Building a power-efficient connected world

Dialog Semiconductor Plc
Interim report – Q1 2020

Contents

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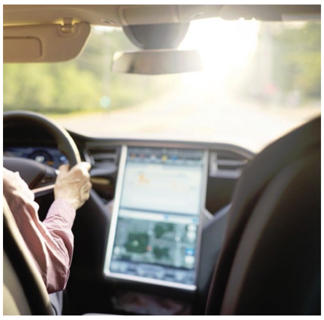


Press release – 6 May 2020

Dialog Semiconductor reports results for the first quarter ended 27 March 2020

Q1 2020 revenue at the high-end of the guidance range at US$248 million, underlying gross margin at 50.4%, and strong balance sheet.

London, UK, 6 May 2020 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the first quarter ended 27 March 2020.

	IFRS basis (unaudited)		Underlying basis[1] (unaudited)		
US$ millions unless stated otherwise	**Q1 2020**	Q1 2019	**Q1 2020**	Q1 2019	Change
Revenue	**248.5**	294.9	**248.5**	294.9	-16%
Gross margin	**49.8%**	49.3%	**50.4%**	49.6%	+80bps
Operating expenses[2]	**114.8**	124.9	**95.2**	103.7	-8%
Operating profit	**17.5**	25.3	**33.0**	47.2	-30%
Operating margin	**7.0%**	8.6%	**13.3%**	16.0%	-270bps
Diluted EPS	**$0.19**	$0.23	**$0.39**	$0.49	-20%
Free cash flow			**(59.0)**	28.0	

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 31).
2 Comprising SG&A and R&D expenses.

Q1 2020 Financial highlights

- Revenue of US$248 million at the high end of the guidance range and 16% below Q1 2019.
- Gross margin at 49.8% (Q1 2019: 49.3%) and underlying gross margin at 50.4% (Q1 2019: 49.6%) slightly ahead of the March guidance.
- Operating profit of US$17.5 million (Q1 2019: US$25.3 million) and underlying operating profit of US$33.0 million 30% below Q1 2019.
- Diluted EPS of US$0.19 (Q1 2019: US$0.23) and underlying diluted EPS of US$0.39 (Q1 2019: US$0.49).
- On 3 March 2020, the Company announced a second tranche of the 2019 Buyback Programme for an amount of €70 to €90 million.
- Q1 2020 cash outflow from operating activities of US$49.0 million (Q1 2019: cash inflow US$41.6 million) included US$50 million recoupment of the prepayment and higher income tax paid.
- At the end of Q1 2020, we held cash and cash equivalents of US$965 million (Q1 2019: US$690 million).
- On 20 February 2020, the Company announced it had signed a definitive agreement to acquire Adesto Technologies, broadening its presence in the Industrial IoT market.

Q1 2020 Operational highlights

- Continued design-in momentum at our largest customer for the development and supply of a number of mixed-signal integrated circuits. Revenue from awarded high-volume contracts is expected to begin with new smartphones for the second half of 2021. In addition, we are progressing on a number of designs scheduled for 2022 production.
- Growing opportunity for next generation Battery Management systems in consumer IoT and mobile.
- Revenue excluding licensed main PMIC was up 34% year-on-year.
- As part of the Industrial IoT strategy, we launched the latest member of our IO-Link product family, the CCE4503.
- Q1 2020 revenue from AC/DC charging products was up 22% year-on-year, led by growth in rapid charge products.
- Increased our footprint in consumer IoT with our Bluetooth® low energy (BLE) products, which delivered 16% year-on-year revenue growth.

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

"Revenue for the first quarter came at the high-end of the guidance range and we delivered record underlying gross margin. Products supporting mobile computing, consumer audio accessories, and wearables performed strongly."

"Our fabless business model and strong balance sheet provide us with the operational and financial flexibility to successfully navigate the current economic environment. Over the course of the last few weeks, the health and safety of our employees and business partners has been our main priority. It has been encouraging to see the commitment and resilience of our employees, delivering excellent customer support and pushing ahead in an increasing number of development projects across high-growth areas. Due to the economic uncertainty, and in line with the rest of the industry, in the short term we are experiencing lower visibility into our outlook for the second half of the year."

"The recently announced acquisition of Adesto, broadens and enhances our presence in the Industrial IoT market with a range of connectivity products highly-optimised for building and industrial automation. This builds on the acquisition of Creative Chips, supporting our growth strategy and accelerating the diversification of our business."

Press release – 6 May 2020 continued

Outlook

In Q2 2020, we anticipate revenue to be in the range of US$260 million to US$290 million and underlying gross margin to be broadly in line with Q1 2020.

Although the situation of our supply chain and contract manufacturers is close to being fully operational, and the level of customer engagements continues as planned, the ongoing economic uncertainty caused by the COVID-19 pandemic is resulting in lower than usual visibility in our outlook for the second half of the year. Due to this, we have withdrawn the FY 2020 outlook communicated on 4 March 2020.

Update on COVID-19

Protecting the health and wellbeing of our employees and business partners remains our main priority. Over the last few weeks, our employees have worked remotely, in line with applicable national guidelines. We have maintained a minimal staff presence in our test labs, only where absolutely required, and adhering to recommended safe working practices. Our supply chain is close to being fully operational and our customers' contract manufacturers are operating at almost full capacity. Customer engagements are managed remotely and so far, we have not seen any significant decrease in our levels of activity.

Our business remains resilient. Our fabless business model and the strength of our balance sheet provide us with financial resilience and operational flexibility to navigate the current circumstances. We continue to invest in the development of key business capabilities to build a more diverse mixed-signal business, focused in high-growth segments of our target end markets.

Q1 2020 Financial overview

Revenue was 16% below Q1 2019 at US$248 million driven by the expected decline in licensed main Power Management ICs (PMICs), partially offset by growth in mixed-signal products with our largest customer, Bluetooth® low energy and AC/DC charging. Group revenue excluding licensed main PMICs was up 34% year-on-year. License revenue of US$9 million related to the Apple agreement was reported in Corporate.

Gross margin was 49.8% and underlying gross margin was 50.4%, up year-on-year 50bps and 80bps respectively. This increase was mainly due to the positive contribution from license revenue (Q1 2019: nil), and continuing savings in manufacturing costs. Adjusting for the 80bps positive movement from non-recurring items in Q1 2019, underlying gross margin in Q1 2020 was up 160bps year-on-year.

Operating expenses (OPEX), comprising SG&A and R&D expenses, and underlying OPEX in Q1 2020, were 8% below Q1 2019, representing 46.2% (Q1 2019: 42.3%) and 38.3% of revenue (Q1 2019: 35.2%) respectively. This decrease was mostly the result of lower R&D expenses, partially offset by the acquisitions of FCI and Creative Chips. In line with its long-term financial objectives, the Company has saving initiatives in place to reduce its cost base over time. Following the closing of Adesto in Q3 2020, the Company intends to execute the cost synergies plan. All these initiatives seek to protect profitability and strengthen cash flow generation.

R&D expenses in Q1 2020 were 10% below Q1 2019 representing 29.1% of revenue (Q1 2019: 27.3%). Underlying R&D expenses were down 11% year-on-year representing 25.9% of revenue (Q1 2019: 24.5%). The decrease in R&D expenses was mainly due to the transfer of over 300 employees to Apple on 8 April 2019, partially offset by the acquisitions of FCI and Creative Chips.

SG&A expenses in Q1 2020 were 4% below Q1 2019, representing 17.1% of revenue (Q1 2019: 15.0%). Underlying SG&A expenses in Q1 2020 were 2% below Q1 2019 representing 12.4% of revenue (Q1 2019: 10.6%). The decrease in SG&A expenses was mainly the result of cost savings partially offset by the acquisitions of FCI and Creative Chips.

Other operating income in Q1 2020 was US$8.5 million (Q1 2019: US$4.7million), which comprised a US$5.3 million change in estimate of the contingent consideration payable for Creative Chips, and income from R&D contracts. Underlying other operating income in Q1 2020 was US$3.1 million, which comprised income from R&D contracts, was below Q1 2019 (Q1 2019: US$4.7 million).

Operating profit in Q1 2020 was US$17.5 million, 31% below Q1 2019, mainly reflecting the lower revenue partially offset by higher gross margin together with lower operating expenses. For the same reasons, underlying operating profit was 30% below Q1 2019, at US$33.0 million.

The effective tax rate in Q1 2020 was 30.4% (Q1 2019: 30.2%). Our high effective tax rates for Q1 2020 and Q1 2019 are principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments. The underlying effective tax rate in Q1 2020 was 19.7%, down 80bps on the Q1 2019 underlying effective tax rate of 20.5%.

Net income was 26% below Q1 2019 at US$13.6 million (Q1 2019: US$18.4 million). This decrease was mostly due to the decrease in operating profit.

Underlying net income was 27% lower year-on-year. The year-on-year movement in underlying net income was mainly driven by the decrease in underlying operating profit.

Diluted EPS in Q1 2020 was 17% below Q1 2019 at US$0.19 (Q1 2019: US$0.23). Underlying diluted EPS in Q1 2020 was 20% below year-on-year to US$0.39 (Q1 2019: US$0.49).

At the end of Q1 2020, our total inventory level was US$129 million (or ~93 days), which is 5% above the previous quarter, representing a 35-day increase in our days of inventory from Q4 2019, mainly due to the lower revenue. During Q2 2020, we expect inventory value to be broadly in line with Q1 2020 and days of inventory to be lower than Q1 2020.

On 12 March 2020, the Company announced details of the second tranche of the 2019 Buyback Programme. Under this tranche the Company committed to purchase shares for an amount between €70 million and €90 million, and a latest maturity date of 25 September 2020.

At the end of Q1 2020, we held cash and cash equivalents of US$965 million (Q1 2019: US$690 million). Cash outflow from operating activities in Q1 2020 was US$49.0 million compared to a cash inflow in Q1 2019 of US$41.6 million. The year-on-year movement was due to the US$50 million recoupment of the prepayment, higher income tax paid, and working capital movements. In Q1 2020, the Group generated negative free cash flow of US$59.0 million, which was below Q1 2019 (Q1 2019: US$28.0 million) due to the cash outflow from operating activities.

In support of our growth strategy and the diversification of our business, on 20 February 2020, the Company announced it had signed a definitive agreement to acquire Adesto Technologies Corporation (Adesto) for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. Adesto accelerates Dialog's expansion into the growing Industrial IoT market that enables smart buildings and industrial automation (Industry 4.0), seamlessly driving cloud connectivity. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that fully complements Dialog's manufacturing automation products.

Q1 2020 Segmental overview

Dialog is a fabless semiconductor company primarily focused on the development of highly integrated mixed-signal products for consumer electronics and other high-growth markets. Our highly skilled engineers, partnership approach, operational flexibility and the quality of our products are sources of competitive advantage. Our primary end markets are consumer markets such as the Internet of Things (IoT), Computing and Mobile. The increasing adoption of standard technologies, such as Bluetooth® low energy or LED lighting, and the expansion of high-performance processors into infotainment systems, has contributed to the expansion of our presence in the automotive segment. In line with our strategic goals, we intend to continue the expansion of our product portfolio through a combination of organic and inorganic initiatives. Our ambition is to build a vibrant mixed-signal business, with a balanced end market exposure, on innovative low power products which enable our customers to get fast to market.

Underlying results by segment

	Revenue			Operating profit/(loss)		Operating margin	
US$ millions unless stated otherwise	**Q1 2020**	Restated[3] Q1 2019	Change	**Q1 2020**	Restated[3] Q1 2019	**Q1 2020**	Restated[3] Q1 2019
Custom Mixed Signal	**153.4**	211.6	-28%	**30.1**	45.0	**19.6%**	21.2%
Advanced Mixed Signal	**51.5**	50.9	+1%	**0.1**	1.0	**0.1%**	2.0%
Connectivity & Audio	**34.7**	32.4	+7%	**(3.3)**	5.0	**(9.3)%**	15.5%
Total Segments	**239.6**	294.9	-19%	**26.9**	51.0	**11.2%**	17.3%
Corporate and other unallocated items	**8.9**	–	nm	**6.1**	(3.8)	**68.4%**	nm
Total Group	**248.5**	294.9	-16%	**33.0**	47.2	**13.3%**	16.0%

3 Restated to reflect the segment reorganisation and measurement changes that became effective at the beginning of Q2 2019.

Custom Mixed Signal (CMS)

In Q1 2020, revenue was US$153 million, 28% below Q1 2019 due to the expected decline in legacy licensed main PMICs partially offset by growth in new mixed-signal products. Revenue in CMS from our largest customer's products not covered by the licensing agreement was up 62% year-on-year to US$74 million (Q1 2019: US$46 million). Underlying operating profit for CMS decreased 33% year-on-year to US$30.1 million, mainly due to the lower revenue partially offset by lower operating expenses.

During the quarter, we continued to receive requests for quotations from a multitude of customers, for new custom designs for 2022 and beyond in diverse areas of power, charging, display and audio technologies.

There is a growing market opportunity for next generation Battery Management solutions, capable of supporting higher wattage chargers, safe and short charging times, as well as secondary charging from phones to other devices. Dialog is well positioned to capitalise on this opportunity, with a range of products built on our strong expertise in the design of mixed-signal and power-efficient ICs, meeting the requirements of a wide range of customers in mobile and consumer IoT end markets.

In parallel, we continue to leverage our power management technology into new markets and geographies through the expansion of our platform reference designs. The collaborations with Renesas, Xilinx, and Telechips strengthen Dialog's presence in the automotive segment, in particular Intelligent In-Vehicle Infotainment and Advanced Driver-Assistance Systems. There are currently over 80 automotive customer engagements in place, most of which are expected to go into production over the next three years.

As part of our Industrial IoT strategy, during the quarter we launched the CCE4503, the first IO-Link IC to be launched following the acquisition of Creative Chips in November 2019. This product complements the Company's well-established family of IO-Link Device and Master ICs, meeting our customers' demand for smaller, highly-optimised, and more cost-efficient IO-Link products that enable the next generation of Industry 4.0 devices.

Advanced Mixed Signal (AMS)

During Q1 2020, AMS revenue was 1% above Q1 2019 led by growth in AC/DC charging products offset by lower revenue of backlighting and the phasing of customer orders for CMICs. Earlier in the quarter, revenue from AMS was adversely impacted due to its exposure to Chinese smartphone OEMs. However, the situation has continued to improve as the restrictions imposed by the lockdown are gradually being lifted. During the quarter we continued to invest in the development of new products, resulting in lower underlying operating profit year-on-year.

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 products, leading the industry in high power density AC/DC chargers.

Our broad product portfolio, which includes LED backlighting and Solid-State Lighting (SSL) LED driver ICs, and proprietary digital control technology for power conversion, enable high quality solutions at a low cost. We are engaged with tier one customers in the high-end TV market and we are seeing a gradual expansion of our customer base in mobile and automotive display markets with medium term opportunities.

Press release – 6 May 2020 continued

Dialog's configurable technology, including the highly successful GreenPAK™ product family, has become established as the leading choice in the market. Low power consumption and in-system programming enables customers to rapidly customise and integrate multiple analog, logic, and discrete components into a single chip. During the last twelve months, we have expanded our product range with the launch of the first automotive grade CMIC, and the introduction of Dialog's industry-leading LDO regulator for smartphone cameras. With additional new products to be launched in Q2 2020, our expanded configurable product range will give our customers the flexibility to keep pace with rapidly changing market needs. The CMIC, along with other members of the GreenPAK™ family, replace dozens of components in a wide range of applications to optimize flexibility, footprint and a reduction of the bill of materials.

Connectivity and Audio (C&A)
During Q1 2020, revenue was 7% above Q1 2019 as a result of the strong performance of BLE and the revenue contribution from the acquisition of FCI, partially offset by a decline in the legacy audio DECT business. C&A generated a US$3.3 million operating loss in Q1 2020, which was below Q1 2019 operating profit (Q1 2019: US$5.0 million) mainly due to higher investment in the development of next generation technology for audio and BLE products, as well as the acquisition of FCI. The intensity of these investments are taking advantage of market opportunities and position the segment for higher revenue growth and profitability over the coming years.

Revenue from our SmartBond™ BLE System-on-Chip (SoC) was 16% above Q1 2019, due to the ramp of new products from customers in Asia. Following the launch of SmartBond TINY™ in November 2019, during the quarter we launched the SmartBond TINY™ module, empowering customers to build the next generation of connected devices. The SmartBond TINY™ module was specifically optimized to significantly reduce the cost of adding Bluetooth® low energy functionality to an IoT system. Its easy-to-use design and software allow developers to quickly and intuitively develop highly functional connected devices, targeting the next generation of connected consumer, connected medical, smart home and smart appliance applications.

The C&A Segment is targeting the rapidly-growing consumer wireless headset market with our SmartBeat™ wireless Audio IC. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. Our product portfolio targeting the headset market also includes a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation (ANC), providing optimal audio performance in any environment.

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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 Q1 2020 performance, as well as guidance for Q2 2020. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

https://webcast.openbriefing.com/dialog-may20/

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

https://webcast.openbriefing.com/dialog-may20/

The presentation will also be available under the investor relations section of the Company's website at:

https://www.dialog-semiconductor.com/investor-relations/results-center

A replay will be posted on the Dialog website four hours after the conclusion of the presentation and will be available at:

https://www.dialog-semiconductor.com/investor-relations/results-center

The full release including the Company's unaudited consolidated financial statements for the quarter ended 27 March 2020 is available under the investor relations section of the Company's website at:

https://www.dialog-semiconductor.com/investor-relations/results-center

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About Dialog Semiconductor

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 employees, the community, other stakeholders and the environment we operate in. Dialog's power saving technologies including DC-DC configurable system power management deliver high efficiency and enhance the consumer's user experience by extending battery lifetime and enabling faster charging of their portable devices. Its technology portfolio also includes audio, Bluetooth® Low Energy, Rapid Charge™ AC/DC power conversion and multi-touch. Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. It currently has approximately 2,000 employees worldwide. In 2019, it had approximately US$ 1.42 billion in revenue. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006).

Forward Looking Statements

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: the global effects of the COVID-19 pandemic generally and on the semiconductor markets and supply chain specifically; 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.

Financial review

Basis of preparation

Interim financial statements

The interim financial statements of Dialog Semiconductor Plc ("the Company") and its subsidiaries (together "Dialog" or "the Group") for the three months ended 27 March 2020 are set out in Section 2 of this Interim Report.

The interim financial statements are unaudited but have been reviewed by the Company's auditor, Deloitte LLP, whose review report is set out on page 12.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2019 (see pages 120 to 127 of our Annual Report and Accounts 2019).

Recent accounting pronouncements that have not yet been adopted by the Group are set out in note 1 to the interim financial statements.

Non-IFRS measures

Underlying measures of revenue, profitability and free cash flow quoted in the Financial Review are non-IFRS measures.

Reconciliations of these measures to the nearest equivalent IFRS measures on a consolidated basis are presented in Section 3 of this Interim Report.

Proposed acquisition of Adesto

On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto").

Dialog proposes to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions. We expect the transaction to close during the third quarter of 2020.

During Q1 2020, we incurred transaction costs of US$2.4 million in relation to the acquisition of Adesto (within general and administrative expenses).

Results of operations

Segment reorganisation and measurement changes

With effect from the beginning of Q2 2019, the Group made a number of organisational and measurement changes that affected the presentation of its segment information. Details of the changes were set out in note 35 to the consolidated financial statements included in our Annual Report and Accounts 2019.

In the analysis of the Group's results by reportable segment presented below, comparative information for Q1 2019 has been restated to reflect these organisational and measurement changes.

Analysis by reporting segment

Custom Mixed Signal's revenue was US$153.4 million in Q1 2020 compared with US$211.6 million in Q1 2019, a decrease of 28%. Revenue declined principally due to the expected reduction in sales of legacy licensed main PMICs to our largest customer, though this was partially offset by growth in sales of new mixed-signal products.

Revenue from our largest customer for products not covered by the perpetual IP licence increased by 62% to US$74.3 million in Q1 2020 compared with US$45.8 million in Q1 2019.

Custom Mixed Signal's underlying operating profit was US$30.1 million compared with US$45.0 million in Q1 2019. Underlying operating profit decreased principally due to lower sales volumes and adverse product mix, though these factors were partially offset by lower R&D expenses following the transfer of design centre businesses to Apple at the beginning of Q2 2019. Underlying operating margin was 19.6% compared with 21.2% in Q1 2019.

Advanced Mixed Signal's revenue was US$51.5 million in Q1 2020 compared with US$50.9 million in Q1 2019, an increase of 1%. While revenue benefited from higher sales of rapid charge ICs for power adaptors, this was largely offset by lower sales of backlighting ICs and the phasing of customer orders for CMICs.

Advanced Mixed Signal's underlying operating profit was US$0.1 million in Q1 2020 compared with US$1.0 million in Q1 2019. While underlying operating profit benefited from higher sales volumes, this was outweighed by adverse product mix and higher R&D expenses. Underlying operating margin was 0.1% compared with 2.0% in Q1 2019.

Results by reporting segment

	Underlying revenue			Underlying operating profit/(loss)*	
US$ million unless stated otherwise	**Q1 2020**	Q1 2019	Change	**Q1 2020**	Q1 2019
Q1 2020 compared with Q1 2019					
Custom Mixed Signal	**153.4**	211.6	-28%	**30.1**	45.0
Advanced Mixed Signal	**51.5**	50.9	+1%	**0.1**	1.0
Connectivity & Audio	**34.7**	32.4	+7%	**(3.3)**	5.0
Total segments	**239.6**	294.9	-19%	**26.9**	51.0
Corporate and other unallocated items	**8.9**	–	nm	**6.1**	(3.8)
Total Group	**248.5**	294.9	-16%	**33.0**	47.2

* Restated to reflect the segment reorganisation and measurement changes that became effective at the beginning of Q2 2019.

Connectivity & Audio's revenue was US$34.7 million in Q1 2020 compared with US$32.4 million in Q1 2019, an increase of 7%. While there was strong growth in sales of Bluetooth® low energy and new audio products, there was a decline in sales of legacy DECT-based products.

Connectivity & Audio incurred an underlying operating loss of US$3.3 million in Q1 2020 compared with a profit of US$5.0 million in Q1 2019, principally due to higher R&D expenses. Underlying operating margin was (9.3)% compared with 15.5% in Q1 2019.

Corporate and other unallocated items comprise the costs of operating central corporate functions, the Group's share-based compensation expense and certain other unallocated items.

Corporate and other unallocated items represented an underlying operating profit of US$6.1 million in Q1 2020 compared with a loss of US$3.8 million in Q1 2019, with the improvement being principally due to the recognition of revenue of US$8.9 million on the effective IP licence granted to Apple in Q2 2019.

Analysis of the Group's results

Revenue was US$248.5 million in Q1 2020 compared with US$294.9 million in Q1 2019, a decrease of 16%. Revenue declined principally due to the expected reduction in sales of legacy licensed main PMICs in Custom Mixed Signal.

Cost of sales was lower at US$124.7 million in Q1 2020 compared with US$149.4 million in Q1 2019, with the decrease principally reflecting lower sales volumes.

Gross profit was US$123.8 million in Q1 2020 compared with US$145.5 million in Q1 2019. Gross margin increased to 49.8% compared with 49.3% in Q1 2019, reflecting the benefit of the effective IP licence revenue in Q1 2020.

Underlying gross profit was US$125.1 million compared with US$146.1 million in Q1 2019, a decrease of 14%. Underlying gross margin was 80 basis points higher at 50.4% compared with 49.6% in Q1 2019.

Underlying gross profit excludes share-based compensation and related expenses of US$0.6 million (Q1 2019: US$0.7 million) and, in Q1 2020, the consumption of the fair value uplift on acquired inventory of US$0.7 million.

Selling and marketing expenses were US$23.2 million in Q1 2020 compared with US$21.2 million in Q1 2019, the increase being principally due to the acquisitions of FCI and Creative Chips.

Underlying selling and marketing expenses increased slightly to US$16.8 million compared with US$16.4 million in Q1 2019 and represented 6.8% of the Group's revenue compared with 5.6% in Q1 2019.

Underlying selling and marketing expenses exclude share-based compensation and related expenses totalling US$1.5 million (Q1 2019: US$1.2 million), amortisation of US$4.8 million (Q1 2019: US$3.5 million) on the fair value uplift of acquired intangible assets and deferred consideration payable for Silego treated as compensation expense of US$0.1 million (Q1 2019: US$0.1 million).

General and administrative expenses were US$19.2 million in Q1 2020 compared with US$23.0 million in Q1 2019, the decrease being principally due to lower share-based compensation and related expenses and lower transaction costs.

Underlying general and administrative expenses were also lower at US$14.1 million compared with US$14.9 million in Q1 2019 but increased to 5.6% of the Group's revenue compared with 5.1% in Q1 2019.

Underlying general and administrative expenses exclude share-based compensation and related expenses totalling US$2.6 million (Q1 2019: US$4.0 million), transaction costs of US$2.4 million (Q1 2019: US$4.0 million) and deferred consideration payable for Silego treated as compensation expense of US$0.1 million (Q1 2019: US$0.1 million).

R&D expenses were US$72.3 million in Q1 2020 compared with US$80.6 million in Q1 2019.

R&D costs totalled US$77.2 million (Q1 2019: US$86.6 million), of which US$3.9 million (Q1 2019: US$4.6 million) was capitalised and US$1.0 million (Q1 2019: US$1.4 million) was offset by R&D expenditure credits. R&D costs were lower compared with Q1 2019 principally due to the transfer of design centre businesses to Apple at the beginning of Q2 2019.

Underlying R&D expenses were also lower at US$64.3 million compared with US$72.3 million in Q1 2019 but increased to 25.9% of the Group's revenue compared with 24.5% in Q1 2019.

Underlying R&D expenses exclude share-based compensation and related expenses totalling US$5.5 million (Q1 2019: US$6.0 million), amortisation of US$2.4 million (Q1 2019: US$2.1 million) on the fair value uplift of acquired technology and deferred consideration payable for Silego treated as compensation expense of US$0.1 million (Q1 2019: US$0.1 million).

Summary of the Group's results

	IFRS basis (unaudited)		Underlying basis (unaudited)*		
US$ millions unless stated otherwise	**Q1 2020**	Q1 2019	**Q1 2020**	Q1 2019	Change
Revenue	**248.5**	294.9	**248.5**	294.9	-16%
Gross margin	**49.8%**	49.3%	**50.4%**	49.6%	+80bps
Operating expenses	**114.8**	124.9	**95.2**	103.7	-8%
Operating profit	**17.5**	25.3	**33.0**	47.2	-30%
Operating margin	**7.0%**	8.6%	**13.3%**	16.0%	-270bps
Diluted EPS	**$0.19**	$0.23	**$0.39**	$0.49	-20%
Free cash flow			**(59.0)**	28.0	

* Non-IFRS measures (see section 3 of this Interim Report).

Financial review continued

Other operating income was US$8.5 million in Q1 2020 compared with US$4.7 million in Q1 2019, principally due to a credit of US$5.3 million recognised in Q1 2020 on the change in estimate of the contingent consideration payable for Creative Chips.

Operating profit was US$17.5 million in Q1 2020 compared with US$25.3 million in Q1 2019.

Underlying operating profit was US$33.0 million compared with US$47.2 million in Q1 2019, a decrease of 30%. Underlying operating profit decreased principally due the effect of lower sales volumes, though this was partially offset by lower R&D expenses. Underlying operating margin was consequently lower at 13.3% compared with 16.0% in Q1 2019.

Interest income was US$3.8 million in Q1 2020 compared with US$3.9 million in Q1 2019. While our average cash balance was significantly higher in Q1 2020 compared with Q1 2019, interest income was lower because of a decline in market interest rates.

Interest expense was US$3.0 million in Q1 2020 compared with US$1.5 million in Q1 2019, with the increase reflecting the recognition of interest expense of US$1.4 million on the prepayment from Apple.

Other finance income was US$1.2 million in Q1 2020 compared with an expense of US$1.5 million in Q1 2019.

We recognised a net currency translation gain on monetary assets and liabilities of US$0.8 million compared with a loss of US$1.8 million in Q1 2019.

Our remaining warrants over shares in Energous are nearing expiry and are of negligible value. We therefore recognised no appreciable fair value gain or loss on them in Q1 2020 (Q1 2019: loss of US$0.1 million). During Q1 2020, we recognised a credit of US$0.4 million (Q1 2019: US$0.4 million) from the amortisation of the gain on initial recognition of the remaining tranche of the warrants.

Income tax expense was US$5.9 million (Q1 2019: US$7.9 million) on profit before tax of US$19.5 million (Q1 2019: US$26.3 million), an effective tax rate for the period of 30.4% (Q1 2019: 30.2%).

Our income tax expense for the first three months of the year is calculated by applying the estimated effective tax rate for the full year to the profit before tax for the period excluding specific items that distort the tax rate and then by taking into account the tax effect of those specific items.

Our relatively high effective tax rate for both Q1 2020 and Q1 2019 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments.

Our underlying income tax expense was US$6.9 million (Q1 2019: US$9.9 million) on underlying profit before tax of US$34.9 million (Q1 2019: US$48.2 million). Our underlying effective tax rate for Q1 2020 was therefore 19.7%, which compares with 20.5% for Q1 2019.

Net income was US$13.6 million in Q1 2020 compared with US$18.4 million in Q1 2019. Underlying net income was US$28.0 million compared with US$38.3 million in Q1 2019, a decrease of 27%.

Basic earnings per share were US$0.20 (Q1 2019: US$0.25) based on the weighted average of 68.5 million shares (Q1 2019: 73.9 million shares) that were in issue during the period excluding the weighted average of 0.8 million shares (Q1 2019: 2.5 million shares) held by employee benefit trusts and, in Q1 2020, the weighted average of 7.1 million shares that were held in treasury. Underlying basic earnings per share were US$0.41 (Q1 2019: US$0.52).

Diluted earnings per share were US$0.19 (Q1 2019: US$0.23). Diluted earnings per share additionally reflect the weighted average of 3.8 million (Q1 2019: 4.5 million) dilutive employee share options. Underlying diluted earnings per share were US$0.39 (Q1 2019: US$0.49).

Cash flows

Cash flow from operating activities

During Q1 2020, there was a cash outflow from operating activities of US$49.0 million compared with an inflow of US$41.6 million in Q1 2019.

Cash flow from operations before changes in working capital was US$37.0 million in Q1 2020 compared with US$61.9 million in Q1 2019, with the decrease principally reflecting lower sales volumes.

Movements in working capital absorbed cash of US$62.6 million in Q1 2020 compared with US$7.4 million in Q1 2019. During Q1 2020, receivables of US$50.0 million were settled by recoupment against the prepayment received from Apple during Q2 2019 rather than in cash. If those invoices had been settled in cash, movements in working capital would have absorbed cash of US$12.6 million in Q1 2020.

Demand for our products is typically higher in the third and fourth quarters of the year and lower in the first and second quarters. During the first quarter, we typically see the settlement of receivables built up in the fourth quarter of the previous year and a reduction in inventory and payables as we make lower purchases from our suppliers. Movements in working capital during Q1 2020 were consistent with this pattern, except that inventories increased slightly due to overall lower than anticipated demand for our products.

Movements in trade and other receivables during Q1 2020 absorbed cash of US$11.9 million. If the receivables settled by recoupment of the prepayment had been settled in cash, cash of US$38.1 million would have been released from trade and other receivables during Q1 2020. At the end of Q1 2020, trade and other receivables represented 35 days' sales in the preceding quarter (end of 2019: 31 days' sales).

Summary cash flow statement

US$ millions	Q1 2020	Q1 2019
Cash (absorbed by)/generated from operations	**(25.6)**	54.5
Interest received, net	**3.4**	2.7
Income taxes paid	**(26.8)**	(15.6)
Cash (outflow)/inflow from operating activities	**(49.0)**	41.6
Purchase of property, plant and equipment	**(2.5)**	(5.0)
Purchase of intangible assets	**(1.6)**	(1.1)
Capitalised development expenditure	**(3.9)**	(4.6)
Capital element of lease payments	**(2.0)**	(2.9)
Free cash flow	**(59.0)**	28.0
Purchase of businesses	**(0.5)**	(17.6)
Other cash flows, net	**(0.1)**	1.3
Net cash (outflow)/inflow during the period	**(59.6)**	11.7

Inventories increased during Q1 2020, absorbing cash of US$7.8 million. At the end of Q1 2020, inventories represented 93 days' cost of sales in the preceding quarter (end of 2019: 58 days' cost of sales).

Trade and other payables decreased during Q1 2020, absorbing cash of US$20.6 million. At the end of Q1 2020, trade and other payables represented 61 days' cost of sales in the preceding quarter (end of 2019: 49 days' cost of sales).

Movements on other working capital items had the effect of absorbing cash of US$22.2 million during Q1 2020.

Net interest received was US$3.4 million in Q1 2020 compared with US$2.7 million in Q1 2019.

Net income tax payments were US$26.8 million in Q1 2020 compared with US$15.6 million in Q1 2019. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years.

Cash outflow from investing activities

During Q1 2020, the cash outflow from investing activities was US$8.4 million compared with US$28.2 million in Q1 2019.

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$7.9 million in Q1 2020 compared with US$10.6 million in Q1 2019. Capital expenditure declined following the transfer of design centre businesses to Apple in April 2019.

During Q1 2020, there was a cash outflow of US$0.5 million (Q1 2019: US$17.6 million) relating to the purchase of businesses. We paid deferred consideration for Silego of US$0.4 million and a purchase price adjustment of US$0.1 million following agreement with the vendors of Creative Chips' cash, debt and working capital levels on completion. During Q1 2019, we paid deferred and contingent consideration for Silego totalling US$17.6 million.

Cash flow from financing activities

During Q1 2020, the cash outflow from financing activities was US$2.1 million compared with US$1.6 million in Q1 2019.

We paid the capital element of lease payments totalling US$2.0 million (Q1 2019: US$2.9 million) and there were capital repayments of US$0.1 million on loans acquired with Creative Chips.

Employee benefit trusts received negligible proceeds on the exercise of share options (Q1 2019: US$1.3 million) because the majority of the exercises during Q1 2020 were of nominal cost options.

Liquidity and capital resources

Cash and cash equivalents

At the end of Q1 2020, cash and cash equivalents amounted to US$964.9 million (end of 2019: US$1,024.5 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Prepayment from Apple

At the end of Q1 2020, the remaining principal amount of the initial US$300.0 million prepayment outstanding was US$150.0 million, of which US$87.5 million is expected to be settled within 12 months.

We settled the third quarterly instalment of US$50.0 million in January 2020 wholly by recoupment against invoices outstanding.

Revolving credit facility

Since July 2017, we have had a US$150 million revolving credit facility provided by four financial institutions that is committed and available for general corporate purposes.

We have not made any drawings under the facility and retain the option to increase the amount of the facility by US$75 million subject to certain conditions.

The facility will mature on 28 July 2022.

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. The principal facility of US$220 million will mature on 31 October 2021.

Gross receivables sold under the facilities decreased by US$32.7 million to US$44.3 million at the end of Q1 2020 compared with US$77.0 million at the end of 2019.

At the end of Q1 2020, cash and cash equivalents included US$37.3 million (end of 2019: US$65.4 million) in relation to receivables sold under these facilities.

Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 11,560,563 of its own ordinary shares and returned €393.7 million (US$435.1 million) to shareholders.

Shareholder authority for a share buyback programme was first granted to the Directors at the Company's 2016 AGM and has been renewed at each subsequent AGM.

On 12 March 2020, the Company announced details of the second tranche of the 2019 Buyback Programme under which it committed to purchase shares with a minimum cost of €70.0 million and a maximum cost of €90.0 million. On initiation of this tranche, we recognised a liability of €90.0 million (US$101.1 million) and a corresponding debit to retained earnings in respect of the maximum obligation to purchase shares. We have not yet been required by the appointed broker to make an intermediate settlement in relation to this tranche, under which the broker may now continue to purchase shares until 25 September 2020 (though this period may be extended in the event of further disruptions to the market).

At the Company's AGM on 30 April 2020, the Directors were granted a new authority to purchase up to 10,395,809 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 25 March 2020. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2021, whichever is the earlier.

Under this new authority, the Directors may choose at the outset of any future tranche to denominate settlements to the appointed broker for share purchases in US dollars rather than in Euros, thereby giving the potential to remove the currency translation exposure that has existed for the Company in relation to share purchases made under previous share buyback authorities.

Financial review continued

Balance sheet

Summary balance sheet

US$ millions	As at 27 March 2020	As at 31 December 2019
Assets		
Cash and cash equivalents	**964.9**	1,024.5
Other current assets	**258.5**	281.4
Total current assets	**1,223.4**	1,305.9
Goodwill	**481.0**	482.1
Other intangible assets	**261.7**	272.1
Property, plant and equipment – owned	**57.2**	61.1
Property, plant and equipment – leased	**38.8**	41.4
Other non-current assets	**10.2**	14.4
Total non-current assets	**848.9**	871.1
Total assets	**2,072.3**	2,177.0
Liabilities and equity		
Current liabilities	**384.7**	373.4
Non-current liabilities	**203.5**	231.0
Total liabilities	**588.2**	604.4
Total equity	**1,484.1**	1,572.6
Total liabilities and equity	**2,072.3**	2,177.0

Non-current assets totalled US$848.9 million at the end of Q1 2020 compared with US$871.1 million at the end of 2019, a decrease of US$22.2 million that was principally due to depreciation and amortisation exceeding capital expenditure on intangible assets and on property, plant and equipment during the period.

Current assets totalled US$1,223.4 million at the end of Q1 2020 compared with US$1,305.9 million at the end of 2019, a decrease of US$82.5 million.

Cash and cash equivalents decreased by US$59.6 million to US$964.9 million. Other current assets also decreased by US$22.9 million to US$258.5 million principally reflecting seasonally lower trade and other receivables.

Current liabilities totalled US$384.7 million at the end of Q1 2020 compared with US$373.4 million at the end of 2019, an increase of US$11.3 million.

Trade and other payables decreased by US$20.1 million to US$84.5 million. Current financial liabilities increased by US$66.2 million to US$199.6 million, principally due to the addition of the liability of US$99.1 million for the ongoing tranche of the share buyback programme partially offset by the reduction in the current portion of the prepayment from Apple.

Income taxes payable decreased by US$14.8 million to US$3.7 million, reflecting lower forecast taxable profits and the timing of tax payments.

Other current liabilities decreased by US$20.0 million to US$96.9 million, principally reflecting the payment of accrued employee bonuses.

Non-current liabilities totalled US$203.5 million at the end of Q1 2020 compared with US$231.0 million at the end of 2019, a decrease of US$27.5 million.

Non-current financial liabilities decreased by US$19.9 million to US$95.1 million, principally due to the reduction in the non-current portion of the prepayment from Apple and the estimated contingent consideration payable for Creative Chips.

Deferred tax liabilities increased by US$2.3 million to US$25.4 million.

Other non-current liabilities decreased by US$9.9 million to US$83.0 million, principally reflecting the reduction in the non-current portion of the deferred revenue on the effective IP licence granted to Apple.

Total equity was US$1,484.1 million at the end of Q1 2020 compared with US$1,572.6 million at the end of 2019, a decrease of US$88.5 million that principally reflected the recognition of the maximum obligation for the ongoing tranche of the share buyback programme during Q1 2020.

Consequences of Brexit

On 31 January 2020, the UK ceased to be a member of the EU and entered a transition period that is scheduled to end on 31 December 2020.

During the transition period, the UK continues to be subject to EU rules, remains in the EU single market and customs union, freedom of movement remains in place and UK and EU citizens' rights continue unaffected.

It is intended that the transition period will provide a period of stability during which the UK's future trading relationship and security co-operation with the EU can be negotiated. Pending conclusion of the negotiations, considerable uncertainty continues to exist as to the UK's future relationship with the EU.

We continue to believe that Brexit will not have a significant impact on Dialog in the short term because only a small amount of our revenue is derived from customers in the UK. However, since approximately half of our workforce is based in the EU and our teams are typically comprised of several nationalities, we will monitor very closely proposed changes to the current regulations in respect of the rights of EU and other nationals to work in the UK, and vice versa.

Wissam Jabre
Chief Financial Officer
Senior Vice President, Finance

Other information

Directors and Management Team

Board of Directors

Rich Beyer, Chairman

Dr Jalal Bagherli

Alan Campbell

Mike Cannon

Mary Chan

Joanne Curin

Nick Jeffery

Eamonn O'Hare

Management Team

Dr Jalal Bagherli, *Chief Executive Officer*

Vivek Bhan, *Senior Vice President, General Manager, Custom Mixed Signal*

Wissam Jabre, *Chief Financial Officer, Senior Vice President, Finance*

Davin Lee, *Senior Vice President, General Manager, Advanced Mixed Signal*

Alex McCann, *Senior Vice President, Global Operations*

Sean McGrath, *Senior Vice President, General Manager, Connectivity & Audio*

Julie Pope, *Senior Vice President, Human Resources*

Tom Sandoval, *Senior Vice President, Automotive*

Colin Sturt, *Senior Vice President, General Counsel*

John Teegan, *Senior Vice President, Worldwide Sales*

Mark Tyndall, *Senior Vice President, Corporate Development and Strategy*

Principal risks and uncertainties

We described the principal risks and uncertainties that could adversely impact the Group's ability to execute its strategic objectives on pages 72 to 77 of our Annual Report and Accounts 2019. Since that document was approved, the COVID-19 epidemic in China has developed into a global pandemic. While the early disruption to our supply chain and to our customers' manufacturing facilities has dissipated, there is considerable uncertainty as to the extent and duration of the impact of the pandemic on the global economy and on demand for our products. We consider that our fabless business model and the strength of our balance sheet provide us with the operational flexibility and financial resilience necessary to navigate the course of the pandemic.

With the exception of the emergence of the risk and uncertainties associated with the COVID-19 pandemic, the Directors consider that there has been no fundamental change in the principal risks and uncertainties facing the Group since the approval of the Annual Report and Accounts 2019.

Going concern

We took into account the uncertainty surrounding the impact of the COVID-19 pandemic in our quarterly going concern review by modelling various scenarios. Given our considerable cash resources, having allowed for the proposed acquisition of Adesto, and our undrawn committed US$150 million revolving credit facility, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future even in the most severe scenario that we considered in relation to the COVID-19 pandemic. Accordingly, the Directors have adopted the going concern basis in preparing the interim financial statements for the three months ended 27 March 2020.

Responsibility statement

We confirm that, to the best of our knowledge, the interim financial statements for the three months ended 27 March 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the interim management report includes a fair review of the development and performance of the Group during the period, a fair review of material transactions with related parties and changes during the period, and fairly describes the principal risks and uncertainties affecting the Group for the remainder of the year ending 31 December 2020.

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President, Finance

6 May 2020

Independent review report to Dialog Semiconductor Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the three months ended 27 March 2020 which comprises the condensed consolidated statement of income, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

As disclosed in note 1, the annual financial statements of the Company and its subsidiaries are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements for the three months ended 27 March 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Deloitte LLP
Statutory Auditor

Reading, UK

6 May 2020

Condensed consolidated statement of income

For the three months ended 27 March 2020

	Note	**Three months ended 27 March 2020 US$000 (Unaudited)**	Three months ended 29 March 2019 US$000 (Unaudited)
Revenue	2, 14	**248,481**	294,886
Cost of sales		**(124,676)**	(149,408)
Gross profit		**123,805**	145,478
Selling and marketing expenses		**(23,206)**	(21,210)
General and administrative expenses		**(19,205)**	(23,009)
Research and development expenses		**(72,345)**	(80,633)
Other operating income	3	**8,467**	4,715
Operating profit	14	**17,516**	25,341
Interest income		**3,842**	3,914
Interest expense		**(2,992)**	(1,490)
Other finance income/(expense)		**1,176**	(1,465)
Profit before income taxes		**19,542**	26,300
Income tax expense		**(5,943)**	(7,942)
Net income		**13,599**	18,358

Earnings per share (US$)	4		
Basic		**0.20**	0.25
Diluted		**0.19**	0.23
Weighted average number of ordinary shares (in thousands)	4		
Basic		**68,545**	73,871
Diluted		**72,383**	78,349

Condensed consolidated statement of comprehensive income

For the three months ended 27 March 2020

	Three months ended 27 March 2020 US$000 (Unaudited)	Three months ended 29 March 2019 US$000 (Unaudited)
Net income	**13,599**	18,358
Other comprehensive income/(expense) **Items that may be reclassified to profit or loss in subsequent periods**		
Currency translation differences on foreign operations:		
– Loss recognised in the period	**(4,584)**	(74)
– Related income tax expense	**(54)**	(20)
Cash flow hedges:		
– Fair value loss recognised on effective hedges in the period	**(3,397)**	(2,005)
– Fair value loss transferred to profit or loss in the period	**1,060**	3,909
– Related income tax credit/(expense)	**444**	(362)
	(6,531)	1,448
Items that will not be reclassified to profit or loss		
Equity investments:		
– Fair value (loss)/gain in the period	**(1,705)**	957
Other comprehensive (loss)/income for the period	**(8,236)**	2,405
Total comprehensive income for the period	**5,363**	20,763

Condensed consolidated balance sheet

As at 27 March 2020

	Note	As at 27 March 2020 US$000 (Unaudited)	As at 31 December 2019* US$000 (Audited)
Assets			
Cash and cash equivalents	6	**964,895**	1,024,544
Trade and other receivables		**95,995**	134,079
Other current financial assets		**1,153**	1,056
Inventories	7	**129,169**	122,624
Income tax receivables		**8,185**	1,052
Other current assets		**24,030**	22,532
Total current assets		**1,223,427**	1,305,887
Goodwill	8	**480,958**	482,134
Other intangible assets	8	**261,670**	272,068
Property, plant and equipment – owned	9	**57,190**	61,138
Property, plant and equipment – leased	9	**38,768**	41,423
Investments		**1,389**	3,110
Other non-current financial assets		**2,195**	2,202
Other non-current assets		**679**	780
Deferred tax assets		**5,982**	8,242
Total non-current assets		**848,831**	871,097
Total assets		**2,072,258**	2,176,984
Liabilities and equity			
Trade and other payables		**84,481**	104,620
Lease liabilities		**8,772**	8,972
Other current financial liabilities	10	**190,814**	124,373
Provisions		**3,733**	4,162
Income taxes payable		**3,682**	18,491
Other current liabilities		**93,183**	112,804
Total current liabilities		**384,665**	373,422
Lease liabilities		**31,382**	34,072
Other non-current financial liabilities	10	**63,720**	80,963
Provisions		**3,018**	3,102
Net defined benefit liability		**1,813**	1,727
Deferred tax liabilities		**25,361**	23,070
Other non-current liabilities		**78,214**	88,044
Total non-current liabilities		**203,508**	230,978
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**1,365,609**	1,451,582
Other reserves	12	**(282,965)**	(274,729)
Dialog shares held by employee benefit trusts		**(16,423)**	(22,133)
Total equity		**1,484,085**	1,572,584
Total liabilities and equity		**2,072,258**	2,176,984

* Extracted from the Company's audited consolidated financial statements for the year ended 31 December 2019.

Condensed consolidated statement of cash flows

For the three months ended 27 March 2020

	Note	Three months ended 27 March 2020 US$000 (Unaudited)	Three months ended 29 March 2019 US$000 (Unaudited)
Cash flow from operating activities			
Net income		**13,599**	18,358
Non-cash items within net income:			
– Depreciation of property, plant and equipment		**8,434**	10,166
– Amortisation of intangible assets		**13,097**	11,716
– Addition to inventory reserve, net		**1,294**	3,218
– Share-based compensation expense		**11,407**	11,520
– Deferred licence revenue		**(8,927)**	–
– Other non-cash items		**(7,001)**	1,359
Interest income, net		**(850)**	(2,424)
Income tax expense		**5,943**	7,942
Cash generated from operations before changes in working capital		**36,996**	61,855
Changes in working capital:			
– (Increase)/decrease in trade and other receivables		**(11,919)**	44,960
– Increase in inventories		**(7,839)**	(8,795)
– Increase in prepaid expenses		**(5,155)**	(2,294)
– Decrease in trade and other payables		**(20,554)**	(32,621)
– Decrease in provisions		**(446)**	(611)
– Change in other assets and liabilities		**(16,646)**	(8,019)
Cash (absorbed by)/generated from operations		**(25,563)**	54,475
Interest paid		**(958)**	(1,095)
Interest received		**4,325**	3,759
Income taxes paid		**(26,834)**	(15,567)
Cash (outflow)/inflow from operating activities		**(49,030)**	41,572
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,492)**	(4,961)
Purchase of intangible assets		**(1,564)**	(1,124)
Payments for capitalised development costs		**(3,887)**	(4,557)
Purchase of businesses	5	**(457)**	(17,575)
Cash outflow from investing activities		**(8,400)**	(28,217)
Cash flows from financing activities			
Capital element of lease payments		**(2,028)**	(2,922)
Repayment of bank loans		**(132)**	–
Sale of shares by employee benefit trusts		**27**	1,283
Cash outflow from financing activities		**(2,133)**	(1,639)
Net cash (outflow)/inflow during the period		**(59,563)**	11,716
Cash and cash equivalents at beginning of period		**1,024,544**	677,848
Currency translation differences		**(86)**	(32)
Cash and cash equivalents at end of period	6	**964,895**	689,532

Condensed consolidated statement of changes in equity

For the three months ended 27 March 2020

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 12) US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Total US$000
Three months ended 27 March 2020 (Unaudited)							
As at 31 December 2019	**14,204**	**403,660**	**1,451,582**	**(274,729)**	**(22,133)**	**1,572,584**	**1,572,584**
Net income	**–**	**–**	**13,599**	**–**	**–**	**13,599**	**13,599**
Other comprehensive loss	**–**	**–**	**–**	**(8,236)**	**–**	**(8,236)**	**(8,236)**
Total comprehensive income/(loss)	**–**	**–**	**13,599**	**(8,236)**	**–**	**5,363**	**5,363**
Other changes in equity:							
– Share buyback obligation	**–**	**–**	**(101,149)**	**–**	**–**	**(101,149)**	**(101,149)**
– Sale of shares by employee benefit trusts	**–**	**–**	**(5,683)**	**–**	**5,710**	**27**	**27**
– Share-based compensation, net of tax	**–**	**–**	**7,260**	**–**	**–**	**7,260**	**7,260**
As at 27 March 2020	**14,204**	**403,660**	**1,365,609**	**(282,965)**	**(16,423)**	**1,484,085**	**1,484,085**
Three months ended 29 March 2019 (Unaudited)							
As at 31 December 2018	14,204	403,660	930,576	(23,419)	(22,514)	1,302,507	1,302,507
Adjustment on initial application of IFRS 16	–	–	40	–	–	40	40
Adjusted balance as at 1 January 2019	14,204	403,660	930,616	(23,419)	(22,514)	1,302,547	1,302,547
Net income	–	–	18,358	–	–	18,358	18,358
Other comprehensive income	–	–	–	2,405	–	2,405	2,405
Total comprehensive income	–	–	18,358	2,405	–	20,763	20,763
Other changes in equity:							
– Share buyback obligation	–	–	(27)	–	–	(27)	(27)
– Sale of shares by employee benefit trusts	–	–	1,227	–	56	1,283	1,283
– Share-based compensation, net of tax	–	–	11,920	–	–	11,920	11,920
As at 29 March 2019	14,204	403,660	962,094	(21,014)	(22,458)	1,336,486	1,336,486

Notes to the condensed consolidated financial statements

For the three months ended 27 March 2020

1. Background

Description of business

Dialog Semiconductor Plc ('the Company') is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

Dialog creates and markets highly integrated, mixed signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid-state lighting, industrial and automotive applications. Dialog has three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Segment information is presented in note 14.

Registered office

The Company's registered office is at Tower Bridge House, St Katharine's Way, London E1W 1AA, United Kingdom.

Statement of compliance

The interim financial statements of the Company and its subsidiaries (together, "Dialog" or the "Group") on pages 13 to 28 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and adopted for use in the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Basis of preparation

The interim financial statements have been prepared using the same principles for recognising assets, liabilities, income and expenses as are used in preparing the Group's annual financial statements, except that, as required by IAS 34, the income tax expense is calculated by applying the estimated effective income tax rate for the current financial year to the year-to-date profit before income taxes excluding specific items that distort the effective income tax rate and then by taking into account the tax effect of those specific items.

Presentation currency

The interim financial statements are presented in US dollars ("US$"), which is the functional currency of the Company. All US dollar amounts are rounded to the nearest thousand US dollars ("US$000"), except where otherwise stated.

Accounting period

We prepare interim financial statements for the first three, six and nine months of each year that are drawn up to the Friday closest in terms of business days to the end of March, June and September.

These interim financial statements cover the period from 1 January 2020 to 27 March 2020 ("three months ended 27 March 2020" or "Q1 2020") with comparative information for the period from 1 January 2019 to 29 March 2019 ("three months ended 29 March 2019" or "Q1 2019").

Significant accounting policies

The interim financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2019 (see pages 120 to 127 of our Annual Report and Accounts 2019).

We adopted the following accounting pronouncements with effect from 1 January 2020, none of which had any immediate impact on the Group's results or financial position:

- *Definition of a Business* (Amendments to IFRS 3)
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *Interest Rate Benchmark Reform* (Amendments to IFRS 9 and IFRS 7)

Accounting standards issued but not yet adopted

We have not yet adopted *Classification of Liabilities as Current or Non-Current* (Amendments to IAS 1). Subject to their endorsement for use in the European Union, the amendments will be effective from 1 January 2022.

1. **Background** continued

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates and assumptions and affect the Group's results in future periods.

Seasonality of operations

Our business is not highly seasonal but our revenue, particularly in our Custom Mixed Signal business group, is dependent on the spending patterns in the consumer markets in which our major customers operate. As a result, our revenue tends to be higher in the second half of the year when those customers prepare for the major holiday selling seasons around the turn of the calendar year.

Review and approval of the interim financial statements

The interim financial statements are unaudited, but have been reviewed by the Company's auditor, Deloitte LLP, whose report can be found on page 12. The interim financial statements do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The Company's audited statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies in England and Wales. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements were approved by the Board of Directors on 6 May 2020.

2. Revenue

Revenue may be analysed as follows:

	Three months ended 27 March 2020 US$000	Three months ended 29 March 2019 US$000
Sale of products:		
– Sales direct to end-customers	**165,108**	231,732
– Sales to distributors	**74,260**	62,890
Total sale of products	**239,368**	294,622
Licensing agreements with Apple:		
– Effective licence fee	**8,927**	–
Royalties	**186**	264
Total revenue	**248,481**	294,886

Notes to the condensed consolidated financial statements continued

3. Other operating income

Other operating income comprised:

	Three months ended 27 March 2020 US$000	Three months ended 29 March 2019 US$000
Revenue from research and development contracts	**2,706**	4,401
Change in estimate of contingent consideration (note 5)	**5,347**	–
Rental and other income	**414**	314
Total	**8,467**	4,715

4. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the period attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the profit attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

Profit attributable to shareholders in the Company and the weighted average number of ordinary shares for calculating basic and diluted earnings per share were calculated as follows:

		Three months ended 27 March 2020 US$000	Three months ended 29 March 2019 US$000
Profit attributable to shareholders in the Company			
For calculating basic and diluted earnings per share	a	**13,599**	18,358
Weighted average number of ordinary shares			
Shares in issue at the beginning of the period		**76,382,139**	76,382,139
Deduct:			
– Average number of shares held by employee benefit trusts		**(760,548)**	(2,511,384)
– Average number of treasury shares		**(7,076,747)**	–
For calculating basic earnings per share	b	**68,544,844**	73,870,755
Add:			
– Average number of dilutive share options and awards		**3,838,585**	4,477,928
For calculating diluted earnings per share	c	**72,383,429**	78,348,683
Earnings per share (US$)			
Basic	a/b	**0.20**	0.25
Diluted	a/c	**0.19**	0.23

5. Business combinations

Proposed acquisition of Adesto

On 20 February 2020, we announced that we have entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto").

Adesto is a leading provider of innovative custom ICs and embedded systems for the IIoT market. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements our range of manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

We propose to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions. We expect the transaction to close in the third quarter of 2020.

During Q1 2020, we incurred transaction costs of US$2,419 in relation to the proposed acquisition of Adesto (included within general and administrative expenses).

Consideration payable for Creative Chips

We completed the acquisition of Creative Chips GmbH ("Creative Chips") on 31 October 2019.

On completion, we paid initial consideration of US$83,722 in cash, including US$3,722 in respect of Creative Chips' estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$84 to the sellers reflecting Creative Chips' actual cash, debt and working capital levels on completion.

Additional consideration of up to US$23,000 in cash may be payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021. During Q1 2020, we remeasured the fair value based on Creative Chips' latest forecast revenue for 2020 and recognised a resulting credit of US$5,347 in profit or loss (within other operating income). As at 27 March 2020, we held a remaining contingent consideration liability of US$1,537 (net of discounting of US$476).

Consideration payable for Silego

We completed the acquisition of Silego Technology Inc. ("Silego") on 1 November 2017.

Deferred consideration

On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During Q1 2020, we paid US$373 (Q1 2019: US$846) in settlement of vested deferred consideration and recognised a credit of US$23 (Q1 2019: US$83) to profit or loss in respect of forfeitures. As at 27 March 2020, we held a liability of US$566 in relation to the remaining deferred consideration that is payable over the period to March 2021.

Contingent consideration

Contingent consideration of up to US$30,400 was payable for the acquisition of Silego in two instalments based on Silego's revenue for 2017 and 2018.

Silego's revenue for 2018 was such that US$17,874 of the second instalment of up to US$20,400 was payable. In February 2019, we paid US$16,729 in settlement of the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to the deferred cash rights.

Cash flow in relation to business combinations

During the periods presented, the cash outflow on the purchase of businesses was as follows:

	Three months ended 27 March 2020 US$000	Three months ended 29 March 2019 US$000
Purchase price adjustment	**84**	–
Deferred consideration	**373**	846
Contingent consideration	**–**	16,729
Consideration paid	**457**	17,575

Interim financial statements

Notes to the condensed consolidated financial statements continued

6. Cash and cash equivalents

Cash and cash equivalents may be analysed as follows:

	As at 27 March 2020 US$000	As at 31 December 2019 US$000
Cash at bank	**19,663**	21,056
Cash held by employee benefit trusts	**5,964**	6,049
Cash available from receivables financing facilities	**37,268**	65,439
Bank deposits	**235,000**	350,000
Money market funds	**667,000**	582,000
Total	**964,895**	1,024,544

As at 27 March 2020 and 31 December 2019, no amounts had been drawn from the cash available from receivables financing facilities.

7. Inventories

Inventories were as follows:

	As at 27 March 2020 US$000	As at 31 December 2019 US$000
Raw materials	**24,807**	31,938
Work in progress	**41,182**	44,097
Finished goods	**63,180**	46,589
Total	**129,169**	122,624

8. Goodwill and other intangible assets

Movements on goodwill and other intangible assets during Q1 2020 may be summarised as follows:

	Goodwill US$000	**Other intangible assets US$000**
Net book value		
As at 31 December 2019	**482,134**	**272,068**
Additions	**–**	**5,612**
Amortisation charge for the period	**–**	**(13,097)**
Disposals	**–**	**(160)**
Currency translation differences	**(1,176)**	**(2,753)**
As at 27 March 2020	**480,958**	**261,670**

Our annual goodwill impairment tests performed during 2019 showed that, with the exception of Industrial Mixed Signal, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount.

We performed our usual quarterly goodwill impairment review at the end of Q1 2020. Our review did not reveal any impairment of goodwill but we estimate that the excess of Industrial Mixed Signal's recoverable amount over its carrying amount had declined from US$16.6 million at the end of 2019 to US$11.1 million at the end of Q1 2020, principally due to an increase in the applicable discount rate that reflected the reaction of the financial markets to the emergence of the COVID-19 pandemic.

9. Property, plant and equipment

Movements on property, plant and equipment during Q1 2020 may be summarised as follows:

	Owned US$000	Leased US$000
Net book value		
As at 31 December 2019	61,138	41,423
Additions	2,504	–
Depreciation charge for the period	(5,985)	(2,449)
Other movements	(4)	(15)
Currency translation differences	(463)	(191)
As at 27 March 2020	57,190	38,768

10. Additional disclosures on financial instruments

Analysis by class and category

In the following table, the carrying amounts of the financial assets and financial liabilities held by the Group as at 27 March 2020 are analysed by class and category:

	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and cash equivalents	964,895	–	–	–	964,895	964,895
Trade and other receivables	95,995	–	–	–	95,995	95,995
Energous shares	–	–	–	1,374	1,374	1,374
Energous warrants	–	15	–	–	15	15
Other investments	–	15	–	1,374	1,389	
Currency derivatives	–	–	1,153	–	1,153	1,153
Rental and other deposits	2,195	–	–	–	2,195	2,195
Other financial assets	2,195	–	1,153	–	3,348	
Total financial assets	1,063,085	15	1,153	1,374	1,065,627	
Financial liabilities						
Trade and other payables	(84,481)	–	–	–	(84,481)	(84,481)
Lease liabilities	(40,154)	–	–	–	(40,154)	(39,669)
Prepayment from Apple	(145,840)	–	–	–	(145,840)	(143,784)
Share buyback obligation	(99,068)	–	–	–	(99,068)	(99,068)
Bank loans	(1,647)	–	–	–	(1,647)	(1,647)
Currency derivatives	–	(2,118)	(3,758)	–	(5,876)	(5,876)
Deferred consideration	(566)	–	–	–	(566)	(566)
Contingent consideration	–	(1,537)	–	–	(1,537)	(1,537)
Other financial liabilities	(247,121)	(3,655)	(3,758)	–	(254,534)	
Total financial liabilities	(371,756)	(3,655)	(3,758)	–	(379,169)	

Notes to the condensed consolidated financial statements continued

10. Additional disclosures on financial instruments continued

Fair value measurement

a) Financial instruments carried at fair value

All financial instruments that are carried at fair value are revalued on a recurring basis. We have not designated any financial instruments at fair value through profit or loss on initial recognition.

We measured the fair value of these financial assets using the following methods and assumptions:

- Common shares in Energous (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date.
- Energous warrants – measured using a Black Scholes valuation model based on the quoted bid price of Energous' common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous' common shares.

We measured the fair value of currency derivatives as the present value of the future contractual cash flows, which is estimated using observable spot exchange rates and by applying a discount rate that is based on the yield curves of the respective currencies and reflects the credit risk of the counterparties.

Contingent consideration payable in respect of the acquisition Creative Chips is dependent on the achievement of revenue targets for 2020 and 2021. We measured the fair value of the contingent consideration based on the expected value of a range of possible outcomes for Creative Chips' revenues for 2020 and 2021.

In the following table, the financial instruments that were carried at fair value as at 27 March 2020 are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable either directly (as market prices) or indirectly (derived from market prices).
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods.

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value				
Investments:				
– Energous shares	1,374	–	–	1,374
Derivative financial instruments:				
– Currency derivatives	–	1,153	–	1,153
– Energous warrants	–	–	15	15
Total financial assets carried at fair value	**1,374**	**1,153**	**15**	**2,542**
Financial liabilities carried at fair value				
Derivative financial instruments:				
– Currency derivatives	–	(5,876)	–	(5,876)
Contingent consideration	–	–	(1,537)	(1,537)
Total financial liabilities carried at fair value	**–**	**(5,876)**	**(1,537)**	**(7,413)**

During Q1 2020, there were no transfers between Level 1 and Level 2.

10. Additional disclosures on financial instruments continued

Changes in the Level 3 fair values during Q1 2020 may be reconciled as follows:

Financial assets carried at fair value

	Energous warrants US$000
As at 31 December 2019	31
Unrealised fair value loss (other finance (expense):	(16)
As at 27 March 2020	**15**

Financial liabilities carried at fair value

	Contingent consideration US$000
As at 31 December 2019	(6,666)
Change in estimate (other operating income)	5,347
Unwinding of discount (interest expense)	(218)
As at 27 March 2020	**(1,537)**

We estimate that if Creative Chips' forecast revenues for 2020 and 2021 had been 10% higher, the fair value of the contingent consideration payable for Creative Chips as at 27 March 2020 would have been US$3,693 higher at US$5,230. If Creative Chips' forecast revenues for 2020 and 2021 had been 10% lower, the fair value of the contingent consideration would have been $nil. In these scenarios, the increase or decrease in fair value would have been recognised in profit or loss as other operating expense or income, respectively.

b) Financial instruments not carried at fair value
We have calculated the fair value of the non-interest bearing prepayment from Apple by discounting the future scheduled recoupments based upon the observable yield curve at the balance sheet date for US dollar-denominated debt with an equivalent risk profile (Level 2).

We have calculated the fair value of lease liabilities by discounting the future lease payments at incremental borrowing rates based on observable yield curves at the balance sheet date and, where the lease payments are denominated in a foreign currency, by translating the resulting present values into US dollars using the relevant currency exchange rate at the balance sheet date (Level 2).

Other financial assets and financial liabilities that are not carried at fair value are of short maturity and/or bear interest at floating rates. We therefore consider that their carrying amounts approximate to their fair values (Level 2).

Notes to the condensed consolidated financial statements continued

11. Share-based compensation

The Company operates a number of share-based compensation plans under which it grants options and awards over its ordinary shares to certain of the Group's employees.

Development of plans

Movements in the total number of share options outstanding during Q1 2020 were as follows:

	Options	Weighted average exercise price €
Outstanding at the beginning of the period	**4,342,689**	**0.13**
Granted	**718,488**	**0.06**
Exercised	**(224,995)**	**0.35**
Forfeited	**(176,206)**	**0.10**
Outstanding at the end of the period	**4,659,976**	**0.11**
Options exercisable at the end of the period	**639,321**	**0.28**

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 27 March 2020, the trusts held 579,717 ordinary shares (as at 31 December 2019: 804,712 ordinary shares).

Movements in the number of shares held by the trusts during Q1 2020 were as follows:

	Number of shares	Cost US$000
At the beginning of the period	**804,712**	**22,133**
Sale or transfer of shares	**(224,995)**	**(5,710)**
At the end of the period	**579,717**	**16,423**

12. Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
Three months ended 27 March 2020						
As at 31 December 2019	**571**	**(1,376)**	**(21,921)**	**(216)**	**(251,787)**	**(274,729)**
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	**–**	**(4,584)**	**–**	**–**	**–**	**(4,584)**
– Fair value loss on equity investments	**–**	**–**	**(1,705)**	**–**	**–**	**(1,705)**
– Cash flow hedges:						
Fair value loss recognised on effective hedges	**–**	**–**	**–**	**(3,397)**	**–**	**(3,397)**
Fair value loss transferred to profit or loss	**–**	**–**	**–**	**1,060**	**–**	**1,060**
– Income tax (expense)/credit	**–**	**(54)**	**–**	**444**	**–**	**390**
As at 27 March 2020	**571**	**(6,014)**	**(23,626)**	**(2,109)**	**(251,787)**	**(282,965)**
Three months ended 29 March 2019						
As at 31 December 2018	571	(4,304)	(14,927)	(4,759)	–	(23,419)
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	–	(74)	–	–	–	(74)
– Fair value gain on equity investments	–	–	957	–	–	957
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(2,005)	–	(2,005)
Fair value loss transferred to profit or loss	–	–	–	3,909	–	3,909
– Income tax expense	–	(20)	–	(362)	–	(382)
As at 29 March 2019	571	(4,398)	(13,970)	(3,217)	–	(21,014)

13. Share buyback programme

Since we initiated our share buyback programme in May 2016, the Company has purchased 11,560,563 of its own ordinary shares at a total cost of US$438,309 (including transaction costs of US$3,209), of which 4,483,816 shares have been cancelled and 7,076,747 shares continue to be held in treasury at a total cost of US$251,787.

Shareholder authority for a share buyback programme was first granted to the Directors at the Company's 2016 AGM and has been renewed at each subsequent AGM.

On 12 March 2020, the Company announced details of the second tranche of the 2019 Buyback Programme under which it committed to purchase shares with a minimum cost of €70.0 million and a maximum cost of €90.0 million. On initiation of this tranche, we recognised a liability of €90.0 million (US$101,149) and a corresponding debit to retained earnings in respect of the maximum obligation to purchase shares.

We have not yet been required by the appointed broker to make an intermediate settlement in relation to this tranche, under which the broker may now continue to purchase shares until 25 September 2020 (though this period may be extended in the event of further disruptions to the market).

We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US$52 in profit or loss in relation to the liability to purchase shares outstanding during Q1 2020.

14. Segment information

Background

Segment information is presented in the financial statements on a basis consistent with the information presented to the Management Team (the "chief operating decision-maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses.

The Group's reporting segments are determined based on the nature of the products that they provide to our customers.

Organisational and measurement changes

With effect from the beginning of the second quarter of 2019, the Group made a number of organisational changes and reduced the number of its reporting segments from four to three: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio.

- Custom Mixed Signal provides custom ICs designed to meet the needs of our customers in the mobile, industrial, automotive, computing and storage markets;
- Advanced Mixed Signal provides standard products including CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for backlighting and solid state lighting products; and
- Connectivity & Audio provides standard products incorporating short-range wireless, digital cordless, Bluetooth® low energy, VoIP and low-power Wi-Fi technologies.

Each of the Group's operating segments has a manager who is responsible for its performance and is accountable to the Chief Executive Officer. Custom Mixed Signal comprises our Custom Mixed Signal business group, our Industrial Mixed Signal business unit, and our Automotive business unit, each of which meets the definition of an operating segment but have been aggregated because they have similar economic characteristics and each provides custom products to similar types of customers through similar distribution channels. Otherwise, we have not aggregated any operating segments in determining our reporting segments.

At the same time as effecting the organisational changes, the Management Team changed its focus from IFRS measures to underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group's businesses. Underlying revenue is therefore the measure of segment revenue and underlying operating profit/loss is the measure of segment profit/loss that is now presented in the Group's segment disclosures.

Comparative information for Q1 2019 has been restated to reflect these organisational and measurement changes.

Notes to the condensed consolidated financial statements continued

14. Segment information continued

Segment revenue and profit or loss

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Details of the items excluded from profit or loss reported under IFRS in arriving at the Group's underlying profit or loss for each of the periods presented are set out in Section 3 of this Interim Report.

Segment revenue and operating profit/(loss) were as follows:

	Underlying revenue*		Underlying operating profit/(loss)	
	Three months ended 27 March 2020 US$000	Three months ended 29 March 2019 US$000	**Three months ended 27 March 2020 US$000**	Three months ended 29 March 2019 US$000
Custom Mixed Signal	**153,310**	211,605	**30,085**	44,944
Advanced Mixed Signal	**51,528**	50,898	**55**	1,008
Connectivity & Audio	**34,716**	32,376	**(3,238)**	5,019
Total segments	**239,554**	294,879	**26,902**	50,971
Corporate and other unallocated items	**8,927**	7	**6,107**	(3,820)
Total Group	**248,481**	294,886	**33,009**	47,151

* Revenue is from sales to external customers (there were no inter-segment sales).

Reconciliation of underlying revenue to revenue reported under IFRS

During the periods presented, there were no differences between underlying revenue and revenue reported under IFRS.

Reconciliation of underlying operating profit to profit before income taxes reported under IFRS

	Three months ended 27 March 2020 US$000	Three months ended 29 March 2019 US$000
Underlying operating profit	**33,009**	47,151
Share-based compensation and related expenses	**(10,232)**	(11,886)
Accounting for business combinations:		
– Acquisition-related costs	**(2,419)**	(983)
– Amortisation of acquired intangible assets	**(7,163)**	(5,657)
– Consumption of the fair value uplift of acquired inventory	**(712)**	–
– Consideration accounted for as compensation expense	**(260)**	(319)
– Forfeiture of deferred consideration	**23**	83
– Remeasurement of contingent consideration	**5,347**	–
Integration costs	**(77)**	–
Corporate transaction costs	**–**	(3,048)
Operating profit reported under IFRS	**17,516**	25,341
Interest income	**3,842**	3,914
Interest expense	**(2,992)**	(1,490)
Other finance income/(expense)	**1,176**	(1,465)
Profit before income taxes	**19,542**	26,300

Financial performance measures

Use of non-IFRS measures

Our use of non-IFRS measures is explained on pages 183 to 189 of our 2019 Annual Report and Accounts.

Underlying measures of performance and free cash flow are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. We do not regard non-IFRS measures as a substitute for, or superior to, the equivalent IFRS measures. Non-IFRS measures presented by Dialog may not be directly comparable with similarly-titled measures used by other companies.

Underlying measures of performance

During the periods presented, we excluded from the underlying measures of performance the following specific items of income and expense that were recognised in profit or loss in accordance with IFRS because we consider that they hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses:

- the share-based compensation expense and related payroll taxes;
- the following items relating to the accounting for business combinations:
  - acquisition-related costs;
  - the amortisation of identifiable intangible assets recognised in business combinations;
  - in Q1 2020, the recognition in cost of sales of the consumption of the fair value uplift to inventory held by FCI and Creative Chips at their respective acquisition dates;
  - the element of deferred amounts payable for Silego that is recognised as a compensation expense;
  - credits recognised on the forfeiture of deferred consideration payable for Silego;
  - in Q1 2020, the credit arising from the remeasurement of the liability for the contingent consideration payable for Creative Chips; and
  - the interest expense recognised on the unwinding of the discount on contingent consideration liabilities;
- in Q1 2020, integration costs incurred in relation to FCI and Creative Chips;
- in Q1 2019, corporate transaction costs incurred in relation to the licensing and asset transfer agreement with Apple;
- the effect on profit or loss of the remeasurement of the warrants that we hold in Energous; and
- the income tax effect of the above items, which is calculated by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the three-month periods ended 27 March 2020 and 29 March 2019 are presented in the following tables:

Three months ended 27 March 2020

	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Strategic investments	Underlying basis
Revenue	248,481	–	–	–	–	248,481
Cost of sales	(124,676)	598	712	–	–	(123,366)
Gross profit	123,805	598	712	–	–	125,115
Gross margin %	*49.8%*					*50.4%*
SG&A expenses	(42,411)	4,100	7,353	77	–	(30,881)
R&D expenses	(72,345)	5,534	2,466	–	–	(64,345)
Other operating income	8,467	–	(5,347)	–	–	3,120
Operating profit	17,516	10,232	5,184	77	–	33,009
Operating margin %	*7.0%*					*13.3%*
Net finance income	2,026	–	218	–	(361)	1,883
Profit before income taxes	19,542	10,232	5,402	77	(361)	34,892
Income tax expense	(5,943)	448	(1,442)	(13)	69	(6,881)
Net income	13,599	10,680	3,960	64	(292)	28,011
EBITDA	n/a					47,377
EBITDA margin %	n/a					*19.1%*

Financial performance measures continued

Three months ended 29 March 2019

	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Strategic investments	Corporate transaction costs	Underlying basis
Revenue	294,886	–	–	–	–	294,886
Cost of sales	(149,408)	668	–	–	–	(148,740)
Gross profit	145,478	668	–	–	–	146,146
Gross margin %	*49.3%*					*49.6%*
SG&A expenses	(44,219)	5,179	4,616	–	3,048	(31,376)
R&D expenses	(80,633)	6,039	2,268	–	–	(72,326)
Other operating income	4,715	–	(8)	–	–	4,707
Operating profit	25,341	11,886	6,876	–	3,048	47,151
Operating margin %	*8.6%*					*16.0%*
Net finance income	959	–	315	(268)	–	1,006
Profit before income taxes	26,300	11,886	7,191	(268)	3,048	48,157
Income tax expense	(7,942)	(853)	(782)	51	(352)	(9,878)
Net income	18,358	11,033	6,409	(217)	2,696	38,279
EBITDA	n/a					63,376
EBITDA margin %	n/a					*21.5%*

Notes

(i) Accounting for business combinations

We excluded from the underlying measures of performance the following specific items arising from business combinations accounting under IFRS:

US$000	**Q1 2020**	Q1 2019
Acquisition-related costs	**2,419**	983
Amortisation of acquired intangible assets	**7,163**	5,657
Consumption of the fair value uplift of acquired inventory	**712**	–
Consideration accounted for as compensation expense	**260**	319
Forfeiture of deferred consideration	**(23)**	(83)
Remeasurement of contingent consideration	**(5,347)**	–
Increase in operating profit	**5,184**	6,876
Unwinding of discount on contingent consideration	**218**	315
Increase in profit before income taxes	**5,402**	7,191
Income tax credit	**(1,442)**	(782)
Increase in net income	**3,960**	6,409

(ii) Underlying earnings per share

Earnings for calculating underlying basic and diluted EPS measures were as follows:

US$000	Q1 2020	Q1 2019
Underlying net income	**28,011**	38,279

Underlying earnings per share measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 4 to the interim financial statements as follows:

Number	Q1 2020	Q1 2019
Weighted average number of ordinary shares		
Basic	**68,544,844**	73,870,755
Diluted	**72,383,429**	78,348,683

Underlying earnings per share measures were therefore as follows:

US$	Q1 2020	Q1 2019
Underlying earnings per share		
Basic	**0.41**	0.52
Diluted	**0.39**	0.49

(iii) Underlying EBITDA

Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

US$000	Q1 2020	Q1 2019
Net income	**13,599**	18,358
Net finance income	**(2,026)**	(959)
Income tax expense	**5,943**	7,942
Depreciation expense	**8,434**	10,166
Amortisation expense	**13,097**	11,716
EBITDA	**39,047**	47,223
Share-based compensation and related expenses	**10,232**	11,886
Acquisition-related costs	**2,419**	983
Consumption of the fair value uplift of acquired inventory	**712**	–
Consideration accounted for as compensation expense	**260**	319
Forfeiture of deferred consideration	**(23)**	(83)
Remeasurement of contingent consideration	**(5,347)**	–
Integration costs	**77**	–
Corporate transaction costs	**–**	3,048
Underlying EBITDA	**47,377**	63,376

Free cash flow

Free cash flow was calculated as follows:

US$000	Q1 2020	Q1 2019
Cash flow from operating activities	**(49,030)**	41,572
Purchase of property, plant and equipment	**(2,492)**	(4,961)
Purchase of intangible assets	**(1,564)**	(1,124)
Payments for capitalised development costs	**(3,887)**	(4,557)
Capital element of lease payments	**(2,028)**	(2,922)
Free cash flow	**(59,001)**	28,008

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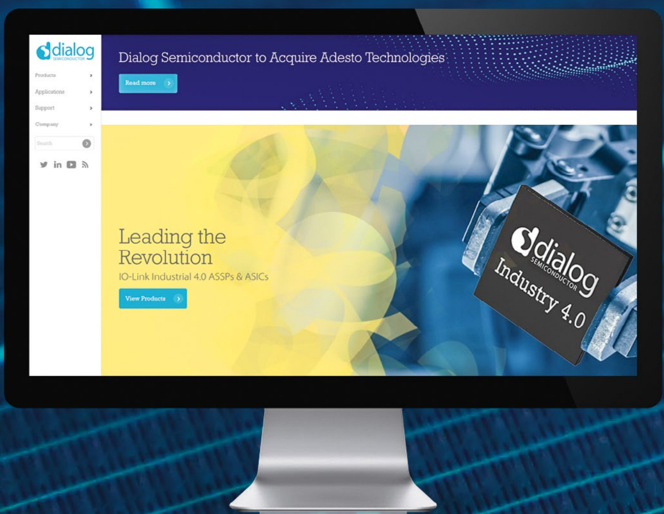

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