

Dialog Semiconductor

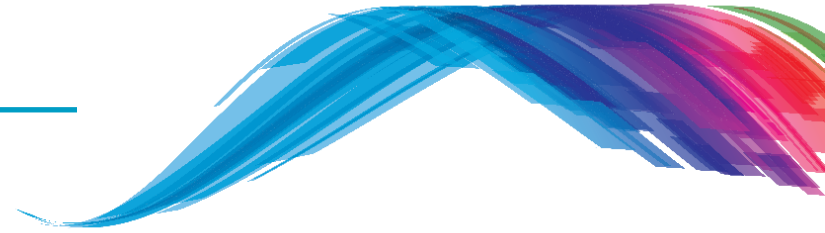
Q1 2017 Results

9 May 2017

A large, abstract graphic consisting of multiple overlapping, semi-transparent, wavy bands in shades of blue, purple, magenta, red, orange, and green, creating a sense of motion and depth.

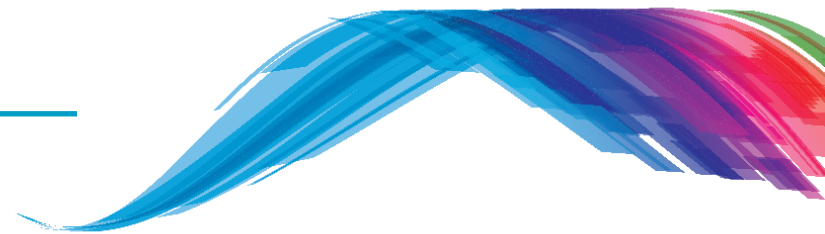
...personal
...portable
...connected

Forward looking statement



This presentation contains “forward-looking statements” that reflect management’s current views with respect to future events. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “project” and “should” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: an economic downturn in the semiconductor and telecommunications markets; changes in currency exchange rates and interest rates, the timing of customer orders and manufacturing lead times, insufficient, excess or obsolete inventory, the impact of competing products and their pricing, political risks in the countries in which we operate or sale and supply constraints. If any of these or other risks and uncertainties occur (some of which are described under the heading “Managing risk and uncertainty” in Dialog Semiconductor’s most recent Annual Report) or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement, which speaks only as of the date on which it is made, however, any subsequent statement will supercede any previous statement.

Agenda



Q1 2017 Financial Highlights

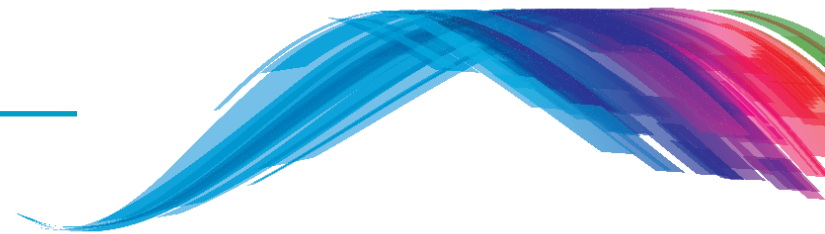
Outlook

Business Review

Financial Review

Q&A

At a glance – Q1 2017



Revenue
+12% YoY

\$271m

(Q1 2016: \$241m)

Underlying gross margin
+60bps YoY

46.1%

(Q1 2016: 45.5%)

Underlying OPEX %
-310bps YoY

30.1%

(Q1 2016: 33.2%)

Underlying EBIT %
+350bps YoY

15.9%

(Q1 2016: 12.4%)

Underlying diluted EPS \$
+54% YoY

43 cents

(Q1 2016: 28 cents)

Cash from operating activities
-6% YoY

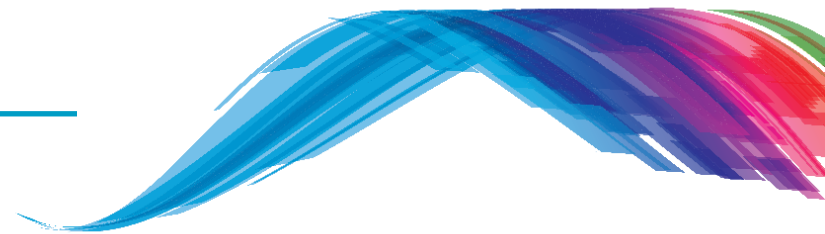
\$101m

(Q1 2016: \$107m)

Reconciliation to underlying measures – slides 24 and 25
Q1 2016 cash from operating activities includes \$137 million Atmel termination fee



Agenda



Q1 2017 Financial Highlights

Outlook

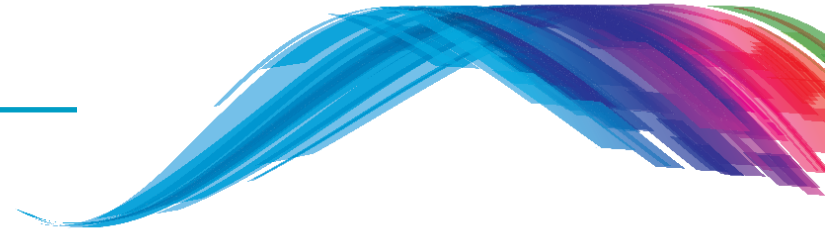
Business Review

Financial Review

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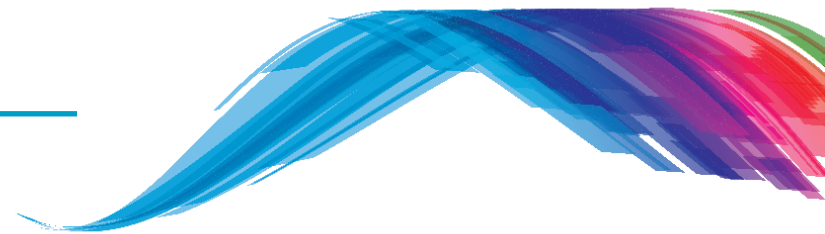


Outlook



- Based on our current visibility, we anticipate revenue for Q2 2017 to be in the range of US\$235-US\$265 million.
- Good business momentum and a pipeline of key product launches in the second half of the year give us confidence in expecting 2017 to be a year of good revenue growth. As in previous years, revenue performance will be strongly weighted towards the second half of the year.
- In line with revenue performance, we expect gross margin for Q2 2017 and the full year 2017 to be broadly in line with Q1 2017.

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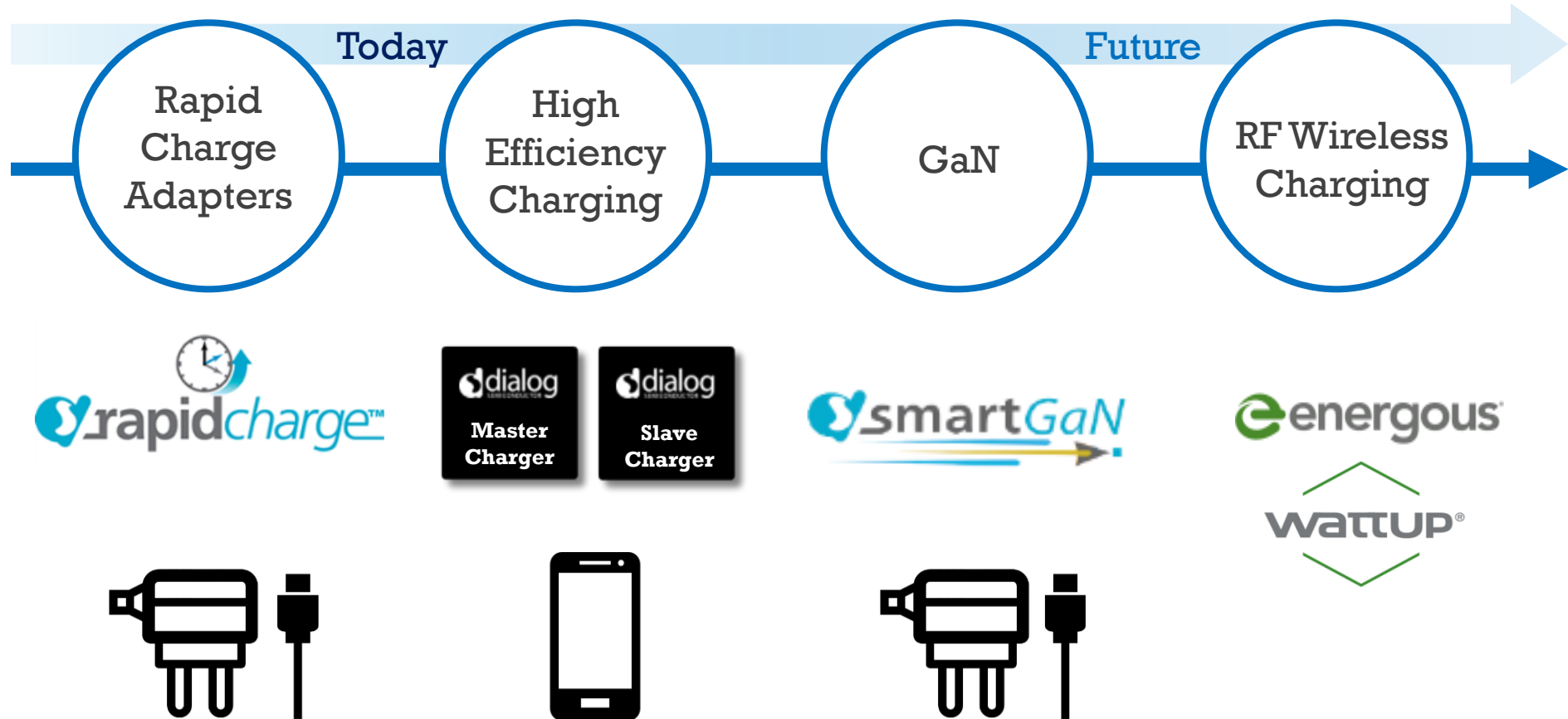
A leader in Power Management

- H2 2017 - ramp of new products with Tier 1 customers - new designs with increasing content
- Diversification initiatives within Mobile Systems
 - Leveraging our technology into new areas:
 - Computing systems
 - Automotive
 - DSLR cameras
 - TVs/STB and WiFi routers
 - High-efficiency smartphone charging; new family range of Charger ICs
 - Increasing our market share in Asia through our partnership with Spreadtrum



Charging: A New Strategic Focus

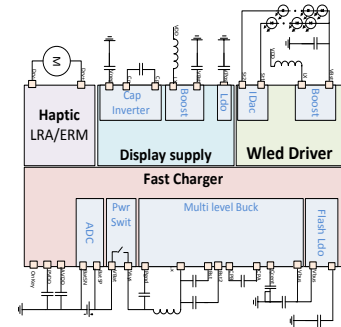
4 Elements to our Charging Strategy



Our partnership with Spreadtrum

Fourth pillar of our strategy – establish regional engagements

- This LTE partnership opens up an opportunity to increase our smartphone market share in Asia
- Highly integrated and cost effective solutions tailored to the requirements of the market:
 - Integrated haptics, display driver and battery charger
- The SC2705 is now sampling - additional derivatives are under development
- Spreadtrum is currently marketing the LTE platform to customers

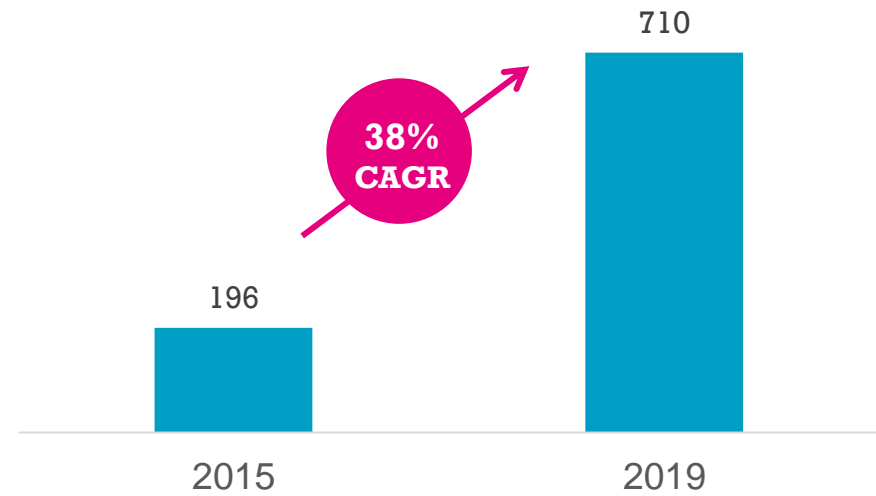


Growth drivers – IoT Bluetooth® low energy

- Expansion of our product portfolio with our first Bluetooth® low energy System-on-Chip qualified to Bluetooth 5.0 standard
 - Additional features supporting intelligent voice control functionalities for IoT applications
- Good momentum in new areas such as:
 - Remote controls for smart TVs and VR controllers
 - Consumer medical devices
 - Home automation
 - Automotive

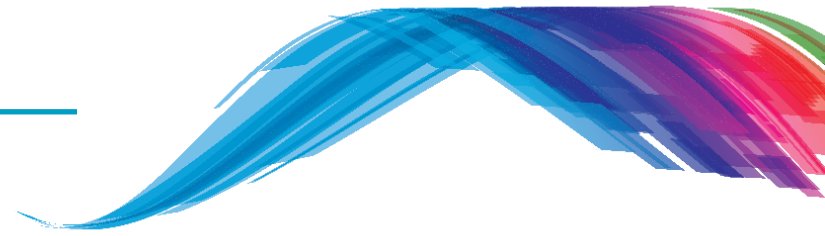


**Bluetooth® low energy
Market size \$m**



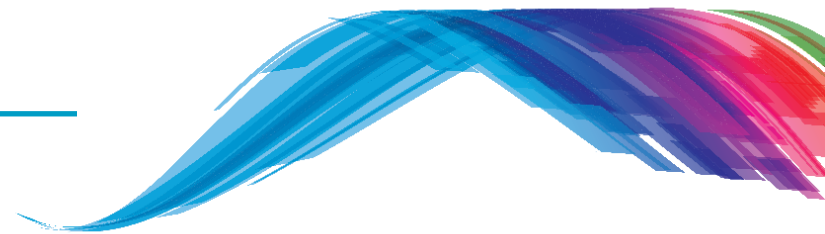
Source: IHS Technology Report Q2 2016, Dialog

Key takeaways



- **Diversification strategy progressing well:**
 - Leveraging our power management technology in new areas
 - Introducing new product lines to address high-efficiency charging
 - Expanding existing product portfolio to address high-growth IoT segments
- **Well positioned in the market:**
 - Our technology leadership is rooted in deep and focused R&D investment
 - Building on our technical excellence to establish regional engagements. Our LTE collaboration with Spreadtrum brings new opportunities for further market expansion
- **Business momentum building into H2:**
 - Ramp of new products with Tier 1 customers in H2
 - Positive trend of increasing custom mixed signal power content across future platforms for mobile devices, computing and wearables

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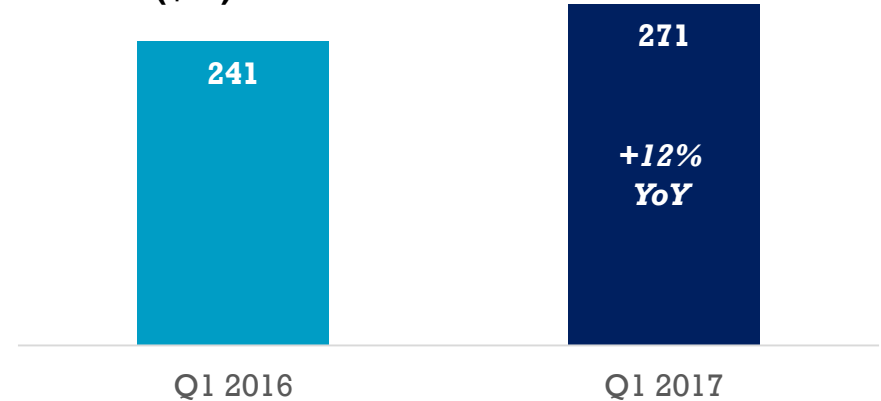


Q1 2017 - Double digit revenue growth

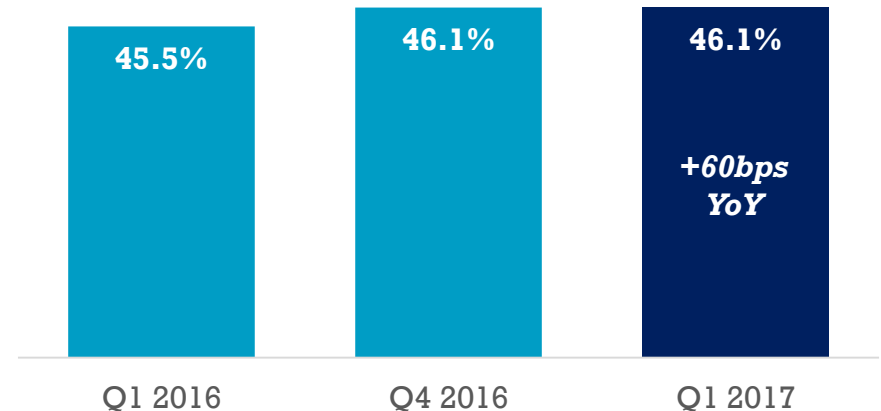
Solid year-on-year growth in all business segments

- Q1 2017 revenue up 12% year-on-year:
 - Mobile Systems up 9% - higher sales volumes
 - Power conversion up 22% - Rapid Charge™ and LED
 - Connectivity up 29% - strong performance in Bluetooth® low energy and DECT businesses
- Q1 2017 underlying gross margin 60bps above Q1 2016:
 - Favourable product mix
 - Higher sales volumes

Revenue (\$m)



Underlying gross margin



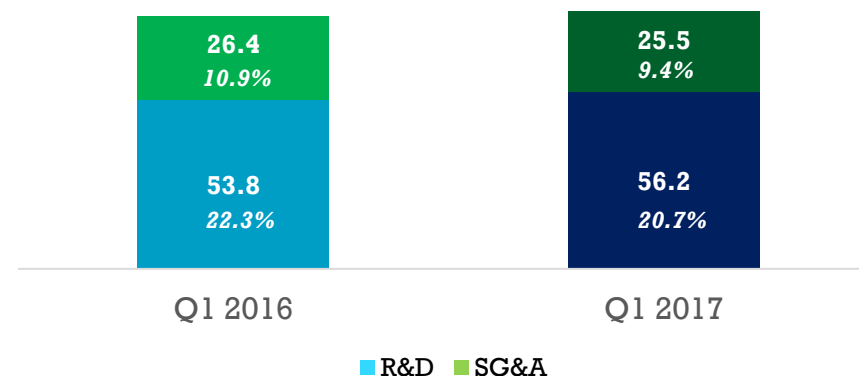
Investing in future revenue growth

- Q1 2017 underlying OPEX up 2% year-on-year
- Q1 2017 underlying R&D up 5% year-on-year:
 - Investment in customer specific opportunities
 - Programmes supporting new growth areas and business diversification
- Q1 2017 underlying SG&A costs down 3% year-on-year

Underlying OPEX (\$m and % of revenue)



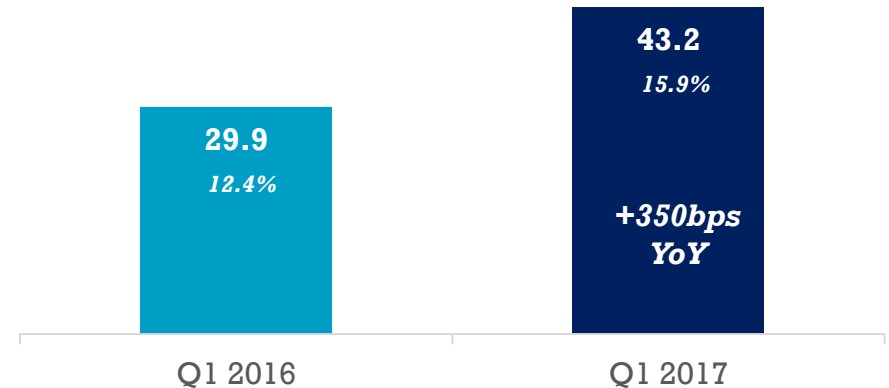
Underlying R&D and SG&A (\$m and % of revenue)



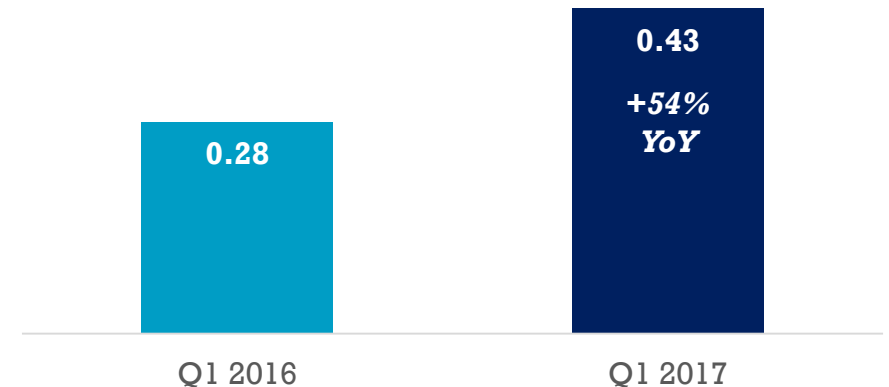
Operating leverage and earnings growth

- Q1 2017 underlying operating profit up 44% year-on-year
 - Double digit revenue growth
 - Moderate OPEX increase
- Q1 2017 underlying operating margin up 350bps over Q1 2016
- Underlying effective tax rate at 22.7%, 130 bps below 2016 (FY2016: 24.0%)
- Q1 2017 underlying diluted EPS up 54% year-on-year
 - More than four times faster than revenue growth

Underlying operating profit (\$m) and margin



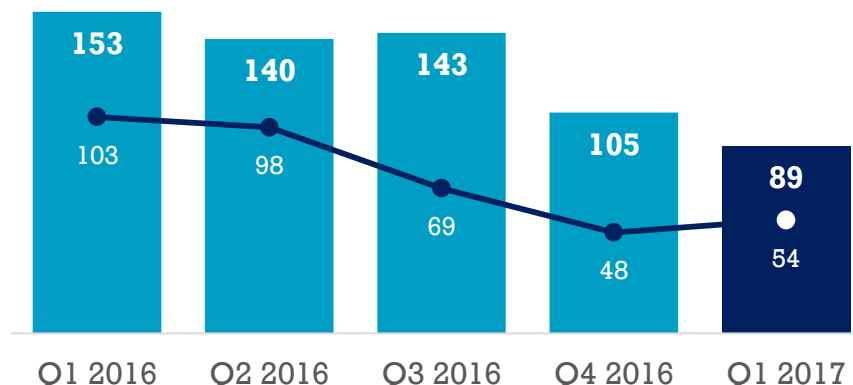
Underlying diluted EPS (\$)



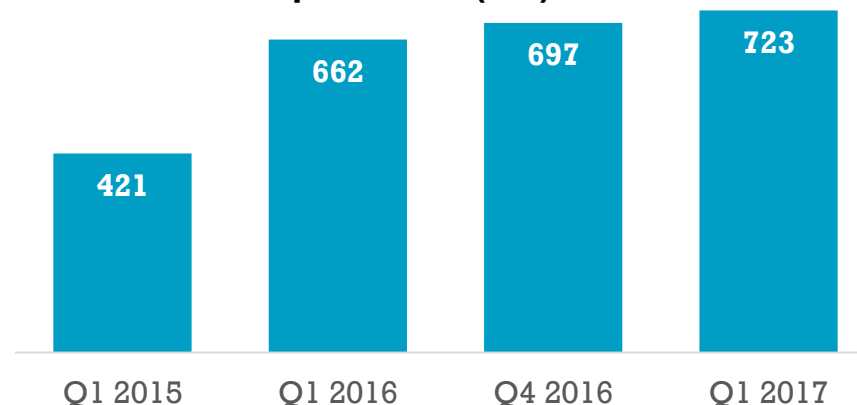
Effective inventory management

- Inventory value down 15% sequentially and 42% year-on-year
- Q1 2017 free cash flow at \$86 million
 - Q1 2016: \$93 million including Atmel termination fee of \$137 million
- Cash returned to shareholders through the share buyback programme:
 - €39 million in Q1 2017 - 2nd tranche
 - €31 million on 25 April - 3rd tranche

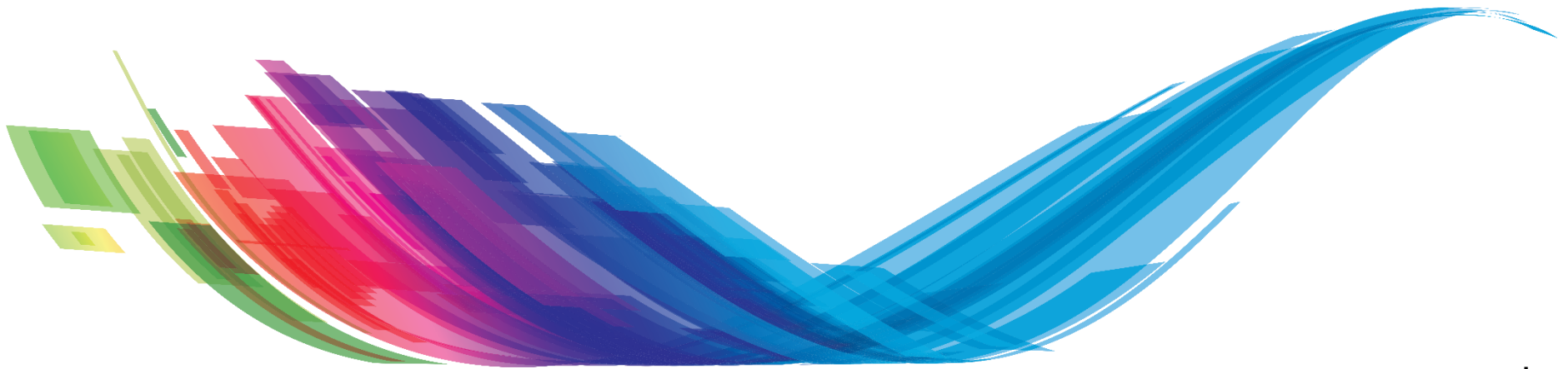
Inventory (\$m and DIO)



Cash and cash equivalents (\$m)

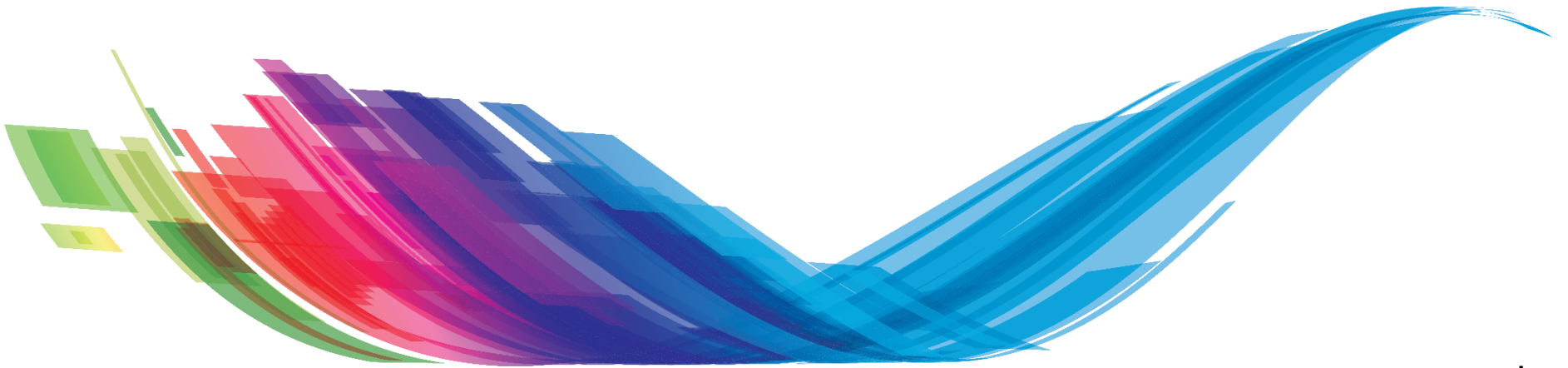


Q&A



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...portable
...connected

Appendix



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Consolidated income statement

For the three months ended 31 March 2017

	Notes	Three months ended 31 March 2017 US\$000 (Unaudited)	Three months ended 1 April 2016 US\$000 (Unaudited)
Revenue	4	270,974	241,408
Cost of sales		(148,328)	(133,747)
Gross profit		122,646	107,661
Selling and marketing expenses		(15,743)	(15,415)
General and administrative expenses		(16,859)	(21,015)
Research and development expenses		(60,951)	(57,524)
Other operating income		–	137,478
Operating profit	4	29,093	151,185
Interest income		1,480	756
Interest expense		(120)	(2,332)
Other finance income/(expense)		(1,114)	(2,703)
Profit before income taxes		29,339	146,906
Income tax expense		(6,220)	(4,015)
Net income		23,119	142,891
Attributable to:			
– Shareholders in the Company		23,284	143,736
– Non-controlling interests		(165)	(845)
Net income		23,119	142,891
Earnings per share (in US\$)	5		
Basic		0.31	1.89
Diluted		0.29	1.80
Weighted average number of shares (in thousands)	5		
Basic		75,340	76,148
Diluted		79,194	79,831

* For the notes column please refer to the Q1 2017 Interim Report on the investor relations section of our website

Consolidated balance sheet

As at 31 March

	Notes	As at 31 March 2017 US\$000 (Unaudited)	As at 31 December 2016 US\$000 (Audited)
Assets			
Cash and cash equivalents		722,808	697,167
Trade and other receivables		37,064	80,773
Other current financial assets		989	–
Inventories	6	89,221	105,303
Income tax receivables		27,253	35,878
Other current assets		15,453	15,211
Assets held for sale	10	1,267	–
Total current assets		894,055	934,332
Goodwill	7	251,619	251,208
Other intangible assets	7	122,339	125,619
Property, plant and equipment	8	68,721	69,668
Non-current financial assets	9	19,892	22,332
Deferred tax assets		30,647	27,379
Total non-current assets		493,218	496,206
Total assets		1,387,273	1,430,538
Liabilities and equity			
Trade and other payables		71,125	89,645
Other current financial liabilities		88,558	77,978
Provisions		1,491	1,477
Income taxes payable		450	528
Other current liabilities		59,355	54,444
Total current liabilities		220,979	224,072
Provisions		2,606	3,370
Deferred tax liabilities		1,969	1,970
Other non-current liabilities		5,465	6,220
Total non-current liabilities		10,040	11,560
Ordinary shares		14,775	14,402
Share premium account		403,687	403,687
Retained earnings		854,825	862,914
Other reserves		(107,622)	(70,566)
Dialog shares held by employee benefit trusts		(15,062)	(20,608)
Equity attributable to shareholders in the Company		1,150,603	1,189,829
Non-controlling interests		5,651	5,077
Total equity		1,156,254	1,194,906
Total liabilities and equity		1,387,273	1,430,538

* For the notes column please refer to the Q1 2017 Interim Report on the investor relations section of our website



Consolidated cash flow statement

For the three months ended 31 March 2017

	Three months ended 31 March 2017 US\$000 (Unaudited)	Three months ended 1 April 2016 US\$000 (Unaudited)
Cash flows from operating activities		
Net income	23,119	142,891
Non-cash items within net income:		
– Depreciation of property, plant and equipment	7,414	6,434
– Amortisation of intangible assets	10,419	8,045
– Release of inventory reserve, net	(850)	(6)
– Share-based compensation expense	8,879	7,074
– Other non-cash items	(3,046)	267
Interest (income) expense, net	(1,360)	1,576
Income tax expense	6,220	4,015
Cash generated from operations before changes in working capital	50,795	170,296
Changes in working capital:		
– Trade and other receivables	43,709	37,849
– Inventories	16,932	(18,504)
– Prepaid expenses	(1,250)	(2,756)
– Trade accounts payable	(18,520)	(49,531)
– Provisions	(757)	(791)
– Other assets and liabilities	5,918	(1,486)
Cash generated from operations	96,827	135,077

Cash flow statement - continued

For the three months ended 31 March 2017

	Three months ended 31 March 2017 US\$000 (Unaudited)	Three months ended 1 April 2016 US\$000 (Unaudited)
Cash generated from operations	96,827	135,077
Interest paid	(25)	(2,157)
Interest received	1,480	551
Income taxes received/(paid)	2,371	(26,394)
Cash flow from operating activities	100,653	107,077
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,899)	(5,668)
Purchase of intangible assets	(1,690)	(2,480)
Payments for capitalised development costs	(6,212)	(5,741)
Change in other long term assets	(750)	25
Cash flow used for investing activities	(15,551)	(13,864)
Cash flows from financing activities		
Purchase of Dialog shares by employee benefit trusts	(24,301)	–
Sale of Dialog shares by employee benefit trusts	4,621	1,918
Purchase of own shares into treasury	(41,642)	–
Issue of shares by a subsidiary to non-controlling interests	1,107	–
Currency hedges on share buyback obligation	579	–
Cash flow used for financing activities	(59,636)	1,918
Net increase in cash and cash equivalents	25,466	95,131
Cash and cash equivalents at beginning of period	697,167	566,809
Currency translation differences	175	295
Cash and cash equivalents at end of period	722,808	662,235

Underlying reconciliation

For the three months ended 31 March 2017

US\$'000		Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Effective interest	Strategic investments	Underlying basis
	IFRS basis					
Revenue	270,974	–	–	–	–	270,974
Cost of sales	(148,328)	536	1,768	–	–	(146,024)
Gross profit	122,646	536	1,768	–	–	124,950
Gross margin %	45.3%					46.1%
SG&A expenses	(32,602)	5,243	1,824	–	–	(25,535)
R&D expenses	(60,951)	4,737	–	–	–	(56,214)
Operating profit	29,093	10,516	3,592	–	–	43,201
Operating margin %	10.7%					15.9%
Net finance (income)/expense	246	–	–	95	973	1,314
Profit before income taxes	29,339	10,516	3,592	95	973	44,515
Income tax expense	(6,220)	(3,355)	(209)	(18)	(318)	(10,120)
Net income⁽¹⁾	23,119	7,161	3,383	77	655	34,395
EBITDA ⁽²⁾	n/a					57,442
EBITDA margin %	n/a					21.2%

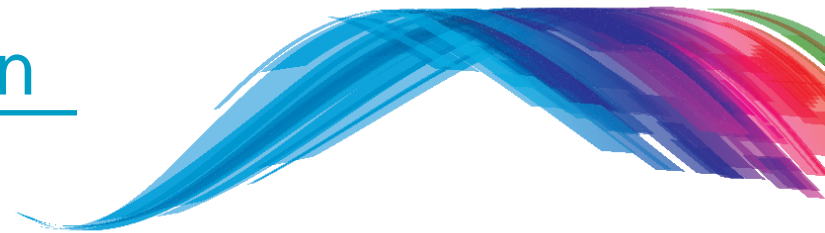
Underlying reconciliation

For the three months ended 1 April 2016

US\$'000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Aborted merger with Atmel	Effective interest	Underlying basis
Revenue	241,408	–	–	–	–	241,408
Cost of sales	(133,747)	519	1,751	–	–	(131,477)
Gross profit	107,661	519	1,751	–	–	109,931
Gross margin %	44.6%					45.5%
SG&A expenses	(36,430)	4,513	1,900	3,606	–	(26,411)
R&D expenses	(57,524)	3,743	–	–	–	(53,781)
Other operating income	137,478	–	–	(137,300)	–	178
Operating profit	151,185	8,775	3,651	(133,694)	–	29,917
Operating margin %	nm					12.4%
Net finance expense	(4,279)	–	–	1,913	153	(2,213)
Profit before income taxes	146,906	8,775	3,651	(131,781)	153	27,704
Income tax expense	(4,015)	(1,451)	(215)	(383)	(31)	(6,095)
Net income ⁽¹⁾	142,891	7,324	3,436	(132,164)	122	21,609
EBITDA ⁽²⁾	n/a					40,745
EBITDA margin %	n/a					16.9%

* Operating margin calculated on an IFRS basis did not give a meaningful portrayal of our trading performance in Q1 2016 because it included the Atmel termination fee of US\$137,300.

Growing business built on innovation



1	Solid competitive positioning	<ul style="list-style-type: none">• Rooted in deep R&D investment and IP• Technical excellence and highest level of integration compatible with short design cycle• High Tier 1 customer penetration
2	Structural growth	<ul style="list-style-type: none">• Core technical competencies aligned with secular trends in efficient power management in mobility and connected devices
3	High returns Strong cash generation	<ul style="list-style-type: none">• High touch fabless model; low capital intensity• Rigorous working capital management
4	Support organic and in-organic expansion	<ul style="list-style-type: none">• Enhancing the competitive advantage of the business• Expanding technology portfolio and customer base

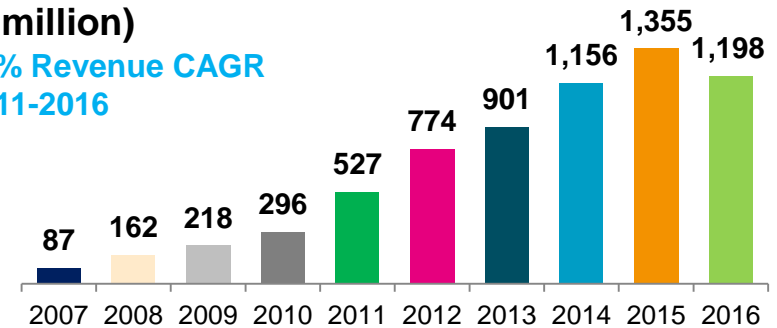
Q1 2017 revenue

Strong growth across all businesses

- Q1 2017 revenue up 12% year-on-year to \$271 million

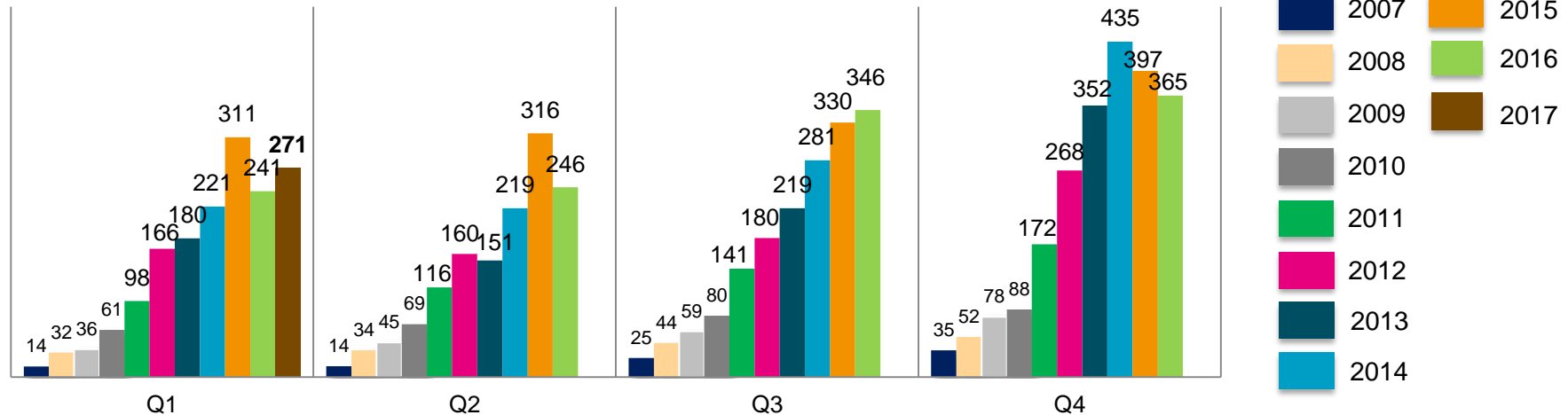
Full year revenue (\$ million)

18% Revenue CAGR
2011-2016



Quarterly revenue (\$ million)

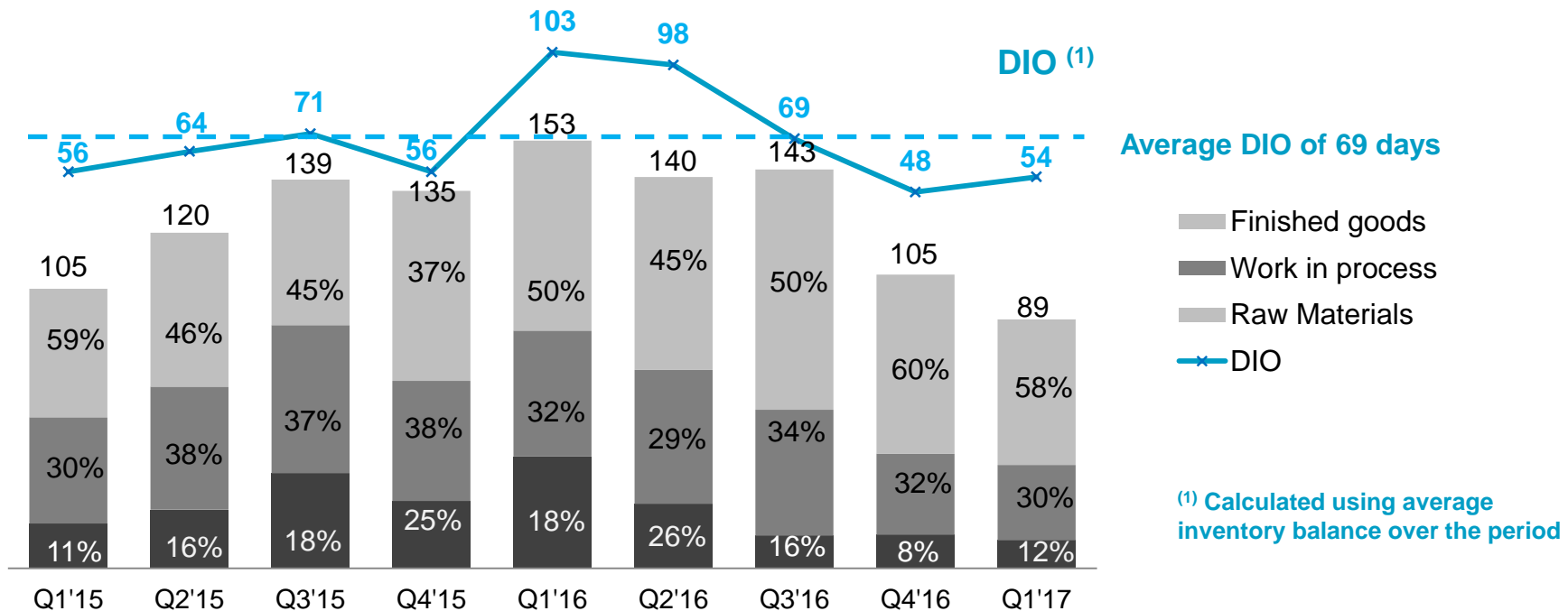
10% Q1 Revenue CAGR 2012-2017



Effective inventory management

- At the end of Q1 2017 inventory value was down 15% from Q4 2016 and DIO increased 6 days.
- In Q2 2017 we expect inventory value and DIO to increase from Q1 2017

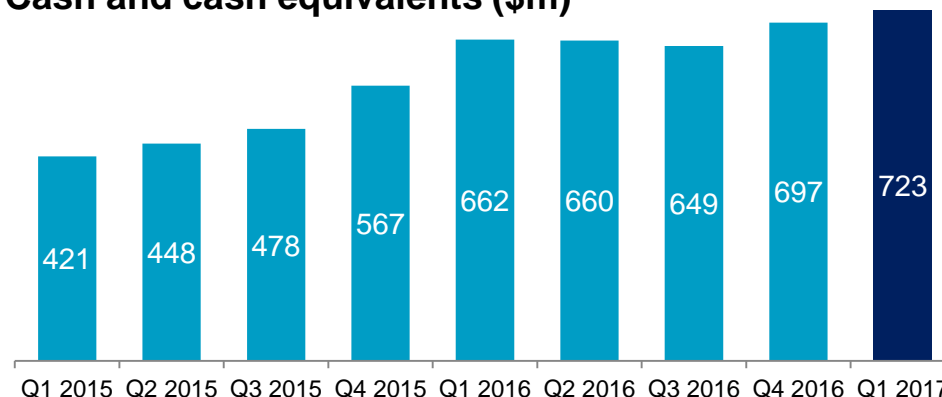
Inventory (\$ million) and Days Inventory Outstanding (# days)



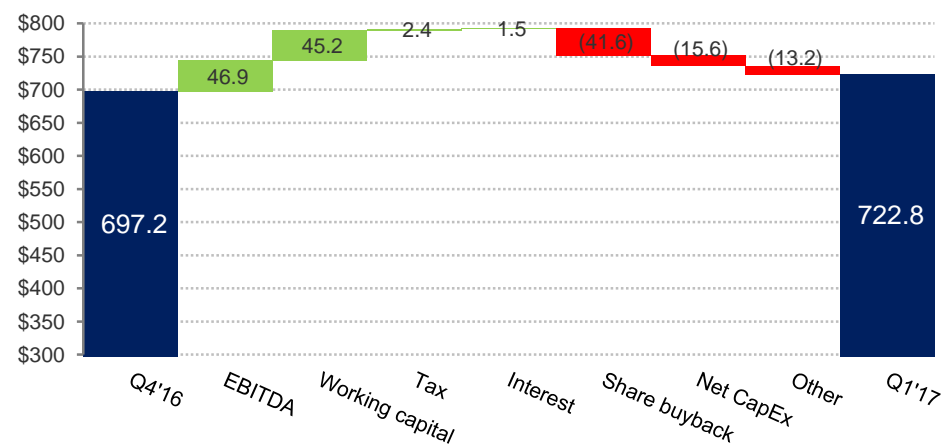
Strong cash flow generation

- \$723 million cash and cash equivalents balance at 31 March 2017
- Q1 2017 free cash flow at \$86 million - Q1 2016: \$93 million including \$137 million Atmel termination fee

Cash and cash equivalents (\$m)



Cash flow bridge from Q4'16 (\$m)



Analyst coverage

Bank of America Merrill Lynch	Adithya Metuku
Baader Bank	Guenther Hollfelder
Bankhaus Lampe	Dr. Karsten Iltgen
Barclays Capital	Andrew Gardiner
Bloomberg	Woo Jin Ho
Bryan, Garnier & Co	Dorian Terral
ODDO Seydler	Veysel Taze
Commerzbank	Thomas Becker
Credit Suisse	Achal Sultania
Deutsche Bank	Rob Sanders
DZ Bank	Harald Schnitzer
Exane BNP Paribas	David O'Connor
Hauck & Aufhauser	Tim Wunderlich
JP Morgan Cazenove	Sandeep Deshpande
Main First Bank AG	Juergen Wagner
Morgan Stanley	Francois A Meunier
Natixis	Charles Lepetitpas
RBC	Mitch Steves
Stifel	Lee Simpson

Financial Calendar

Q2 2017 **27 July 2017**

Q3 2017 **7 November 2017**

Key Events

Jefferies Tech. Group Conference

9 May 2017, Miami

Stifel TMT Conference

5 June 2017, San Francisco

J.P. Morgan Tech CEO Conference

20 June 2017, London

Contacts

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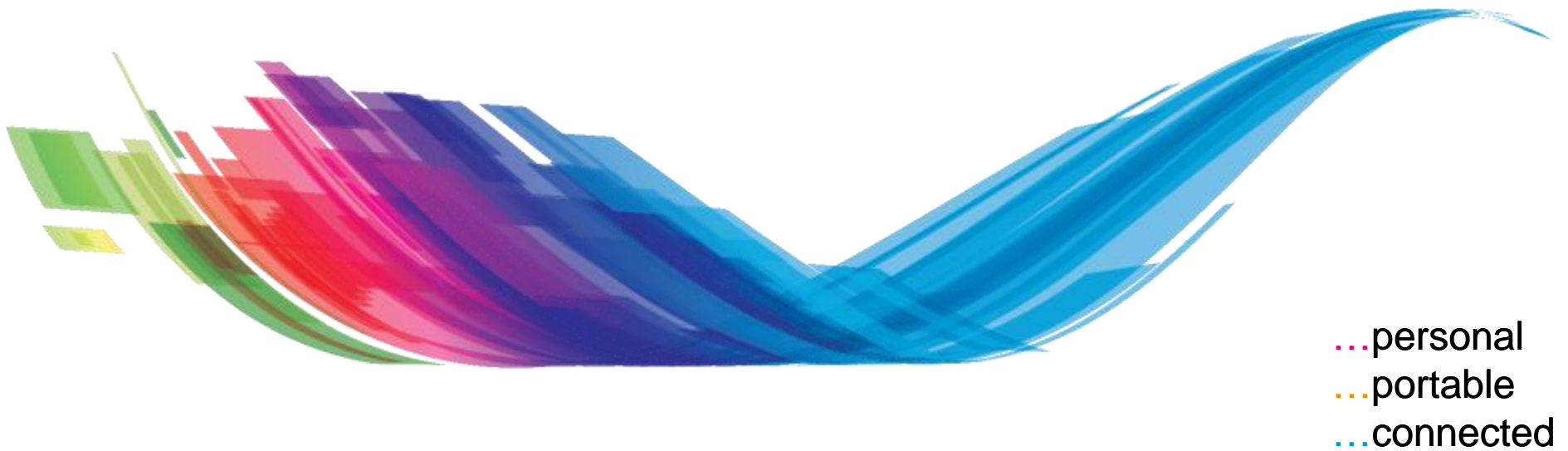
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Powering the Smart Connected Future



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