(15,580)	9,977
Dialog shares held by employee benefit trusts		(802)	(902)
Total equity		1,432,117	1,342,421
Total liabilities and equity		1,646,161	1,576,786

Consolidated Cash Flow Statement

	Third quarter		First nine months	
	Three months ended	Three months ended	Nine months ended	Nine months ended
	28 September 2018 US\$000 (Unaudited)	29 September 2017* US\$000 (Unaudited)	28 September 2018 US\$000 (Unaudited)	29 September 2017* US\$000 (Unaudited)
Note				
Cash flows from operating activities				
Net income	46,421	47,311	81,913	87,511
Non-cash items within net income:				
– Depreciation of property, plant and equipment	8,138	7,796	24,074	22,803
– Amortisation of intangible assets	12,538	9,724	36,563	29,347
– Addition to inventory reserve, net	1,222	446	3,390	693
– Share-based compensation expense	9,131	8,685	29,749	26,138
– Other non-cash items	1,730	1,533	5,526	(1,559)
Interest income, net	(1,990)	(1,440)	(4,243)	(4,381)
Income tax expense	15,504	13,837	35,832	25,977
Cash generated from operations before changes in working capital	92,694	87,892	212,804	186,529
Changes in working capital:				
– (Increase)/decrease in trade and other receivables	(23,186)	(32,368)	(19,966)	3,282
– (Increase)/decrease in inventories	(8,522)	(38,290)	24,173	(82,710)
– Decrease/(increase) in prepaid expenses	790	(101)	(4,964)	(1,807)
– Increase in trade and other payables	28,342	4,625	5,454	33,459
– Increase/(decrease) in provisions	173	1,099	(586)	527
– Change in other assets and liabilities	3,985	7,292	(2,536)	(223)
Cash generated from operations	94,276	30,149	214,379	139,057

Consolidated Cash Flow Statement – Continued

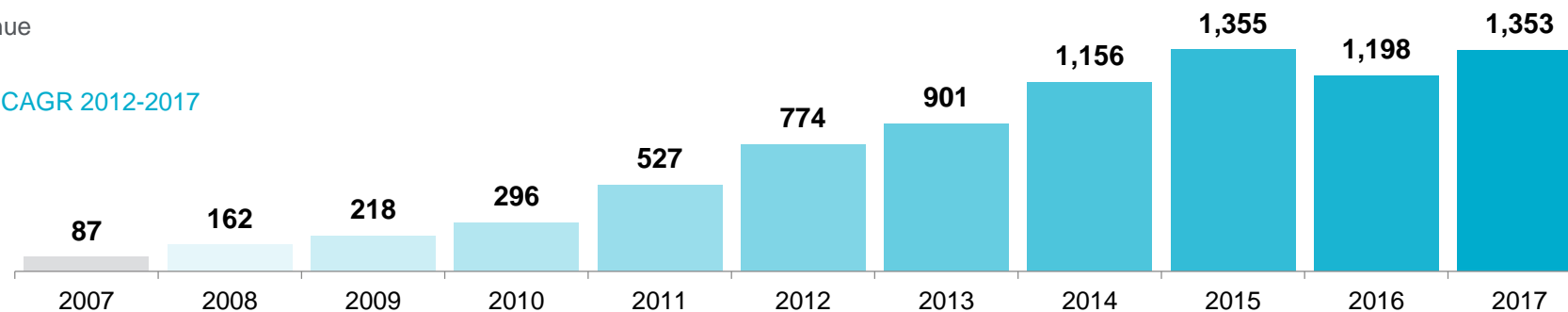
	Note	Third quarter		First nine months	
		Three months ended 28 September 2018 US\$000 (Unaudited)	Three months ended 29 September 2017* US\$000 (Unaudited)	Nine months ended 28 September 2018 US\$000 (Unaudited)	Nine months ended 29 September 2017* US\$000 (Unaudited)
Cash flow from operating activities		86,896	34,202	192,183	154,484
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,462)	(21,863)	(20,245)	(38,031)
Purchase of intangible assets		(653)	(1,678)	(3,891)	(4,032)
Payment of consideration for Silego	3	(508)	–	(12,119)	–
Payments for capitalised development costs		(3,731)	(2,418)	(18,950)	(14,661)
Purchase of other investments, net		–	(15,000)	–	(13,737)
Increase in other long-term assets		87	340	4	(435)
Cash flow used for investing activities		(8,267)	(40,619)	(55,201)	(70,896)
Cash flows from financing activities					
Purchase of own shares into treasury		–	(8)	–	(125,035)
Currency hedges on share buyback obligation		–	–	–	1,227
Capital element of finance lease payments		–	(787)	(1,650)	(3,483)
Purchase of shares by employee benefit trusts		–	–	–	(24,301)
Sale of shares by employee benefit trusts		639	732	2,125	6,718
Issue of shares by a subsidiary to non-controlling interests		–	–	–	1,107
Facility arrangement costs		–	(800)	–	(800)
Share issue costs		–	–	–	(27)
Cash flow from/(used for) financing activities		639	(863)	475	(144,594)
Net cash inflow/(outflow) during the period		79,268	(7,280)	137,457	(61,006)
Cash and cash equivalents at beginning of period		537,473	643,633	479,295	697,167
Currency translation differences		(220)	(123)	(231)	69
Cash and cash equivalents at end of period	6	616,521	636,230	616,521	636,230

Revenue – Historical Data

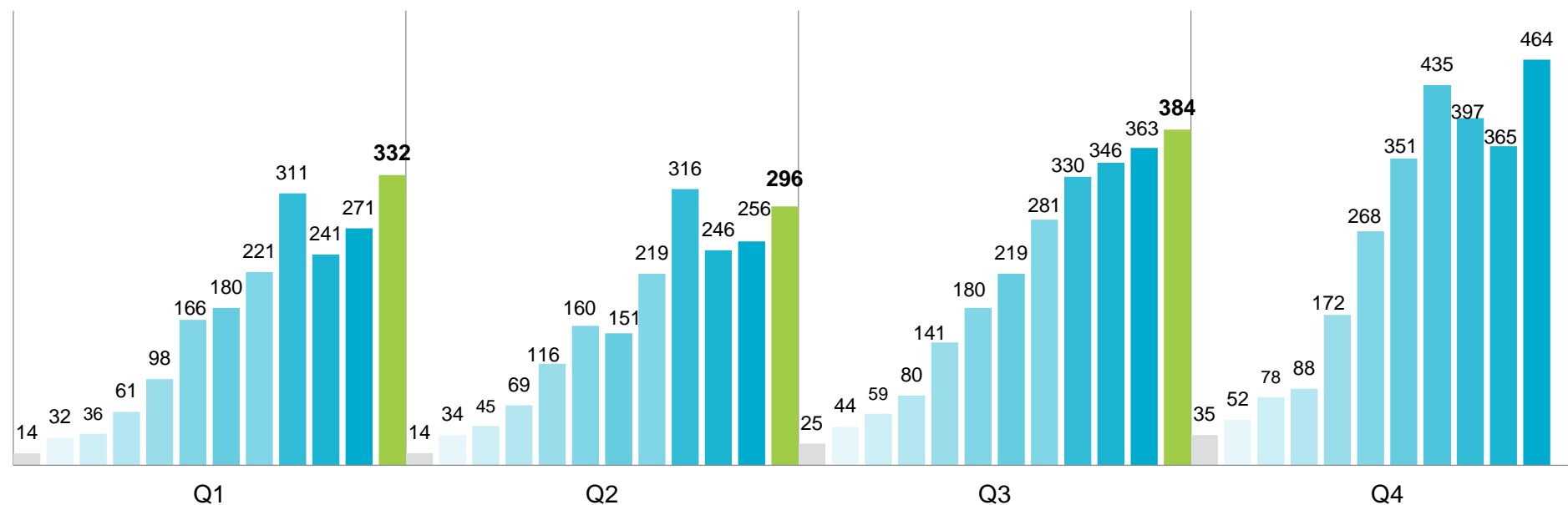
Q3 2018 revenue of \$384 million, up 6% year-on-year

Full year revenue
(\$ million)

12% Revenue CAGR 2012-2017



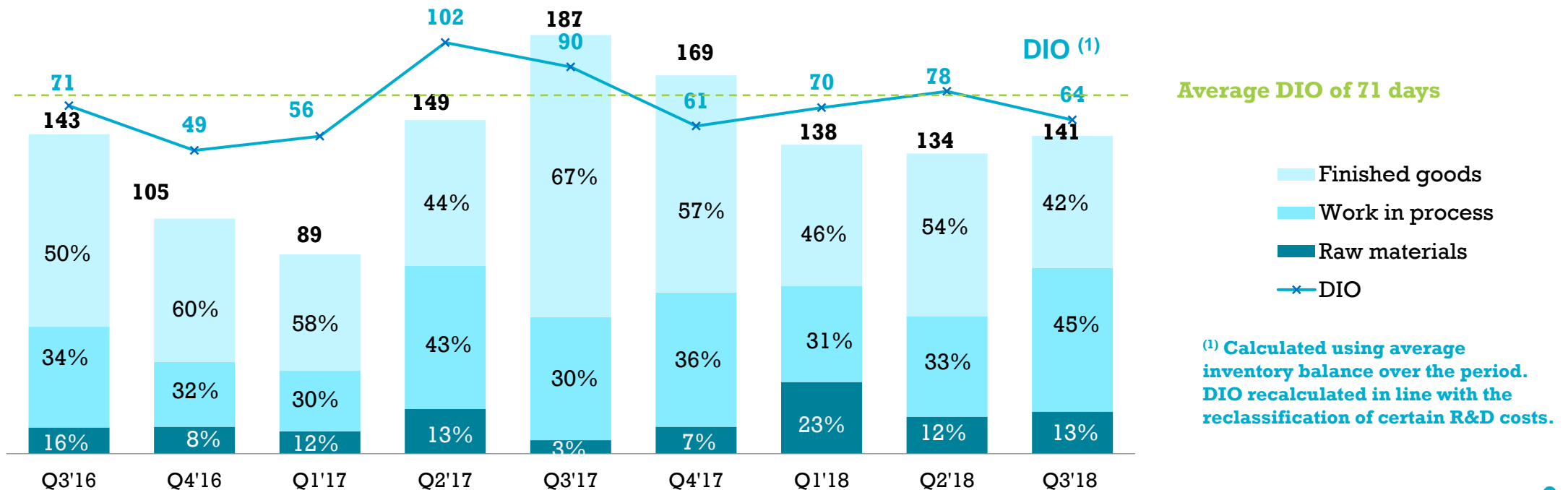
Quarterly revenue
(\$ million)



Effective Inventory Management

- At the end of Q3 2018 inventory value was 5% above Q2 2018 and DIO decreased by 14 days
- In Q4 2018 we expect inventory value to increase from Q3 2018 and DIO to be below Q3 2018

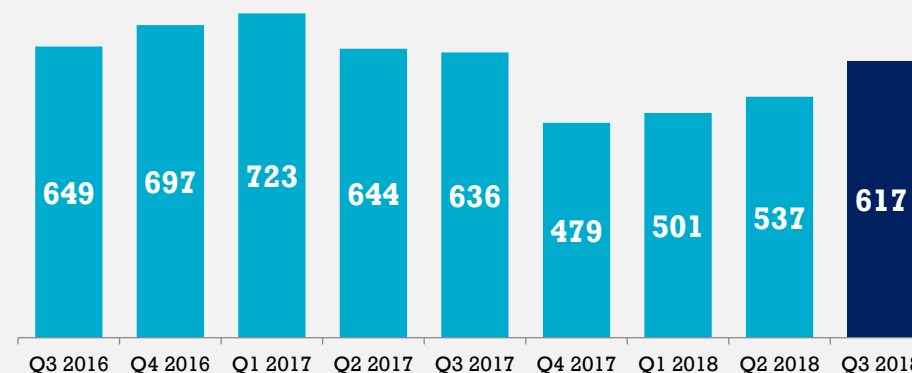
Inventory (\$ million) and Days Inventory Outstanding (# days)



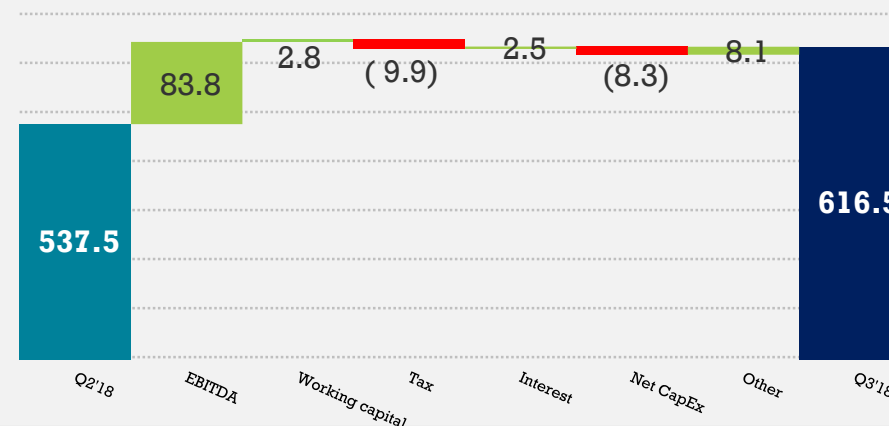
Strong Cash Flow Generation

- \$617 million cash and cash equivalents balance at 28 September 2018
- Q3 2018 cash flow from operating activities of \$87 million, more than doubled Q3 2017 (\$34 million)
- Working capital movements
- Timing of tax payments
- Q3 2018 free cash flow at \$79 million significantly higher than Q3 2017 (Q3 2017: \$7 million) mainly due to the higher cash flow from operating activities.

Cash and cash equivalents (\$m)



Cash flow bridge from Q2'18 (\$m)



Investor Information

Analyst coverage

Bank of America Merrill Lynch	Adithya Metuku
Baader Bank	Guenther Hollfelder
Bankhaus Lampe	Dr. Karsten Iltgen
Barclays Capital	Andrew Gardiner
Bryan, Garnier & Co	Frédéric Yoboué
ODDO BHF	Veysel Taze
Credit Suisse	Achal Sultania
Deutsche Bank	Rob Sanders
DZ Bank	Harald Schnitzer
Exane BNP Paribas	David O'Connor
Hauck & Aufhauser	Robin Brass
JP Morgan Cazenove	Sandeep Deshpande
Kepler Cheuvreux	Sebastien Sztabowicz
Main First Bank AG	Juergen Wagner
RBC	Mitch Steves

Key Events

West Coast Roadshow
5 – 6 November 2018

Morgan Stanley TMT – Barcelona
14-16 November 2018

Credit Suisse TMT – Phoenix
27 – 28 November 2018

Key Events

GIS Commerzbank – New York
14 January 2019

Needham Growth Conference – New York
15 January 2019

GCC Kepler Cheuvreux– Frankfurt
21 – 22 January 2019

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