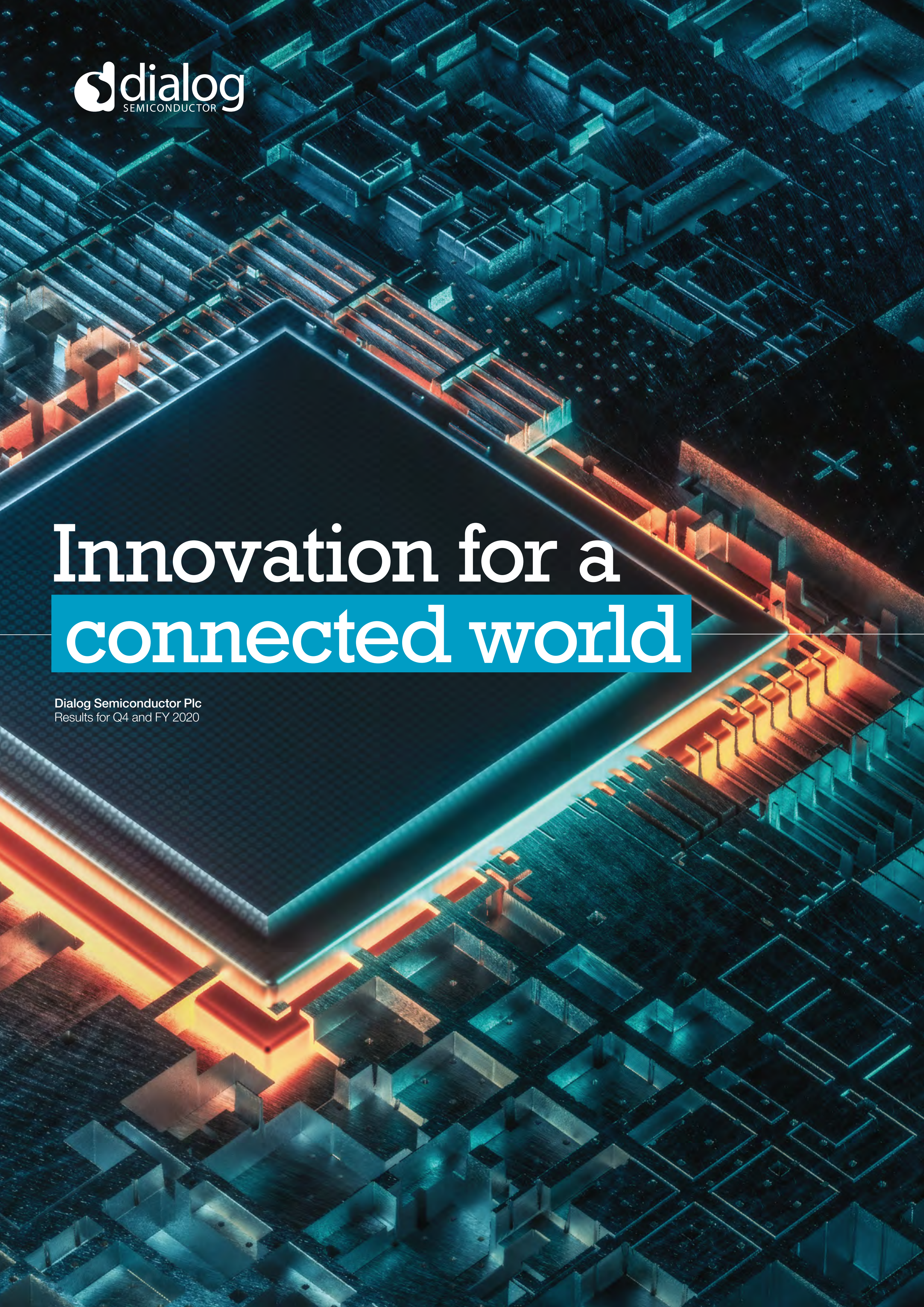

# Innovation for a connected world

**Dialog Semiconductor Plc**
Results for Q4 and FY 2020

## Contents

# Results for Q4 and FY 2020




### Section 1



### Section 2



### Section 3

# Press release – 3 March 2021

## Dialog Semiconductor reports results for the fourth quarter ended 31 December 2020

## Q4 2020 revenue at US$439 million, up 15% year-on-year. Underlying operating profit at US$110.5 million, up 21% year-on-year. Revenue excluding licensed PMICs was up 39% year-on-year.

London, UK, 3 March 2021 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the fourth quarter ended 31 December 2020.

| | IFRS basis (unaudited) | | Underlying basis[1] (unaudited) | | |
|---|---|---|---|---|---|
| US$ millions unless stated otherwise | **Q4 2020** | Q4 2019 | **Q4 2020** | Q4 2019 | Change |
| Revenue | **438.7** | 380.6 | **438.7** | 380.6 | +15% |
| Gross margin | **49.2%** | 50.0% | **50.8%** | 50.2% | +60bps |
| Operating expenses[2] | **149.1** | 137.0 | **115.3** | 100.5 | +15% |
| Operating (loss)/profit | **69.9** | 53.7 | **110.5** | 91.3 | +21% |
| Operating margin | **15.9%** | 14.1% | **25.2%** | 24.0% | +120bps |
| Diluted EPS | **$0.81** | $0.61 | **$1.26** | $1.02 | +24% |
| Free cash flow | **N/A** | N/A | **115.3** | 44.4 | +160% |

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 6).
2 Comprising SG&A and R&D expenses.

### Q4 2020 Financial highlights

- Revenue of US$439 million, including acquisitions, 8% above the mid-point of the November outlook range and 15% above Q4 2019.
- Strength across the product portfolio with revenue excluding licensed main Power Management ICs ("PMICs") up 39% year-on-year.
- Gross margin at 49.2% (Q4 2019: 50.0%). Continued progress on underlying gross margin at 50.8% (Q4 2019: 50.2%) up 60bps year-on-year.
- Operating profit of US$69.9 million (Q4 2019: US$53.7 million), and underlying operating profit of US$110.5 million (Q4 2019: US$91.3 million).
- Diluted EPS of US$0.81 (Q4 2019: US$0.61) and underlying diluted EPS of US$1.26 (Q4 2019: US$1.02).
- On 8 October 2020, we completed the second tranche of the 2019 Share Buyback for a total amount of €70.0 million at an average price of €34.37.
- Q4 2020 cash flow from operating activities of US$130.8 million (Q4 2019: US$57.4 million) which included the recoupment of the prepayment relating to the license agreement.
- During Q4 2020, we reorganised the Group's structure bringing together the businesses from Adesto and Creative Chips into a new segment named Industrial IoT.
- Subsequent to quarter end, on 8 February 2021, Dialog reached agreement on the terms of a recommended acquisition by Renesas Electronics Corporation ("Renesas") of the entire issued and to be issued ordinary share capital of the Company (the "Acquisition"). Under the terms of the Acquisition, Dialog shareholders will be entitled to receive €67.50 in cash per Dialog share at completion.

### Q4 2020 Operational highlights

- Continued design-in momentum at our largest customers for the development and supply of several mixed-signal integrated circuits. We have made significant progress on a number of designs scheduled for 2022 production.
- Strong operational performance despite evolving lockdown restrictions.
- Revenue from new mixed-signal products in Custom Mixed Signal business segment from our largest customer was up 35% year-on-year.
- Q4 2020 revenue from AMS segment up 19% year-on-year driven by strong demand for Configurable Mixed-signal ICs ("CMICs") and backlighting products.
- In Q4 2020 we launched a new member of the GreenPAK™ family, the SLG47004, the first fully programmable advanced analog system IC with configurable op amp functionality.
- Q4 2020 revenue in C&A segment up 21% mostly driven by strong demand for audio products.
- In support of our expansion into industrial IoT, we introduced the SmartServer™ IoT Partner programme for edge solutions in smart buildings and factories.
- During Q4 2020, industry-wide capacity constraints impacted our ability to meet incremental customer demand.

# Press release – 3 March 2021 continued

## Update on COVID-19

Throughout the pandemic, our main focus has been to protect the health and wellbeing of our employees and business partners. As lockdown restrictions continue to evolve and change, we are following applicable Health and Safety guidelines and where appropriate, opening our offices, albeit at a low capacity. We continued to maintain a minimal staff presence in our test labs, where required, and adhered to recommended safe working practices. Our supply chain has remained stable during the quarter, with most suppliers and our customers' contract manufacturers continuing to operate at almost full capacity. Customer engagements continued to be effectively managed remotely and we continue to make good progress.

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.

## Q4 2020 Financial overview

Revenue was 15% above Q4 2019 at US$439 million mostly due to strong performance across the product portfolio offsetting the expected decline in licensed main PMICs to US$95.8 million (Q4 2019: US$134.4 million). Excluding the contribution of Adesto, revenue was 10% above Q4 2019. In particular, sales growth of PMICs, CMICs, audio, and Bluetooth® low energy ("BLE") was driven by the continuing strength of consumer demand for headphones, fitness trackers, digital watches, notebooks, and tablets. Group revenue excluding licensed main PMICs was up 39% year-on-year. License revenue of US$9 million related to the Apple agreement was reported in Corporate.

Gross margin was 49.2%, 80bps below Q4 2019 (Q4 2019: 50.0%) as a result of the consumption of the fair value uplift of the acquired Adesto inventory. Underlying gross margin was up 60bps year-on-year at 50.8%. This increase was mainly the result of revenue mix and continuing savings in manufacturing costs.

Operating expenses ("OPEX"), comprising SG&A and R&D expenses, in Q4 2020 were 9% above Q4 2019, representing 34.0% of revenue (Q4 2019: 36.0%). The increase in OPEX was mainly due to the acquisitions of Adesto and Creative Chips. In Q4 2020, we incurred US$1.3 million integration costs related to the acquisition of Adesto. Underlying OPEX in Q4 2020 was 15% above Q4 2019 (Q4 2019: US$100.5 million), representing 26.3% of revenue (Q4 2019: 26.4%). The increase in underlying OPEX was mainly driven by the additional OPEX from Adesto.

In line with its long-term financial objectives, the Company has initiatives in place to reduce its cost base over time. In Q4 2020, the Company continued to make good progress on the execution of the planned cost synergies. All these initiatives seek to improve efficiency, protect profitability, and strengthen cash flow generation.

R&D expenses were 16% above Q4 2019 representing 20.8% of revenue (Q4 2019: 20.6%). Underlying R&D expenses in Q4 2020 were 21% above Q4 2019 representing 17.8% of revenue (Q4 2019: 16.9%). The increase in R&D and underlying R&D expenses was mainly due to the acquisitions of Adesto and Creative Chips as well as continuing investment in future growth.

SG&A expenses in Q4 2020 were slightly below Q4 2019, representing 13.2% of revenue (Q4 2019: 15.4%). The decrease was the result of cost savings offset by additional expenses from the acquisitions of Adesto and Creative Chips. Underlying SG&A expenses in Q4 2020 were 4% above Q4 2019 representing 8.5% of revenue (Q4 2019: 9.5%). The increase in underlying SG&A expenses was mainly the result of the acquisitions of Creative Chips and Adesto partially offset by cost savings.

In Q4 2020, other operating income and underlying operating income, which comprised income from R&D contracts, were above Q4 2019 at US$2.9 million (Q4 2019: US$0.6 million).

Operating profit in Q4 2020 was US$69.9 million, 30% above Q4 2019 (Q4 2019: US$53.7 million), mainly due to the higher revenue and gross margin partially offset by the incremental operating expenses from the acquisitions of Adesto and Creative Chips, as well as cost savings. Underlying operating profit was 21% above Q4 2019, at US$110.5 million (Q4 2019: US$91.3 million) driven by the increase in revenue, gross margin, and OPEX savings, partially offset with additional operating expenses from the acquisitions of Creative Chips and Adesto.

The effective tax rate in 2020 was 27.7% (2019: 21.7%). Our relatively high effective tax rate for 2020 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 the goodwill impairment loss. The underlying effective tax rate in 2020 was 18.0%, down 180bps on the 2019 underlying effective tax rate of 19.8%. Our underlying effective tax rate for 2020 was lower than expected, principally because of the tax effects of unpredictable currency exchange rate movements.

In Q4 2020, net income was US$57.8 million, 29% above Q4 2019 (Q4 2019: US$44.8 million). This increase was mostly due to the increase in operating profit and the lower effective tax rate. Underlying net income was 21% higher year-on-year mainly driven by the same factors.

Diluted EPS in Q4 2020 was 33% above Q4 2019 at US$0.81 (Q4 2019: US$0.61). Underlying diluted EPS in Q4 2020 was 24% higher year-on-year to US$1.26 (Q4 2019: US$1.02).

At the end of Q4 2020, our total inventory level was US$159 million, 1% below the previous quarter. This is equivalent to 64 days of inventory representing an 8-day decrease in our days of inventory from Q3 2020, mainly due to the higher revenue.

In Q4 2020, we completed the fourth and final settlement of the second tranche of the 2019 Buyback Programme, purchasing 696,849 ordinary shares for €29.7 million. Under this tranche, the Company purchased a cumulative total of 2,036,705 ordinary shares for €70.0 million at an average price per share of €34.37, corresponding to 2.7% of the Company's ordinary share capital as at 27 March 2019.

At the end of Q4 2020, we held cash and cash equivalents of US$524 million (Q4 2019: US$1,025 million). Cash flow from operating activities in Q4 2020 was US$130.8 million which was above Q4 2019 (Q4 2019: US$57.4 million). The year-on-year movement was mainly due to working capital. In Q4 2020, the Group generated free cash flow of US$115.3 million, which was above Q4 2019 (Q4 2019: US$44.4 million) due to the higher cash flow from operating activities. At the end of the quarter, the remaining principal amount of the US$300 million prepayment outstanding from our largest customer was US$75.0 million.

## Q4 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 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, have contributed to the expansion of our presence in the automotive segment. The acquisitions of Creative Chips and Adesto have enabled our expansion in the growing Industrial IoT market. 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 to market fast.

## Underlying results by segment

| | Revenue | | | Operating profit/(loss) | | Operating margin | |
|---|---|---|---|---|---|---|---|
| US$ millions unless stated otherwise | **Q4 2020** | Restated* Q4 2019 | Change | **Q4 2020** | Restated* Q4 2019 | **Q4 2020** | Restated* Q4 2019 |
| Custom Mixed Signal | **258.8** | 253.4 | +2% | **84.2** | 82.4 | **32.5%** | 32.5% |
| Advanced Mixed Signal | **81.8** | 68.4 | +19% | **11.0** | 2.7 | **13.4%** | 4.0% |
| Connectivity & Audio | **60.9** | 50.2 | +21% | **9.7** | 4.3 | **15.9%** | 8.7% |
| Industrial IoT | **28.3** | 2.3 | nm | **–** | (0.7) | **0.2%** | (29.2)% |
| Total Segments | **429.8** | 374.3 | +15% | **104.9** | 88.8 | **24.4%** | 23.7% |
| Corporate and other unallocated items | **8.9** | 6.3 | +42% | **5.6** | 2.5 | **62.7%** | 39.1% |
| Total Group | **438.7** | 380.6 | +15% | **110.5** | 91.3 | **25.2%** | 24.0% |

* Restated to reflect the segment reorganisation (see page 4).

## Custom Mixed Signal (CMS)

In Q4 2020, underlying revenue was US$259 million, 2% above Q4 2019 due to growth in new mixed-signal products partially offset by the expected decline in legacy licensed main PMICs. Revenue in CMS from our largest customer's products not covered by the licensing agreement was up 35% year-on-year to US$153.2 million (Q4 2019: US$113.3 million). Underlying operating profit for CMS increased 2% year-on-year to US$84.2 million, mainly due to the higher revenue.

During the quarter, we were awarded new custom designs and continued to receive requests for quotations from a range of tier one customers, for new custom designs for 2022 and beyond in diverse areas of power, battery management, 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. We are currently engaged with the top mobile OEMs, with standard battery management products shipping from Q3 2020 and we expect revenue from high-volume contracts to begin with new smartphones in the second half of 2021.

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 ADAS. We have over 100 automotive customer engagements, most of which are expected to go into production over the next three years.

# Press release – 3 March 2021 continued

## Advanced Mixed Signal (AMS)

During Q4 2020, underlying revenue increased by 19% from Q4 2019 due to strong revenue growth in CMICs and in-device charging products, as demand and design-in momentum improved. Underlying operating profit was US$11.0 million, four times higher than in Q4 2019, mainly driven by the higher revenue and product mix, together with cost savings.

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. In Q4 2020 we shipped high-power delivery products.

Our broad product portfolio, which includes LED backlighting and LED driver ICs, and proprietary digital control technology for power conversion, enables 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.

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. Earlier in the year we launched a high-voltage GreenPAK™ product, ideal for consumer and industrial motor applications, as well as a new update for the GreenPAK™ Designer software package containing simulation capabilities which will further reduce development time and simplify the design process across the entire GreenPAK™ portfolio. In Q4 2020 we launched a new member of the GreenPAK™ family, the SLG47004, the first fully programmable advanced analog system IC with configurable op amp functionality. The expansion of the GreenPAK™ product range within the last 12 months will further accelerate its adoption across a wider range of applications, such as automotive as well as smartphone cameras. Our growing range of configurable products gives our customers the flexibility to keep pace with rapidly changing market needs. The CMIC, along with other members of the GreenPAK™ family, replaces 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 Q4 2020, underlying revenue grew by 21% from Q4 2019 mainly due to higher revenue from audio products and BLE. Underlying operating profit in the quarter was 123% above Q4 2019 at US$9.7 million (Q4 2019: US$4.3 million) and operating margin was 15.9%. We continue to invest in the development of new BLE and audio products to take 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 5% above Q4 2019, as a result of increased demand from customers in Asia. Following the launch of SmartBond TINY™ and the SmartBond TINY™ module, we launched our first combo Wi-Fi and BLE module, the DA16200 SoC. This offering was purpose built for battery-powered IoT applications, including connected door locks, thermostats, security cameras and other devices that require an "always on" Wi-Fi connection. Its VirtualZero™ technology enables the industry's lowest level of power consumption for Wi-Fi connectivity, so that even continuously connected devices can achieve up to five years of battery life in many use cases. Highly integrated, the SmartBond™ SoC family delivers the smallest, most power efficient BLE solutions available – and enables the lowest system costs.

In Q4 2020, the combined revenue from new audio products and Codecs almost tripled year-on-year. 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, providing optimal audio performance in any environment.

## Industrial IoT

In Q4 2020, we reorganised the Group's structure bringing together the businesses from Adesto and Creative Chips into a new segment named Industrial IoT. Underlying revenue was US$28.3 million and the segment broke even in Q4 2020. During the quarter we continued to make good progress on the integration of Adesto and we expect it to be completed by the end of 2021.

Our technology enables seamless connectivity of heterogenous systems in an industrial environment to the cloud for building and industrial automation. Non-volatile memory ("NVM") is a key component of many system designs and our wide range of NVM products offer an array of features designed to help tune and optimize our customers' systems. Together with its mixed-signal and RF design team, as well as world-class technology and intellectual property, we bring an innovative product portfolio to thousands of customers worldwide across the industrial, consumer, medical, and communications markets.

In Q4 2020, we were selected by AST & Science as the preferred supplier for advanced communication custom ICs, starting production from 2022. AST's SpaceMobile is the first and only space-based cellular broadband network that will be accessible by a standard smartphone and deliver connectivity from urban areas to the most remote global locations. Dialog will develop four custom advanced RF chips that are part of the satellite electronics payload for SpaceMobile, enabling a secure radio communications link.

During the quarter we also introduced the SmartServer IoT Partner Program. The program gives Systems Integrators and OEM Solutions Providers access to Dialog's SmartServer IoT edge server and open software suite, including freely available integration tools and APIs, certified training, and premium support. This accelerates secure, scalable integration of IoT edge devices and networks with cloud platforms and Operational Technologies (OT) found in smart factories, buildings and cities.

## Subsequent event

On 8 February 2021, the directors of the Company and Renesas Electronics Corporation ("Renesas"), a supplier of advanced semiconductor solutions, announced that they have reached agreement on the terms of the acquisition of the entire issued and to be issued share capital of the Company for €67.50 per share in cash, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

It is intended that the acquisition will be effected by means of a scheme of arrangement under the UK Companies Act 2006. As such, completion of the transaction will be subject to approval by the Company's shareholders and the court in England & Wales. It will also be subject to regulatory approvals in a number of jurisdictions and other customary closing conditions. The acquisition is expected to close during the second half of 2021.

## Non-IFRS measures

Underlying measures of performance and free cash flow quoted in this press release are non-IFRS measures. Our use of underlying measures and reconciliations of the underlying measures to the nearest equivalent IFRS measures are presented in Section 3 of the full announcement of our results for Q4 and FY 2020. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

### Q4 2020

| **US$000** | **IFRS basis** | **Share-based compensation and related expenses** | **Accounting for business combinations** | **Integration costs** | **Cost reduction initiatives** | **Underlying basis** |
|---|---|---|---|---|---|---|
| **Revenue** | **438,729** | **–** | **–** | **–** | **–** | **438,729** |
| **Gross profit** | **216,056** | **328** | **6,511** | **–** | **–** | **222,895** |
| **SG&A expenses** | **(57,980)** | **11,200** | **7,971** | **1,263** | **159** | **(37,387)** |
| **R&D expenses** | **(91,130)** | **9,346** | **3,847** | **–** | **–** | **(77,937)** |
| **Other operating income** | **2,916** | **–** | **–** | **–** | **–** | **2,916** |
| **Operating profit** | **69,862** | **20,874** | **18,329** | **1,263** | **159** | **110,487** |
| **Net finance expense** | **(3,868)** | **–** | **–** | **–** | **–** | **(3,868)** |
| **Profit before income taxes** | **65,994** | **20,874** | **18,329** | **1,263** | **159** | **106,619** |
| **Income tax expense** | **(8,185)** | **(3,549)** | **(4,030)** | **(252)** | **(30)** | **(16,046)** |
| **Net income** | **57,809** | **17,325** | **14,299** | **1,011** | **129** | **90,573** |

### Q4 2019

| US$000 | IFRS basis | Share-based compensation and related expenses | Accounting for business combinations | Integration costs | Corporate transaction costs | Strategic investments | Underlying basis |
|---|---|---|---|---|---|---|---|
| Revenue | 380,582 | – | – | – | – | – | 380,582 |
| Gross profit | 190,142 | 178 | 863 | – | – | – | 191,183 |
| SG&A expenses | (58,532) | 9,681 | 6,091 | 1,583 | 5,170 | – | (36,007) |
| R&D expenses | (78,515) | 10,694 | 2,967 | 348 | – | – | (64,506) |
| Other operating income | 598 | – | – | – | – | – | 598 |
| Operating profit | 53,693 | 20,553 | 9,921 | 1,931 | 5,170 | – | 91,268 |
| Net finance income | 372 | – | 149 | – | – | (395) | 126 |
| Profit before income taxes | 54,065 | 20,553 | 10,070 | 1,931 | 5,170 | (395) | 91,394 |
| Income tax expense | (9,271) | (2,709) | (3,660) | (80) | (954) | 75 | (16,599) |
| Net income | 44,794 | 17,844 | 6,410 | 1,851 | 4,216 | (320) | 74,795 |

# Press release – 3 March 2021 continued

## Accounting for business combinations

| US$000 | Q4 2020 | Q4 2019 |
|---|---|---|
| Acquisition-related costs | **(102)** | 1,344 |
| Amortisation of acquired intangible assets | **11,425** | 7,386 |
| Consumption of the fair value uplift of acquired inventory | **6,494** | 863 |
| Consideration accounted for as compensation expense | **513** | 298 |
| Forfeiture of deferred consideration | **–** | 30 |
| **Increase in operating profit** | **18,330** | 9,921 |
| Unwinding of discount on contingent consideration | **–** | 149 |
| **Increase in profit before income taxes** | **18,330** | 10,070 |
| Income tax credit | **(4,031)** | (3,660) |
| **Increase in net income** | **14,299** | 6,410 |

## EBITDA

| US$000 | Q4 2020 | Q4 2019 |
|---|---|---|
| Net income | **57,809** | 44,794 |
| Net finance expense/(income) | **3,868** | (372) |
| Income tax expense | **8,185** | 9,271 |
| Depreciation expense | **9,295** | 8,939 |
| Amortisation expense | **17,265** | 14,106 |
| **EBITDA** | **96,422** | 76,738 |
| Share-based compensation and related expenses | **20,874** | 20,553 |
| Acquisition-related costs | **(102)** | 1,344 |
| Consumption of the fair value uplift of acquired inventory | **6,494** | 863 |
| Consideration accounted for as compensation expense | **513** | 298 |
| Forfeiture of deferred consideration | **–** | 30 |
| Integration costs | **1,262** | 1,931 |
| Cost-reduction initiatives | **159** | – |
| Corporate transaction costs | **–** | 5,170 |
| **Underlying EBITDA** | **125,622** | 106,927 |

## Free cash flow

| US$000 | Q4 2020 | Q4 2019 |
|---|---|---|
| Cash flow from operating activities | **130,847** | 57,448 |
| Purchase of property, plant and equipment | **(4,590)** | (1,987) |
| Purchase of intangible assets | **(2,116)** | (4,480) |
| Payments for capitalised development costs | **(6,042)** | (4,195) |
| Capital element of lease payments | **(2,768)** | (2,424) |
| **Free cash flow** | **115,331** | 44,362 |

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The full release including the Company's unaudited consolidated financial statements for the quarter ended 31 December 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 is a leading provider of integrated circuits (ICs) that power mobile devices and the Internet of Things. Dialog solutions are integral to some of today's leading mobile devices and the enabling element for increasing performance and productivity on the go. From making smartphones more power efficient and shortening charging times, enabling home appliances to be controlled from anywhere, to connecting the next generation of wearable devices, Dialog's decades of experience and world-class innovation help manufacturers get to what's next. 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 2,300 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

Year ended 31 December 2020

## In a challenging year, we made good progress towards building a diverse and sustainable mixed signal business. We achieved this thanks to the dedication and commitment of our employees, and the operational flexibility and financial resilience of our fabless model.

**In 2020, we delivered strong underlying results. Underlying revenue excluding licensed main PMIC grew 27% year-on-year and underlying gross margin reached a record 50.6%. We invested over US$500 million in Adesto and US$326 million in the development of new products, and returned US$80 million to our shareholders through share buybacks.**

| | IFRS basis | | Underlying[1] | | |
|---|---|---|---|---|---|
| US$ millions | **2020** | 2019 | **2020** | 2019 | Change |
| Revenue[2] | **1,375.9** | 1,566.2 | **1,375.9** | 1,420.5 | (3)% |
| Gross margin %[2] | **49.3%** | 54.2% | **50.6%** | 49.8% | +80bps |
| Operating expenses | **536.6** | 508.1 | **416.9** | 405.9 | 3% |
| Operating profit | **120.9** | 379.9 | **297.4** | 324.3 | (8)% |
| Operating margin %[2] | **8.8%** | 24.3% | **21.6%** | 22.8% | -120bps |
| Diluted EPS (US$)[2] | **$1.17** | 3.96 | **$3.32** | 3.47 | (4)% |
| Free cash flow[1, 2] | **n/a** | n/a | **92.1** | 449.4 | 95% |

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 36 to 42.
2 Key performance indicators.

## Basis of preparation

### Accounting policies

The Group's financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2019.

### Non-IFRS measures

We assess the performance of the Group's businesses using a number of measures. Certain of them 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. Underlying measures of profitability when referred to on a consolidated basis and free cash flow are non-IFRS measures.

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for the periods presented are set out in the section entitled "Financial performance measures" on pages 36 to 42.

We report non-IFRS measures because they provide useful additional information about the performance of the Group's businesses. 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 presented by other companies.

### Covid-19 pandemic

During the first quarter of 2020, the Covid-19 outbreak developed into a global pandemic. We saw early disruption to our supply chain and to our customers' manufacturing facilities but these factors dissipated during the second quarter of the year. As consumers adapted to restrictions enforced around the globe, we saw demand increase for our products in headphones, fitness trackers, digital watches, notebooks, and tablets. Demand for our products was, however, adversely affected in our industrial markets.

Our supply chain remained stable during the second half of the year, but with most suppliers and our customers' contract manufacturers operating at almost full capacity, we were constrained in our ability to meet additional demand from our customers.

While there is still considerable uncertainty as to the extent and duration of its impact on the global economy, 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 remaining course of the pandemic.

## Recent corporate transactions

### Acquisition of Adesto

**Purchase price allocation**

On 29 June 2020, we completed the acquisition of 100% of the equity interests in Adesto Technologies Corporation ("Adesto") at a price of US$12.55 per share in cash. Adesto is a leading provider of innovative non-volatile memory, custom ICs and embedded systems for the IIoT market.

Headquartered in Santa Clara, California, Adesto had 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.

On completion, we paid US$397.2 million in cash for Adesto's outstanding issued common shares and US$8.5 million in cash to settle Adesto's "in the money" outstanding vested employee share awards.

On completion, Adesto's "in the money" outstanding unvested employee share awards were converted into either replacement Dialog restricted share units or the right to receive future cash payments, which are generally subject to the vesting schedule and other terms (including a service condition) that governed the awards that they replaced. We determined that the acquisition date fair value of the replacement awards was US$26.0 million, of which US$11.2 million represented deferred consideration. Accordingly, the total purchase consideration recognised was US$416.9 million.

Shortly after completing the acquisition, we paid US$98.2 million in cash in settlement of Adesto's outstanding 4.25% Convertible Notes 2024 and received US$6.1 million in cash on the settlement of related capped call contracts over Adesto's common shares.

We funded the cash payments arising from the acquisition entirely from the Group's cash balances.

Our provisional purchase price allocation shows that Adesto's net assets on acquisition were US$98.0 million (after deducting the liability to settle the convertible notes). We recognised identifiable intangible assets including customer relationships (US$105.1 million), developed technology (US$44.3 million), in-process research and development (US$3.2 million) and trade names (US$4.2 million).

We have therefore recognised provisional goodwill of US$318.9 million in relation to Adesto. Details of the provisional purchase price allocation are set out in note 2 to the consolidated financial information.

During 2020, we incurred transaction costs of US$9.0 million in relation to the acquisition of Adesto (included within general and administrative expenses). We also paid US$7.8 million in settlement of certain of Adesto's transaction costs.

During 2020, we incurred integration costs amounting to US$5.9 million in relation to Adesto, which principally comprised employee severance costs.

Adesto is included in our Industrial IoT reporting segment. Adesto contributed US$41.0 million to the Group's revenue in 2020.

**Impairment of goodwill**

We agreed the purchase consideration for Adesto in early February 2020 based on profit forecasts for the business that were prepared before the extent of the impact of the Covid-19 pandemic could be predicted.

By the time we completed the acquisition, it had become clear that the forecasts would have to be scaled back to reflect the impact of the pandemic, particularly in Adesto's industrial markets. We based the provisional purchase price allocation on our revised forecasts, projected over a ten-year period in order to capture the long-term growth potential of the business.

During the third quarter of 2020, there was an increase in the discount rate applicable to Adesto's forecast cash flows that caused us to perform an impairment test on the carrying amount of Adesto.

We concluded that the carrying amount was impaired and recognised an impairment loss of US$44.9 million against the provisional goodwill relating to Adesto.

Further information is presented in note 10 to the consolidated financial information.

## Acquisition of Creative Chips

We completed the acquisition of Creative Chips GmbH ("Creative Chips") in October 2019 for initial consideration of US$83.7 million, including US$3.7 million in respect of Creative Chips' estimated cash, debt and working capital. In February 2020, we paid a purchase price adjustment of US$0.1 million to the sellers reflecting Creative Chips' actual cash, debt and working capital on completion.

Additional consideration of up to US$23.0 million in cash was payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. During 2020, it became apparent that one of the product development targets would not be met. We therefore reduced the contingent consideration liability to US$nil and recognised a corresponding credit of US$6.9 million in profit or loss (within other operating income).

## Acquisition of FCI

We completed the acquisition of FCI in May 2019 for initial consideration of US$54.2 million in cash, including US$9.2 million in respect of FCI's estimated cash and working capital. In January 2021, we reached agreement with the vendors as to FCI's actual cash, debt and working capital on completion and will receive a purchase price adjustment of US$0.1 million from them.

## Acquisition of Silego

We completed the acquisition of Silego Technology Inc. ("Silego") in November 2017 for initial consideration of US$291.2 million.

Contingent consideration of up to US$30.4 million was payable for Silego in two instalments dependent on its revenues in 2017 and 2018. Silego's revenues were such that contingent consideration of US$27.9 million was payable in total, of which US$26.1 million was attributable to the shares and vested options acquired and the balance payable to holders of deferred cash rights. During 2019, we paid US$16.7 million in settlement of the element of the second instalment that was attributable to the shares and vested options acquired.

During 2020, we paid US$0.9 million (2019: US$2.1 million) in relation to the consideration element of the deferred cash rights, bringing the total deferred consideration paid to US$6.2 million.

## Licensing and asset transfer agreement with Apple

In April 2019, we licensed our power management technologies to Apple Inc. ("Apple") and transferred to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy.

Apple paid Dialog US$300.0 million in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, we granted to Apple:

- a perpetual licence over our Power Management IP as it existed at the closing date; and
- an effective licence over certain of our IP as it existed at the closing date and is developed for a period of at least four years thereafter.

On closing of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300.0 million to be recovered primarily by recoupment against invoices payable to Dialog for the purchase of certain of our products in quarterly instalments over the three-year period ending on 31 March 2022. On initial recognition, we measured the prepayment at its fair value of US$288.6 million. We accounted for the "below market element" of the prepayment of US$11.4 million as additional consideration in respect of the licensing arrangements and asset transfers.

We allocated the total consideration of US$311.4 million in respect of the licensing arrangements and asset transfers as follows:

- US$145.8 million to the perpetual IP licence;
- US$136.4 million to the effective IP licence; and
- US$29.2 million to the design centre businesses transferred.

We recognised the consideration for the perpetual IP licence as revenue on the closing date.

We are recognising the consideration for the effective licence over the four-year period following the closing date. During 2020, we recognised revenue of US$35.7 million (2019: US$18.5 million) in relation to the effective IP licence.

During 2019, we recognised a gain of US$15.9 million on the transfer of the design centre businesses (within other operating income) and transaction costs in relation to the licensing and asset transfer agreement of US$16.1 million (within general and administrative expenses).

# Financial review continued

## Cost-reduction initiatives

During Q3 2020, we commenced a number of initiatives to reduce the Group's cost base in response to the Covid-19 pandemic and recognised related expenses of US$2.4 million, that were principally employee termination benefits.

## Results of operations

### Segment reorganisation

Prior to the acquisition of Adesto at the beginning of the third quarter of 2020, the Group had three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Custom Mixed Signal included our Industrial Mixed Signal business unit. We initially managed Adesto on a stand-alone basis and reported its results separately to the Management Team. During the fourth quarter of 2020, we changed the Group's internal reporting structure, bringing together Adesto and the Industrial Mixed Signal business unit to form a single operating segment that we named Industrial IoT.

Following the reorganisation, the Group has four reporting segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and Industrial IoT.

Segment information is presented in note 16 to the consolidated financial information. In the analysis of the Group's results by reporting segment presented below, comparative information for 2019 has been restated to reflect the segment reorganisation.

### Analysis by reporting segment

**Custom Mixed Signal's** underlying revenue was US$804.7 million in 2020 compared with US$962.5 million in 2019, a decrease of 16%. 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 29% to US$406.9 million in 2020 compared with US$315.1 million in 2019.

Custom Mixed Signal's underlying operating profit was US$230.1 million compared with US$282.6 million in 2019. Underlying operating profit decreased principally due to lower revenue, though this was partially offset by lower operating expenses following the transfer of design centre businesses to Apple in April 2019. Underlying operating margin was 28.6% compared with 29.4% in 2019.

**Advanced Mixed Signal's** underlying revenue was US$274.6 million in 2020 compared with US$253.4 million in 2019, an increase of 8%. Revenue benefited from higher sales of CMICs and PMICs, but this was partially offset by lower sales of backlighting ICs and rapid charge ICs for power adaptors.

Advanced Mixed Signal's underlying operating profit was US$27.9 million compared with US$15.2 million in 2019. Underlying operating profit increased principally due to higher revenue and lower selling and marketing expenses, though these benefits were partially offset by higher R&D expenses. Underlying operating margin was 10.2% compared with 6.0% in 2019.

**Connectivity & Audio's** underlying revenue was US$195.5 million in 2020 compared with US$183.8 million in 2019, an increase of 6%. Sales of Bluetooth® low energy and new audio products increased but this was partially offset by lower sales of legacy DECT-based products.

Connectivity & Audio's underlying operating profit was US$15.1 million compared with US$21.6 million in 2019, with the decline principally due to higher R&D expenses and lower customer contributions to product development costs. Underlying operating margin was 7.7% compared with 11.8% in 2019.

**Industrial IoT's** underlying revenue was US$65.4 million in 2020 compared with US$2.3 million in 2019, with the increase reflecting the acquisition of Adesto and a full year's contribution from Creative Chips.

Industrial IoT incurred an underlying operating loss of US$0.7 million that was unchanged compared with 2019. Creative Chips was profitable on an underlying basis in 2020. Adesto incurred an underlying operating loss but its performance following acquisition was broadly in line with our expectations when we completed the acquisition. Industrial IoT's underlying operating margin improved to (1.1)% compared with (29.2)% in 2019.

**Corporate and other unallocated items** comprise the costs of operating central corporate functions and certain other unallocated items.

Corporate and other unallocated items represented an underlying operating profit of US$25.1 million compared with US$5.6 million in 2019, with the improvement being principally due to the recognition of higher revenue on the effective IP licence granted to Apple in April 2019.

## Results by reporting segment

| Year ended 31 December | Underlying revenue | | | Underlying operating profit/(loss) | |
|---|---|---|---|---|---|
| US$ millions | **2020** | Restated* 2019 | Change | **2020** | Restated* 2019 |
| 2020 compared with 2019 | | | | | |
| Custom Mixed Signal | **804.7** | 962.5 | (16)% | **230.1** | 282.6 |
| Advanced Mixed Signal | **274.6** | 253.4 | 8% | **27.9** | 15.2 |
| Connectivity & Audio | **195.5** | 183.8 | 6% | **15.1** | 21.6 |
| Industrial IoT | **65.4** | 2.3 | nm | **(0.7)** | (0.7) |
| Total segments | **1,340.2** | 1,402.0 | (4)% | **272.4** | 318.7 |
| Corporate and other unallocated items | **35.7** | 18.5 | nm | **25.0** | 5.6 |
| Total Group | **1,375.9** | 1,420.5 | (3)% | **297.4** | 324.3 |

* Restated to reflect the segment reorganisation.

## Analysis of the Group's results

**Revenue** was US$1,375.9 million in 2020 compared with US$1,566.2 million in 2019. Revenue declined principally due to the effect of the licensing arrangements with Apple that became effective during the second quarter of 2019.

Excluding the perpetual IP licence fee of US$145.7 million that was recognised in 2019, underlying revenue declined from US$1,420.5 million in 2019 to US$1,375.9 million in 2020, a decrease of 3%.

Underlying revenue declined principally due to the expected reduction in sales of legacy licensed main PMICs, though this was partially offset by strong growth in sales of other products in Custom Mixed Signal, the contribution of acquired businesses in Industrial IoT and higher sales in each of our other reporting segments.

**Cost of sales** was US$697.8 million in 2020 compared with US$717.7 million in 2019, a decrease of 3%.

Cost of sales declined due to lower sales volumes of higher cost products, but this was partially offset by higher consumption of the fair value uplift on the inventory of acquired businesses.

**Gross profit** was US$678.1 million in 2020 compared with US$848.5 million in 2019. Gross margin decreased to 49.3% in 2020 compared with 54.2% in 2019, principally due to the recognition of the perpetual IP licence fee in 2019.

Underlying gross profit was US$696.9 million compared with US$706.7 million in 2019, a decrease of 1%. Underlying gross margin was 80 basis points higher at 50.6% compared with 49.8% in 2019.

Underlying gross profit excludes the consumption of the fair value uplift on acquired inventory of US$15.3 million (2019: US$1.7 million), share-based compensation and related expenses of US$2.9 million (2019: US$2.2 million), deferred consideration accounted for as compensation expense of US$0.6 million (2019: US$nil) and, in 2019, the perpetual IP licence fee of US$145.7 million.

**Selling and marketing expenses** were US$107.6 million in 2020 compared with US$92.9 million in 2019, with the increase being principally due to the acquisition of Adesto.

Underlying selling and marketing expenses were also higher at US$72.1 million compared with US$69.4 million in 2019 and represented 5.2% of the Group's underlying revenue compared with 4.9% in 2019.

Underlying selling and marketing expenses exclude share-based compensation and related expenses totalling US$9.0 million (2019: US$6.3 million), amortisation of acquired intangible assets of US$24.6 million (2019: US$16.0 million), deferred consideration accounted for as compensation expense of US$1.9 million (2019: US$0.4 million) and, in 2019, integration costs of US$0.8 million.

**General and administrative expenses** were US$103.2 million in 2020 compared with US$101.6 million in 2019, with the increase due to the acquisition of Adesto and severance costs arising from our cost-reduction initiatives being largely offset by lower transaction costs.

Underlying general and administrative expenses were broadly unchanged at US$60.2 million compared with US$60.1 million in 2019 and represented 4.4% of the Group's underlying revenue compared with 4.2% in 2019.

Underlying general and administrative expenses exclude share-based compensation and related expenses totalling US$20.8 million (2019: US$19.9 million), transaction costs of US$9.1 million (2019: US$20.1 million), deferred consideration accounted for as compensation expense of US$4.2 million (2019: US$0.2 million), integration costs of US$6.5 million (2019: US$1.3 million) and, in 2020, cost-reduction expenses of US$2.4 million.

**R&D expenses** were US$325.9 million in 2020 compared with US$313.5 million in 2019.

R&D costs totalled US$346.5 million (2019: US$334.6 million), of which US$13.7 million (2019: US$15.4 million) was capitalised and US$6.9 million (2019: US$5.7 million) was offset by R&D expenditure credits.

R&D expenses were lower in Custom Mixed Signal due to the transfer of design centre businesses to Apple in April 2019 but were higher overall due to the acquisition of Adesto and our increased investment in product development in Advanced Mixed Signal and Connectivity & Audio.

Underlying R&D expenses were US$284.6 million in 2020 compared with US$276.4 million in 2019 and represented 20.7% of the Group's underlying revenue compared with 19.5% in 2019.

Underlying R&D expenses exclude share-based compensation and related expenses totalling US$28.3 million (2019: US$26.2 million), amortisation of acquired intangible assets of US$12.3 million (2019: US$10.1 million), deferred consideration accounted for as compensation expense of US$0.7 million (2019: US$0.5 million) and, in 2019, integration costs of US$0.3 million.

**Other operating expense** was US$20.6 million in 2020 compared with other operating income of US$39.4 million in 2019.

During 2020, we incurred the impairment loss of US$44.9 million on the Adesto goodwill that was partially offset by a credit of US$6.9 million on the remeasurement of the contingent consideration payable for Creative Chips. During 2019, we recognised a gain of US$15.9 million on the transfer of design centre businesses to Apple. Excluding these items, underlying other operating income was US$17.4 million in 2020 compared with US$23.5 million in 2019.

Underlying other operating income was lower in 2020 compared with 2019 principally due to a decrease in customer contributions to product development costs.

**Operating profit** was therefore US$120.9 million in 2020 compared with US$379.9 million in 2019.

Underlying operating profit was US$297.4 million compared with US$324.3 million in 2019, an decrease of 8%. Underlying operating profit declined principally due to lower revenue in Custom Mixed Signal. Underlying operating margin was also lower at 21.6% compared with 22.8% in 2019.

**Interest income** was US$6.1 million in 2020 compared with US$21.9 million in 2019, with the decrease due to our lower average cash balance in 2020 compared with 2019 and a decline in market interest rates.

**Interest expense** was US$8.2 million in 2020 compared with US$11.3 million in 2019, with the decrease principally reflecting the lower amount outstanding on the prepayment from Apple.

**Other finance expense** was US$1.9 million in 2020 compared with US$5.5 million in 2019.

We recognised a net currency translation loss on monetary assets and liabilities of US$2.6 million compared with a loss of US$5.7 million in 2019.

We recognised a fair value loss of US$0.1 million (2019: loss of US$1.4 million) on our now expired warrants over shares in Energous and a credit of US$0.8 million (2019: US$1.6 million) from the amortisation of the gain on initial recognition of the second tranche of the warrants.

# Financial review continued

**Income tax expense** was US$32.4 million (2019: US$83.6 million) on profit before tax of US$116.9 million (2019: US$385.0 million), an effective tax rate for the year of 27.7% (2019: 21.7%).

Our effective tax rate is sensitive to the geographic mix of the Group's profits, reflecting a combination of different tax rates in different countries, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings, and to currency exchange rate movements, which give rise to tax effects where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our relatively high effective tax rate for 2020 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 the goodwill impairment loss.

A large proportion of the Group's R&D activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Our underlying income tax expense was US$52.7 million (2019: US$65.4 million) on underlying profit before tax of US$292.9 million (2019: US$329.8 million). Our underlying effective tax rate for 2020 was therefore 18.0%, which compares with 19.8% for 2019. Our underlying effective tax rate for 2020 was lower than expected, principally because of the tax effects of unpredictable currency exchange rate movements.

**Net income** was US$84.5 million in 2020 compared with US$301.5 million in 2019. Underlying net income was US$240.1 million compared with US$264.4 million in 2019, a decrease of 9%.

Basic earnings per share were US$1.24 (2019: US$4.19) based on the weighted average of 68.1 million shares (2019: 71.9 million shares) that were in issue during the period excluding the weighted average of 2.5 million shares (2019: 1.8 million shares) held by employee benefit trusts and the weighted average of 5.6 million shares (2019: 2.7 million shares) that were held in treasury. Underlying basic earnings per share were US$3.53 (2019: US$3.68).

Diluted earnings per share were US$1.17 (2019: US$3.96). Diluted earnings per share additionally reflect the weighted average of 4.2 million (2019: 4.3 million) dilutive employee share options and awards. Underlying diluted earnings per share were US$3.32 (2019: US$3.47).

## Summary cash flow statement

| US$ millions | 2020 | 2019 |
|---|---|---|
| Cash generated from operations | **204.0** | 549.7 |
| Interest received, net | **3.8** | 17.3 |
| Income taxes paid | **(65.6)** | (70.5) |
| Cash inflow from operating activities | **142.2** | 496.5 |
| Purchase of property, plant and equipment | **(19.4)** | (12.1) |
| Purchase of intangible assets | **(7.3)** | (8.5) |
| Capitalised development expenditure | **(13.7)** | (15.4) |
| Capital element of lease payments | **(9.7)** | (11.1) |
| Free cash flow | **92.1** | 449.4 |
| Purchase of businesses, net of acquired cash | **(407.9)** | (139.8) |
| Proceeds from transfer of design centres, net of cash disposed | **–** | 27.8 |
| Receipt of prepayment from Apple | **–** | 288.6 |
| Cash settlements of prepayment from Apple | **(12.9)** | (20.3) |
| Sale of Dialog shares by EBTs | **0.3** | 3.4 |
| Purchase of own shares | **(80.5)** | (251.8) |
| Settlement of Adesto convertible notes, net | **(92.1)** | – |
| Other cash flows, net | **0.8** | (11.8) |
| Net cash (outflow)/inflow during the period | **(500.2)** | 345.5 |
| Currency translation differences | **(0.5)** | 1.2 |
| (Decrease)/increase in cash and cash equivalents | **(500.7)** | 346.7 |

## Cash flows

**Cash inflow from operating activities** was US$142.2 million in 2020 compared with US$496.5 million in 2019.

Cash generated from operations before changes in working capital was US$276.7 million compared with US$631.9 million in 2019. During 2019, we received consideration totalling US$282.2 million on completion of our IP licensing arrangements with Apple. Excluding those receipts, cash generated from operations before changes in working capital of US$276.7 million in 2020 compares with US$349.7 million in 2019, with the reduction principally reflecting lower product sales, higher operating expenses and lower customer contributions to product development costs in 2020.

Excluding the effect of acquisitions and disposals of businesses, net working capital increased by US$72.7 million in 2020 compared with an increase of US$82.2 million in 2019.

Inventory levels increased slightly during 2020, absorbing cash of US$3.7 million. At the end of 2020, inventories represented 64 days' cost of sales in the preceding quarter (end of 2019: 58 days' cost of sales).

Movements in trade and other receivables during 2020 absorbed cash of US$74.9 million. During 2020, we settled US$112.1 million of the quarterly instalments totalling US$125.0 million due in relation to the prepayment from Apple by recoupment against receivables. If those receivables had been settled in cash, cash of US$37.2 million would have been released from trade and other receivables during 2020. At the end of 2020, trade and other receivables represented 25 days' sales in the preceding quarter (end of 2019: 31 days' sales).

Trade and other payables increased slightly during 2020, releasing cash of US$4.0 million. At the end of 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 releasing cash of US$2.0 million during 2020.

Net interest received was US$3.8 million in 2020 compared with US$17.3 million in 2019.

Net income tax payments were US$65.6 million in 2020 compared with US$70.5 million in 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** was US$448.3 million in 2020 compared with US$147.9 million in 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$40.4 million in 2020 compared with US$36.0 million in 2019. Capital expenditure increased principally due to the addition of recently-acquired businesses.

During 2020, there was a cash outflow of US$400.9 million on the acquisition of Adesto (net of cash of US$4.7 million held by the business on the acquisition date). We also paid deferred consideration for Adesto and Silego totalling US$6.9 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 2019, there was a cash outflow of US$44.6 million on the acquisition of FCI (net of cash of US$9.6 million held by the business on the acquisition date), a cash outflow of US$76.4 million on the acquisition of Creative Chips (net of cash of US$7.3 million held by the business on the acquisition date) and we paid deferred and contingent consideration for Silego totalling US$18.8 million. Also during 2019, there was a cash inflow of US$27.8 million on the transfer of design centre businesses to Apple (net of cash of US$1.5 million held by the businesses on the transfer date).

**Cash outflow from financing activities** was US$194.2 million in 2020 compared with US$3.0 million in 2019.

During 2019, we recognised the receipt of the prepayment from Apple at its fair value of US$288.6 million. Excluding that receipt, the cash outflow from financing activities of US$194.2 million in 2020 compares with US$291.6 million in 2019, with the decrease principally reflecting lower share buyback activity that was partially offset by the net payment of US$92.1 million on the settlement of the convertible notes acquired with Adesto.

During 2020, the Company made purchases under its share buyback programme at a total cost of US$80.5 million (2019: US$251.8 million) and received US$1.5 million (2019: paid US$11.6 million) on the settlement of currency hedges of share buyback liabilities.

During 2020, we settled US$12.9 million (2019: US$20.3 million) of the quarterly instalments due in relation to the prepayment from Apple in cash. Since the scheduled quarterly instalments have now reduced to US$12.5 million, we do not expect to have to settle any of the remaining liability in cash.

During 2020, there was a cash outflow on the capital element of lease payments of US$9.7 million (2019: US$11.1 million) and we made capital repayments of US$0.7 million (2019: US$0.2 million) on bank loans owed by Creative Chips.

Employee benefit trusts received proceeds of US$0.3 million (2019: US$3.4 million) on the exercise of share options, the decrease reflecting the lower exercise prices of options granted in recent years.

# Liquidity and capital resources

## Financial risk management

Dialog is exposed to financial risks including counterparty credit risk, liquidity risk and market risks, which include foreign exchange risk and interest rate risk.

Dialog has a centralised treasury function that is responsible for ensuring that adequate funding is available to meet the Group's requirements as they arise and for maintaining an efficient capital structure, together with managing the Group's counterparty credit risk, foreign currency and interest rate exposures. All treasury operations are conducted in accordance with strict policies and guidelines that are approved by the Board.

We use currency derivatives to manage currency risks and we hold certain equity warrants for strategic reasons. We do not hold derivative financial instruments for speculative purposes.

## Cash and cash equivalents

Cash is managed in line with Treasury policy to ensure there is no significant concentration of credit risk in any one financial institution.

Credit risk is managed by reference to counterparty credit ratings. As a minimum, a counterparty must generally have a long-term public rating of at least "single A" or equivalent.

Counterparty limits are based on a ratings matrix and are closely monitored. Credit risk is further limited by investing only in liquid instruments.

At the end of 2020, cash and cash equivalents amounted to US$523.9 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 2020, the principal amount of the prepayment outstanding was US$75.0 million, which is scheduled to be settled in quarterly instalments by recoupment against invoices totalling U$$50.0 million in 2021 and the balance of US$25.0 million by April 2022.

We account for the prepayment as a financial liability at amortised cost. At the end of 2020, the carrying amount of the liability was US$73.3 million.

## 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.

We consider that our significant cash balances and the revolving credit facility are sufficient to satisfy the Group's working capital requirements and other commitments in the near to medium term.

## Receivables financing facilities

During 2020, we continued to 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 increased by US$10.3 million to US$87.3 million at the end of 2020 compared with US$77.0 million at the end of 2019.

At the end of 2020, cash and cash equivalents included US$74.2 million (end of 2019: US$65.4 million) in relation to receivables sold under these facilities.

## Currency hedging activities

We use forward currency contracts and currency swaps to manage the Group's exposure to currency risk on highly probable forecast cash flows denominated in foreign currencies; principally employment costs, property rents and other contractual payments. We also use derivatives to hedge the currency translation exposure on the Euro-denominated liabilities that arise in relation to the Company's share buyback programme.

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2020, currency derivatives held by the Group were represented by a net asset of US$6.9 million (end of 2019: net liability of US$0.3 million).

All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2020, a gain of US$8.1 million (2019: loss of US$3.9 million) was recognised in other comprehensive income, representing the change during the year in the fair value of derivatives in effective hedging relationships, and a cumulative gain of US$0.6 million (2019: loss of US$9.5 million) was transferred from equity to profit or loss on the occurrence of the hedged cash flows.

# Financial review continued

After taking into account hedging, we recognised a net currency translation loss of US$0.8 million (2019: net loss of US$4.6 million) in profit or loss in relation to liabilities to purchase shares under the Company's share buyback programme.

### Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 13,597,268 of its own ordinary shares and returned €463.7 million (US$515.2 million) to shareholders.

On 12 March 2020, the Company announced details of the second tranche of the share buyback programme pursuant to an authority granted by shareholders at the Company's 2019 AGM, under which the Company committed to purchase shares with a minimum cost of €70.0 million and a maximum cost of €90.0 million.

We completed the fourth and final settlement of this tranche on 8 October 2020. We purchased a total of 2,036,705 shares under this tranche at a cost of €70.0 million (US$80.0 million). We also incurred transaction costs of US$0.5 million.

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. The Company has not yet announced any purchases under the 2020 AGM authority.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2020 AGM authority.

We will seek renewal of the share buyback authority at the Company's 2021 AGM.

### Cancellation of treasury shares

On 18 May 2020, the Company cancelled 3,700,000 of the treasury shares that it had purchased under the share buyback programme. At the end of 2020, the Company held 5,413,452 shares in treasury at a cost of US$203.0 million.

## Balance sheet

### Summary balance sheet

| US$ millions | **As at 31 December 2020** | As at 31 December 2019 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **523.9** | 1,024.5 |
| Other current assets | **320.2** | 281.4 |
| Total current assets | **844.1** | 1,305.9 |
| Goodwill | **756.8** | 482.1 |
| Other intangible assets | **391.0** | 272.1 |
| Property, plant and equipment – owned | **60.7** | 61.1 |
| Property, plant and equipment – leased | **40.6** | 41.4 |
| Other non-current assets | **28.3** | 14.4 |
| Total non-current assets | **1,277.4** | 871.1 |
| **Total assets** | **2,121.5** | 2,177.0 |
| **Liabilities and equity** | | |
| Current liabilities | **343.8** | 373.4 |
| Non-current liabilities | **123.2** | 231.0 |
| Total liabilities | **467.0** | 604.4 |
| Total equity | **1,654.5** | 1,572.6 |
| **Total liabilities and equity** | **2,121.5** | 2,177.0 |

### Capital management

The Group's capital is represented by its total equity.

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support our research and development activities and our product pipeline.

We will fund our growth using a mix of equity and debt after giving consideration to prevailing market conditions.

## Balance sheet

### Goodwill

At the end of 2020, the carrying amount of goodwill was US$756.8 million compared with US$482.1 million at the end of 2019, an increase of US$274.7 million that was almost entirely due to the provisional goodwill of US$318.9 million recognised on the acquisition of Adesto, less the impairment of that goodwill of US$44.9 million that was recognised at the end of the third quarter of 2020.

Our annual goodwill impairment tests performed during November 2020 showed that the recoverable amount of each operating segment to which goodwill is allocated exceeded its carrying amount and therefore no further impairment was recognised. Details of the impairment tests performed and the sensitivity of the recoverability of the goodwill allocated to Industrial IoT to changes in the key assumptions made in those tests are set out in note 10 to the consolidated financial information.

### Other intangible assets

At the end of 2020, the carrying amount of other intangible assets was US$391.0 million compared with US$272.1 million at the end of 2019, an increase of US$118.9 million. Additions during 2020 totalled US$179.4 million, comprising identifiable intangible assets recognised on the acquisition of Adesto of US$157.9 million, capitalised product development costs of US$13.7 million and purchased software, licences and patents totalling US$7.8 million. During 2020, the related amortisation expense was US$60.9 million (2019: US$52.2 million).

### Property, plant and equipment

Since we operate a fabless business model, we do not have any manufacturing facilities but we occupy R&D facilities and administrative offices. With the exception of two properties that we acquired with Creative Chips, all of our facilities are leased.

At the end of 2020, the Group operated in 37 locations worldwide in facilities covering a total of approximately 67,000 square metres. Management considers that the Group's facilities are adequate for its current requirements.

Owned property, plant and equipment principally comprises test equipment, office equipment and leasehold improvements. At the end of 2020, the carrying amount of those assets was US$60.7 million (end of

2019: US$61.1 million). Additions during 2020 totalled US$24.3 million, including assets of US$4.9 million acquired with Adesto. During 2020, the related depreciation expense was US$24.8 million (2019: US$27.2 million).

Leased property, plant and equipment comprises right-of-use assets. At the end of 2020, the carrying amount of those assets was US$40.6 million (end of 2019: US$41.4 million). Additions during 2020 totalled US$9.7 million, including assets of US$6.6 million acquired with Adesto. During 2020, the related depreciation expense was US$10.8 million (2019: US$12.5 million).

### Other non-current assets

Other non-current assets totalled US$28.3 million at the end of 2020 compared with US$14.4 million at the end of 2019, an increase of US$13.9 million that principally reflected the recognition of deferred tax assets in relation to Adesto's brought forward tax losses, net of deferred tax liabilities that were offset against them.

### Current assets

Current assets were US$844.1 million at the end of 2020 compared with US$1,305.9 million at the end of 2019, a decrease of US$461.8 million.

Cash and cash equivalents decreased by US$500.7 million to US$523.9 million, principally due to the acquisition of Adesto. Other current assets increased by US$38.8 million to US$320.2 million.

Income tax receivables increased by US$12.6 million to US$13.7 million, principally due to a change in the timing of payments on account in the UK.

### Current liabilities

Current liabilities were US$343.8 million at the end of 2020 compared with US$373.4 million at the end of 2019, a decrease of US$29.6 million.

Trade and other payables increased by US$47.2 million to US$151.8 million. Lease and other current financial liabilities decreased by US$71.6 million to US$61.7 million, principally due to the reduction in the current element of the prepayment from Apple.

Income taxes payable decreased by US$10.3 million to US$8.2 million, reflecting lower taxable profits and the timing of tax payments.

Other current liabilities increased by US$5.1 million to US$122.1 million.

### Non-current liabilities

Non-current liabilities amounted to US$123.2 million at the end of 2020 compared with US$231.0 million at the end of 2019, a decrease of US$107.8 million.

Lease and other non-current financial liabilities decreased by US$57.3 million to US$57.7 million, principally due to the reduction in the non-current element of the prepayment from Apple.

Deferred tax liabilities decreased by US$11.0 million to US$12.1 million, principally due to their partial offset against deferred tax assets recognised on the acquisition of Adesto.

Other non-current liabilities decreased by US$39.5 million to US$53.4 million, principally due to the reduction in the non-current element of the deferred revenue on the effective IP licence granted to Apple in 2019.

### Total equity

Total equity was US$1,654.5 million at the end of 2020 compared with US$1,572.6 million at the end of 2019, an increase of US$81.9 million. During 2020, total comprehensive income was US$93.8 million and there was a credit to equity of US$66.4 million relating to share-based payments, but these increases were partially offset by the debit to equity of US$78.2 million arising from the purchase of own shares.

At the end of 2020, Dialog shares held in treasury amounted to US$203.0 million (end of 2019: US$251.8 million) and Dialog shares held by employee benefit trusts amounted to US$1.9 million (end of 2019: US$22.1 million).

## Financial reporting following Brexit

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

Following the end of the transition period, the UK is treated as a "third country" within the meaning of EU law and it was necessary for Dialog to choose a new EU home member state. Since Dialog's shares are listed on the Frankfurt Stock Exchange, it was natural that Dialog should choose Germany as its new home member state. Consequently, although Dialog remains registered in the UK, it is now regulated by the German Federal Financial Supervisory Authority ("BaFin").

Since 2005, Dialog has prepared its consolidated financial statements in accordance with IFRS as adopted for use in the EU ("EU-adopted IFRS"). Following the end of the transition period, the UK Government introduced its own process for endorsing IFRS for use in the UK ("UK-adopted IFRS"). For financial periods beginning on or after 1 January 2021, Dialog will prepare its consolidated financial statements for filing in the UK in accordance with UK-adopted IFRS.

At the end of the transition period, the UK adopted IFRS that had been adopted for use in the EU. IFRS that had not been endorsed by the EU at the end of the transition period will be subject to the UK endorsement process. It is possible that UK-adopted IFRS and EU-adopted IFRS may diverge in the future. If differences emerge that are relevant to Dialog, it may be necessary in future for us to prepare different versions of our consolidated financial statements for filing in the UK and to meet BaFin's reporting requirements.

## Subsequent event

### Proposed acquisition of Dialog by Renesas

On 8 February 2021, the directors of Dialog and Renesas Electronics Corporation ("Renesas"), a supplier of advanced semiconductor solutions, announced that they have reached agreement on the terms of the acquisition of the entire issued and to be issued share capital of the Company for €67.50 per share in cash, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

Renesas is incorporated in Japan and its shares are listed on the Tokyo Stock Exchange.

It is intended that the acquisition will be effected by means of a scheme of arrangement under the UK Companies Act 2006. As such, completion of the transaction will be subject to approval by Dialog's shareholders and the court in England & Wales. It will also be subject to regulatory approvals in a number of jurisdictions and other customary closing conditions. Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition will become effective during the second half of 2021. In the meantime, Dialog will operate on a business as usual basis, including continuing to fulfil its reporting obligations as a company listed on the Frankfurt Stock Exchange.

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

# Consolidated statement of income

**Year ended 31 December**

| | Note | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|---|
| Revenue | 3, 16 | **1,375,924** | 1,566,239 | 1,442,138 |
| Cost of sales | | **(697,805)** | (717,703) | (751,070) |
| **Gross profit** | | **678,119** | 848,536 | 691,068 |
| Selling and marketing expenses | | **(107,568)** | (92,951) | (83,877) |
| General and administrative expenses | | **(103,221)** | (101,587) | (84,351) |
| Research and development expenses | | **(325,860)** | (313,550) | (326,309) |
| Other operating (expense)/income | 4 | **(20,595)** | 39,405 | 3,176 |
| **Operating profit** | 16 | **120,875** | 379,853 | 199,707 |
| Interest income | 5 | **6,086** | 21,950 | 9,883 |
| Interest expense | 5 | **(8,173)** | (11,309) | (3,134) |
| Other finance expense | 5 | **(1,885)** | (5,456) | (10,263) |
| **Profit before income taxes** | | **116,903** | 385,038 | 196,193 |
| Income tax expense | 6 | **(32,408)** | (83,586) | (55,281) |
| **Profit after income taxes** | | **84,495** | 301,452 | 140,912 |
| Share of loss of associate | | **–** | – | (1,113) |
| **Net income** | | **84,495** | 301,452 | 139,799 |

| | | | | |
|---|---|---|---|---|
| **Earnings per share (US$)** | 7 | | | |
| Basic | | **1.24** | 4.19 | 1.89 |
| Diluted | | **1.17** | 3.96 | 1.80 |
| **Weighted average number of ordinary shares (in thousands)** | 7 | | | |
| Basic | | **68,051** | 71,896 | 73,959 |
| Diluted | | **72,239** | 76,181 | 77,655 |

# Consolidated statement of comprehensive income

Year ended 31 December

| | 2020 US$000 | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| **Net income** | **84,495** | 301,452 | 139,799 |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit or loss in subsequent periods** | | | |
| Currency translation differences on foreign operations: | | | |
| – Gain/(loss) recognised in the year | **2,603** | 2,710 | (527) |
| – Loss transferred to profit or loss on disposal of a subsidiary | **–** | 309 | – |
| – Related income tax credit/(expense) | **370** | (91) | (78) |
| Cash flow hedges: | | | |
| – Fair value gain/(loss) recognised on effective hedges in the year | **8,116** | (3,941) | (10,075) |
| – Fair value (gain)/loss transferred to profit or loss in the year | **(607)** | 9,549 | (2,343) |
| – Related income tax (expense)/credit | **(1,427)** | (1,065) | 2,376 |
| | **9,055** | 7,471 | (10,647) |
| **Items that will not be reclassified to profit or loss** | | | |
| Equity investments: | | | |
| – Fair value gain/(loss) in the year | **53** | (6,994) | (23,764) |
| – Related income tax credit | **–** | – | 1,015 |
| Remeasurements of net defined benefit liability: | | | |
| – Remeasurements recognised in the year | **235** | (666) | – |
| – Related income tax (expense)/credit | **(46)** | 146 | – |
| | **242** | (7,514) | (22,749) |
| **Other comprehensive income/(loss) for the year** | **9,297** | (43) | (33,396) |
| **Total comprehensive income for the year** | **93,792** | 301,409 | 106,403 |

# Consolidated balance sheet

As at 31 December

| | Note | 2020 US$000 | 2019 US$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 8 | **523,880** | 1,024,544 |
| Trade and other receivables | | **120,629** | 134,079 |
| Other current financial assets | | **8,476** | 1,056 |
| Inventories | 9 | **159,393** | 122,624 |
| Income tax receivables | | **13,689** | 1,052 |
| Other current assets | | **18,006** | 22,532 |
| **Total current assets** | | **844,073** | 1,305,887 |
| Goodwill | 10 | **756,838** | 482,134 |
| Other intangible assets | 11 | **390,990** | 272,068 |
| Property, plant and equipment – owned | 12 | **60,728** | 61,138 |
| Property, plant and equipment – leased | 12 | **40,602** | 41,423 |
| Investments | | **3,533** | 3,110 |
| Other non-current financial assets | | **2,263** | 2,202 |
| Other non-current assets | | **3,701** | 780 |
| Deferred tax assets | | **18,790** | 8,242 |
| **Total non-current assets** | | **1,277,445** | 871,097 |
| **Total assets** | | **2,121,518** | 2,176,984 |
| **Liabilities and equity** | | | |
| Trade and other payables | | **151,847** | 104,620 |
| Lease liabilities | | **11,767** | 8,972 |
| Other current financial liabilities | | **49,899** | 124,373 |
| Provisions | | **6,945** | 4,162 |
| Income taxes payable | | **8,167** | 18,491 |
| Other current liabilities | | **115,128** | 112,804 |
| **Total current liabilities** | | **343,753** | 373,422 |
| Lease liabilities | | **32,357** | 34,072 |
| Other non-current financial liabilities | | **25,379** | 80,963 |
| Provisions | | **3,590** | 3,102 |
| Net defined benefit liability | | **6** | 1,727 |
| Deferred tax liabilities | | **12,142** | 23,070 |
| Other non-current liabilities | | **49,763** | 88,044 |
| **Total non-current liabilities** | | **123,237** | 230,978 |
| Ordinary shares | | **14,253** | 14,204 |
| Share premium account | | **403,660** | 403,660 |
| Retained earnings | | **1,454,908** | 1,451,582 |
| Other reserves | 15 | **(216,402)** | (274,729) |
| Dialog shares held by employee benefit trusts | | **(1,891)** | (22,133) |
| **Total equity** | | **1,654,528** | 1,572,584 |
| **Total liabilities and equity** | | **2,121,518** | 2,176,984 |

# Consolidated statement of cash flows

**Year ended 31 December**

| | Note | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Net income | | **84,495** | 301,452 | 139,799 |
| Non-cash items within net income: | | | | |
| – Amortisation of intangible assets | 11 | **60,903** | 52,233 | 49,130 |
| – Depreciation of property, plant and equipment | 12 | **35,544** | 39,611 | 31,455 |
| – Impairment of non-current assets | 10 | **44,900** | 3,130 | – |
| – Increase in inventory reserve, net | | **3,743** | 11,133 | 5,643 |
| – Share-based compensation expense | | **58,630** | 46,539 | 41,153 |
| – Deferred licence revenue | | **(35,707)** | (18,484) | – |
| – Gain on transfer of design centre businesses | | **–** | (15,898) | – |
| – Other non-cash items | | **(10,335)** | 2,812 | 6,590 |
| Effective IP licence fee received | | **–** | 136,400 | – |
| Interest expense/(income), net | 5 | **2,087** | (10,641) | (6,749) |
| Income tax expense | 6 | **32,408** | 83,586 | 55,281 |
| **Cash generated from operations before changes in working capital** | | **276,668** | 631,873 | 322,302 |
| Changes in working capital: | | | | |
| – Increase in trade and other receivables | | **(74,910)** | (95,189) | (36,310) |
| – (Increase)/decrease in inventories | | **(3,656)** | 23,196 | 13,615 |
| – Decrease/(increase) in prepaid expenses | | **3,108** | (893) | 56 |
| – Increase/(decrease) in trade and other payables | | **3,957** | (23,107) | 15,968 |
| – Increase/(decrease) in provisions | | **1,747** | (1,661) | 3,089 |
| – Change in other assets and liabilities | | **(2,899)** | 15,449 | 2,852 |
| **Cash generated from operations** | | **204,015** | 549,668 | 321,572 |
| Interest paid | | **(3,906)** | (4,322) | (530) |
| Interest received | | **7,743** | 21,638 | 8,714 |
| Income taxes paid | | **(65,609)** | (70,519) | (41,107) |
| **Cash inflow from operating activities** | | **142,243** | 496,465 | 288,649 |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | **(19,410)** | (12,129) | (26,145) |
| Purchase of intangible assets | | **(7,256)** | (8,437) | (6,197) |
| Payments for capitalised development costs | | **(13,746)** | (15,384) | (24,771) |
| Purchase of businesses, net of acquired cash | 2 | **(407,865)** | (139,806) | (12,840) |
| Proceeds from transfer of design centres, net of cash disposed | | **–** | 27,814 | – |
| **Cash outflow from investing activities** | | **(448,277)** | (147,942) | (69,953) |
| **Cash flows from financing activities** | | | | |
| Receipt of prepayment from Apple | | **–** | 288,584 | – |
| Cash settlements of prepayment from Apple | | **(12,917)** | (20,345) | – |
| Purchase of own shares into treasury | 13 | **(80,500)** | (251,774) | – |
| Settlement of currency hedges on share buyback obligation | | **1,503** | (11,625) | – |
| Settlement of Adesto convertible notes | 2 | **(92,114)** | – | – |
| Capital element of lease payments | | **(9,734)** | (11,086) | (1,651) |
| Repayment of bank loans | | **(697)** | (156) | – |
| Purchase of shares by employee benefit trusts | | **–** | – | (21,786) |
| Sale of shares by employee benefit trusts | | **291** | 3,362 | 3,617 |
| **Cash outflow from financing activities** | | **(194,168)** | (3,040) | (19,820) |
| **Net cash (outflow)/inflow during the year** | | **(500,202)** | 345,483 | 198,876 |
| Cash and cash equivalents at the beginning of the year | | **1,024,544** | 677,848 | 479,295 |
| Currency translation differences | | **(462)** | 1,213 | (323) |
| **Cash and cash equivalents at the end of the year** | 8 | **523,880** | 1,024,544 | 677,848 |

# Consolidated statement of changes in equity

**Year ended 31 December**

| | Ordinary shares US$000 | Share premium account US$000 | Retained earnings US$000 | Other reserves (note 15) US$000 | Dialog shares held by employee benefit trusts US$000 | Total US$000 |
|---|---|---|---|---|---|---|
| As at 31 December 2017 | 14,204 | 403,660 | 915,482 | 9,977 | (902) | 1,342,421 |
| Adjustment on initial application of IFRS 15 | – | – | 1,541 | – | – | 1,541 |
| Adjusted balance as at 1 January 2018 | 14,204 | 403,660 | 917,023 | 9,977 | (902) | 1,343,962 |
| Year ended 31 December 2018 | | | | | | |
| Net income | – | – | 139,799 | – | – | 139,799 |
| Other comprehensive loss | – | – | – | (33,396) | – | (33,396) |
| Total comprehensive income/(loss) | – | – | 139,799 | (33,396) | – | 106,403 |
| Other changes in equity: | | | | | | |
| – Share buyback obligation | – | – | (171,187) | – | – | (171,187) |
| – Purchase of shares by employee benefit trusts | – | – | – | – | (21,786) | (21,786) |
| – Sale of shares by employee benefit trusts | – | – | 3,443 | – | 174 | 3,617 |
| – Share-based compensation, including tax credit of US$ 345 | – | – | 41,498 | – | – | 41,498 |
| As at 31 December 2018 | 14,204 | 403,660 | 930,576 | (23,419) | (22,514) | 1,302,507 |
| Adjustment on initial application of IFRS 16 | – | – | 40 | – | – | 40 |
| Adjusted balance as at 1 January 2019 | 14,204 | 403,660 | 930,616 | (23,419) | (22,514) | 1,302,547 |
| Year ended 31 December 2019 | | | | | | |
| Net income | – | – | 301,452 | – | – | 301,452 |
| Other comprehensive (loss)/income | – | – | (520) | 477 | – | (43) |
| Total comprehensive income | – | – | 300,932 | 477 | – | 301,409 |
| Other changes in equity: | | | | | | |
| – Purchase of own shares into treasury | – | – | (4,431) | (251,787) | – | (256,218) |
| – Share buyback obligation | – | – | 169,505 | – | – | 169,505 |
| – Sale of shares by employee benefit trusts | – | – | 2,981 | – | 381 | 3,362 |
| – Share-based compensation, including tax credit of US$ 5,440 | – | – | 51,979 | – | – | 51,979 |
| As at 31 December 2019 | 14,204 | 403,660 | 1,451,582 | (274,729) | (22,133) | 1,572,584 |
| **Year ended 31 December 2020** | | | | | | |
| Net income | **–** | **–** | **84,495** | **–** | **–** | **84,495** |
| Other comprehensive income | **–** | **–** | **189** | **9,108** | **–** | **9,297** |
| Total comprehensive income | **–** | **–** | **84,684** | **9,108** | **–** | **93,792** |
| Other changes in equity: | | | | | | |
| – Purchase of own shares into treasury | **–** | **–** | **1,374** | **(80,500)** | **–** | **(79,126)** |
| – Share buyback obligation | **–** | **–** | **908** | **–** | **–** | **908** |
| – Cancellation of treasury shares | **(449)** | **–** | **(129,270)** | **129,719** | **–** | **–** |
| – Shares issued to employee benefit trust | **498** | **–** | **–** | **–** | **(498)** | **–** |
| – Sale of shares by employee benefit trusts | **–** | **–** | **(20,449)** | **–** | **20,740** | **291** |
| – Share-based consideration | **–** | **–** | **5,096** | **–** | **–** | **5,096** |
| – Share-based compensation, net of tax credit of US$ 2,353 | **–** | **–** | **60,983** | **–** | **–** | **60,983** |
| **As at 31 December 2020** | **14,253** | **403,660** | **1,454,908** | **(216,402)** | **(1,891)** | **1,654,528** |

# Notes to the consolidated financial information

For the year ended 31 December 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 mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, backlighting and LED solid state lighting, industrial and automotive applications. Following a segment reorganisation that became effective during the fourth quarter of 2020, Dialog has four reporting segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and Industrial IoT. Segment information is presented in note 16.

### Registered office

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

### Basis of preparation of the financial information

The financial information on pages 16 to 35 is derived from the consolidated financial statements of the Company and its subsidiaries (together, the 'Group' or 'Dialog') for the year ended 31 December 2020.

The consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments, derivative financial instruments and contingent consideration are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2020 for the purposes of section 435 of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of IFRS.

### Going concern

At the time of approving the financial statements, the Directors are required to form a judgement as to whether the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. In forming their judgement, the Directors consider the Group's current financial position, its medium-term plan and its budget for the next financial year, and the principal risks and uncertainties that it faces. The Directors have also considered the proposed acquisition of the Company by Renesas Electronics Corporation that was announced on 8 February 2021.

At the end of 2020, the Group held cash and cash equivalents of US$524 million and currently has an undrawn committed revolving credit facility of US$150 million. Based on the Group's most recent plan and budget, the Directors expect that the Group will continue to be cash generative over the next 12 months, even in the downside scenario that they considered regarding the impact of the Covid-19 pandemic. For these reasons, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

### 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.

### Presentation currency

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

### Significant accounting policies

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).

In May 2020, the IASB issued an amendment to IFRS 16 *Leases* to make it easier for lessees to account for rent concessions, such as rent holidays and temporary rent reductions, that are granted as a direct consequence of the Covid-19 pandemic. The amendment exempts lessees from having to determine whether such Covid-19-related rent concessions are lease modifications and allows lessees to account for them as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce rent payments due on or before 30 June 2021. We applied the amendment with effect from 1 January 2020 and recognised a resulting credit of US$252 for rent concessions in profit or loss during 2020.

We also 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 - Phase 1* (Amendments to IFRS 9 and IFRS 7)

# Notes to the consolidated financial information continued

## 1. Background continued

### Accounting standards issued but not yet adopted

We have not yet adopted the following accounting pronouncements, none of which are expected to have a material impact on the Group's results or financial position:

- *Interest Rate Benchmark Reform - Phase 2* (Amendments to IFRS 9, IFRS 7 and IFRS 16)
- *Onerous Contracts - Cost of Fulfilling a Contract* (Amendments to IAS 37)
- *Classification of Liabilities as Current or Non-Current* (Amendments to IAS 1)
- *Definition of Accounting Estimates* (Amendments to IAS 8)

### Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 3 March 2021.

The Company's auditors, Deloitte LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 December 2020 in which they did not draw attention to any matters by way of emphasis without qualifying their report and did not make any statements under s498(2) or (3) Companies Act 2006.

The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 4 May 2021.

## 2. Business combinations

**Acquisition of Adesto**

On 29 June 2020, we completed the acquisition of 100% of the equity interests in Adesto Technologies Corporation ("Adesto") at a price of US$12.55 per share in cash.

Adesto is a leading provider of innovative non-volatile memory, custom ICs and embedded systems for the IIoT market. Headquartered in Santa Clara, California, and listed on NASDAQ, Adesto had approximately 270 employees when acquired 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.

On completion, we paid US$397,215 in cash for Adesto's outstanding issued common shares and US$8,447 in cash to settle Adesto's 'in the money' outstanding vested employee share awards.

On completion, Adesto's "in the money" outstanding unvested employee share awards were converted into either replacement Dialog restricted share units or the right to receive future cash payments, which are generally subject to the vesting schedule and other terms (including a service condition) that governed the awards that they replaced. We determined that the acquisition date fair value of the replacement awards was US$26,019 (net of an allowance of US$1,664 for expected forfeitures), of which US$11,225 was attributable to employee service rendered before the acquisition date and therefore represented deferred consideration. We are recognising the balance of the acquisition date fair value of the replacement awards of US$14,794 as an employee compensation expense over the remaining vesting periods of the awards.

During 2020, we paid US$5,944 in settlement of the consideration element of the deferred cash rights that reflected accelerated vesting of those rights in accordance with employee change of control arrangements. We recognised a credit of US$25 to profit or loss on the forfeiture of the consideration element of the deferred cash rights. At the end of 2020, the remaining liability for the deferred consideration was US$151 that is expected to be settled over the period to July 2024.

In September 2019, Adesto issued 4.25% Convertible Notes 2024 ("the Notes"). In the event of a change in control, the indenture governing the Notes gave the noteholders a number of options, of which the most advantageous to them was the option to convert the Notes into a right to receive a cash payment equivalent to the intrinsic value of the Notes on conversion into Adesto's common shares at the transaction price of US$12.55 per share plus a 'make whole' amount. All of the noteholders chose the conversion option and the Notes were settled for cash payments totalling US$98,207 during the third quarter of 2020. At the same time as issuing the Notes, Adesto entered into privately negotiated capped call options over its own common shares. Immediately following completion, Adesto terminated the options and shortly afterwards received US$6,093 in cash from the issuers in settlement of the fair value of the options based on the transaction price of US$12.55 per share.

## 2. Business combinations continued

Our provisional allocation of the purchase consideration to the identifiable assets and liabilities of Adesto and goodwill is as follows:

| | US$000 |
|---|---|
| **Assets acquired** | |
| Cash and cash equivalents | 4,749 |
| Trade and other receivables | 22,819 |
| Inventories | 36,901 |
| Intangible assets | 157,943 |
| Property, plant and equipment – owned | 4,864 |
| Property, plant and equipment – leased | 6,557 |
| Deferred tax assets | 4,789 |
| Other assets | 15,096 |
| **Total assets acquired** | **253,718** |
| **Liabilities assumed** | |
| Trade and other payables | 43,567 |
| Convertible notes | 98,207 |
| Lease liabilities | 6,557 |
| Other liabilities | 7,374 |
| **Total liabilities** | **155,705** |
| **Net identifiable assets acquired** | **98,013** |
| Goodwill arising on acquisition | 318,875 |
| **Consideration** | **416,888** |

| | |
|---|---|
| **Purchase consideration was satisfied by:** | |
| Cash | 405,662 |
| Dialog RSUs | 5,096 |
| Deferred cash rights | 6,130 |
| **Consideration** | **416,888** |

# Notes to the consolidated financial information continued

## 2. Business combinations continued

We have not yet completed the purchase price allocation for Adesto, with the following matters being among those outstanding: the recoverability of certain trade receivables; the assessment of certain product warranty claims; and the determination of the amount of Adesto's brought forward tax losses that will be available to be relieved against expected future taxable profits.

Trade and other receivables are stated after deducting US$1,035 for amounts that are not expected to be collected.

Identifiable intangible assets acquired included customer relationships (US$105,099), order backlog (US$532), developed technology (US$44,307), in-process research and development (US$3,222) and trade names (US$4,195).

We recognised provisional goodwill of US$318,875 on the acquisition of Adesto that is principally attributable to the benefits expected to be derived from the development of new technology and product offerings by Adesto in the future, the assembled workforce and the opportunities to cross-sell Adesto's products to Dialog's customers. None of the goodwill is deductible for tax purposes.

During 2020, Adesto contributed US$40,973 to the Group's revenue and a net loss of US$36,420 after taking into account purchase accounting adjustments. If we had acquired Adesto on 1 January 2020, we estimate that the Group's revenue for 2020 would have been US$29,354 higher at US$1,405,278 and its net income US$31,912 lower at US$52,583.

During 2020, we incurred transaction costs of US$9,027 in relation to the acquisition of Adesto (included within general and administrative expenses). We also paid US$7,791 in settlement of certain of Adesto's transaction costs.

**Consideration payable for Creative Chips GmbH**
We acquired Creative Chips on 31 October 2019.

*Purchase price adjustment*
On completion of the acquisition, 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. In February 2020, we paid a purchase price adjustment of US$84 to the sellers reflecting Creative Chips' actual cash, debt and working capital on completion.

*Contingent consideration*
Additional consideration of up to US$23,000 in cash was payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. During 2020, it became apparent that one of the product development targets would not be met. We therefore reduced the contingent consideration liability to US$nil and recognised a corresponding credit of US$6,938 in profit or loss (within other operating income).

**Consideration payable for FCI Inc.**
We acquired FCI on 31 May 2019.

*Purchase price adjustment*
On completion of the acquisition, we paid consideration of US$54,155 in cash, including US$9,155 in respect of FCI's estimated cash and working capital. During the second quarter of 2020, we reduced our estimate of the purchase price adjustment receivable from the vendor by US$76 and recognised a corresponding increase in the goodwill arising on the acquisition. Since we are now beyond the measurement period, any further change in the purchase price adjustment will be recognised in profit or loss.

**Consideration payable for Silego Technology Inc.**
We acquired 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 2020, we paid US$924 in settlement of vested deferred consideration and recognised a credit of US$30 to profit or loss in respect of forfeitures. As at 31 December 2020, the remaining liability for the deferred consideration was US$19 that is expected to be settled during the first quarter of 2021.

# 2. Business combinations continued

## Cash flows in relation to business combinations

During the years ended 31 December 2020, 2019 and 2018, the net cash outflow on the purchase of businesses was as follows:

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Initial consideration | **405,662** | 137,877 | – |
| Purchase price adjustment | **84** | – | – |
| Deferred consideration | **6,868** | 2,089 | 2,788 |
| Contingent consideration | **–** | 16,730 | 9,360 |
| **Consideration paid** | **412,614** | 156,696 | 12,840 |
| Cash and cash equivalents acquired | **(4,749)** | (16,890) | – |
| **Cash outflow on purchase of businesses, net of cash acquired** | **407,865** | 139,806 | 12,840 |

Contingent consideration paid in 2019 and 2018 in relation to the acquisition of Silego was below our estimate at the acquisition date and is therefore wholly included within cash flows from investing activities.

# 3. Revenue

Revenue may be analysed as follows:

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Sale of products: | | | |
| – Sales direct to end-customers | **896,317** | 1,045,774 | 1,144,371 |
| – Sales to distributors | **437,344** | 355,348 | 296,598 |
| **Total sale of products** | **1,333,661** | 1,401,122 | 1,440,969 |
| Product and IP development services | **3,355** | – | – |
| Licensing agreements with Apple: | | | |
| – Perpetual licence fee | **–** | 145,750 | – |
| – Effective licence fee | **35,707** | 18,484 | – |
| Other licence fees and royalties | **3,201** | 883 | 1,169 |
| **Total revenue** | **1,375,924** | 1,566,239 | 1,442,138 |

# 4. Other operating income/(expense)

Other operating income/(expense) comprised:

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Contributions to product development costs | **14,828** | 21,872 | 2,298 |
| Impairment of goodwill (note 10) | **(44,900)** | – | – |
| Change in estimate of contingent consideration (note 2) | **6,938** | – | 878 |
| Gain on transfer of design centre businesses | **–** | 15,898 | – |
| Rental and other income | **2,539** | 1,635 | – |
| **Total** | **(20,595)** | 39,405 | 3,176 |

# 5. Finance income/(expense)

## a) Interest income

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Interest on bank deposits | **2,425** | 9,919 | 5,619 |
| Interest on money market funds | **3,605** | 11,910 | 4,189 |
| Other interest income | **56** | 121 | 75 |
| **Total interest income** | **6,086** | 21,950 | 9,883 |

# Notes to the consolidated financial information continued

## 5. Finance income/(expense) continued

### b) Interest expense

| | 2020 US$000 | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Interest on lease liabilities | **(2,062)** | (2,956) | – |
| Interest on income tax payable | **(499)** | – | – |
| Interest on finance leases and hire purchase contracts | **–** | – | (50) |
| Facility commitment fees | **(1,192)** | (1,506) | (452) |
| Amortisation of deferred facility arrangement costs | **(260)** | (295) | (315) |
| Unwinding of discount on contingent consideration | **(272)** | (464) | (2,220) |
| Unwinding of discount on prepayment | **(3,783)** | (5,884) | – |
| Unwinding of discount on provisions | **(58)** | (60) | (70) |
| Other interest expense | **(47)** | (144) | (27) |
| **Total interest expense** | **(8,173)** | (11,309) | (3,134) |

### c) Other finance (expense)/income

| | 2020 US$000 | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Currency translation loss, net | **(2,620)** | (5,655) | (994) |
| Fair value loss on Energous warrants | **(31)** | (1,434) | (10,853) |
| Amortisation of gain on initial measurement of Energous warrants | **809** | 1,584 | 1,584 |
| Net interest expense on the net defined benefit liability | **(43)** | (14) | – |
| Proceeds from sale of Arctic Sand shares | **–** | 63 | – |
| **Total other finance expense** | **(1,885)** | (5,456) | (10,263) |

## 6. Income taxes

### Income tax recognised in profit or loss

The components of the Group's income tax expense for the year were as follows:

| | 2020 US$000 | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| **Current tax** | | | |
| United Kingdom | **(25,331)** | (41,617) | (15,896) |
| Foreign | **(22,424)** | (45,523) | (33,633) |
| **Deferred tax** | | | |
| United Kingdom | **1,572** | (90) | (321) |
| Foreign | **13,775** | 3,644 | (5,431) |
| **Income tax expense** | **(32,408)** | (83,586) | (55,281) |

| | 2020 US$000 | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| **Current tax** | | | |
| Current income tax charge | **(48,148)** | (88,252) | (45,587) |
| Adjustments in respect of prior years | **393** | 1,112 | (3,942) |
| **Deferred tax** | | | |
| Origination and reversal of temporary differences | **16,321** | 4,953 | (4,663) |
| Movement in deferred tax balances following intra-group reorganisation | **(2,054)** | (1,921) | (1,920) |
| Adjustments in respect of prior years | **1,080** | 522 | 831 |
| **Income tax expense** | **(32,408)** | (83,586) | (55,281) |

# 6. Income taxes continued

## Factors affecting the income tax expense for the year

The Group's income tax expense differed from the amount that would have resulted from applying the statutory rate of corporation tax in the UK to the Group's profit before income taxes for the reasons shown in the following table:

| | 2020 US$000 | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| **Profit before income taxes** | **116,903** | 385,038 | 196,193 |
| Income tax expense at UK corporation tax rate of 19.0% (2019: 19.0%; 2018: 19.0%) | **(22,211)** | (73,157) | (37,277) |
| Effect of different foreign tax rates | **(310)** | (10,595) | (6,656) |
| Non-taxable income: | | | |
| – Reduction in contingent consideration liability | **1,318** | – | – |
| – Other non-taxable income | **1,466** | 2,493 | 39 |
| Non-deductible expenses: | | | |
| – Impairment of goodwill | **(9,429)** | – | – |
| – Transaction costs | **(1,332)** | (2,395) | (1,131) |
| – Non-deductible portion of share-based compensation | **(12,971)** | (10,559) | (9,336) |
| – Other non-deductible expenses | **(5,135)** | (2,996) | (3,232) |
| Tax benefit from share-based compensation | **7,646** | 6,494 | 1,997 |
| Tax benefit from Intellectual Property and research and development incentives | **6,026** | 10,323 | 8,633 |
| Write-down of previously recognised deferred tax assets | **–** | – | (1,015) |
| Benefit from previously unrecognised deferred tax assets | **1,277** | 82 | 70 |
| Additional tax losses for which no deferred tax asset is recognised | **(638)** | (127) | (117) |
| Movement in deferred tax balances following intra-group reorganisation | **(2,054)** | (1,921) | (1,920) |
| Differences arising from different functional and tax currencies | **1,349** | (2,536) | (2,065) |
| Adjustments in respect of prior years | **1,473** | 1,635 | (3,111) |
| Effect of change in tax rates | **718** | – | – |
| Other items | **399** | (327) | (160) |
| **Income tax expense** | **(32,408)** | (83,586) | (55,281) |

The Group's income tax expense for 2020 was US$32,408 (2019: US$83,586; 2018: US$55,281), an effective tax rate for the year of 27.7% (2019: 21.7%; 2018: 28.2%).

Our effective tax rate is sensitive to the geographic mix of the Group's profits and reflects a combination of different tax rates in different countries, in particular higher tax rates in Germany. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and currency exchange rate movements, which give rise to tax effects where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of the Group's research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

## Factors affecting the income tax expense in future years

Factors that may affect the Group's future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and the resolution of open issues with tax authorities. Incentives for innovation available under the UK and Netherlands tax regimes are limited by reference to the location of the Group's research and development activities. Given the global nature of the Group's research and development activities, this may also affect the Group's future tax expense.

We maintain provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group's income tax expense in future periods. In January 2016, we received a termination fee of US$137,300 from Atmel Corporation, Inc. following their termination of the merger agreement that existed between us. We obtained tax advice that the termination fee should not be taxable in the UK and therefore did not recognise a tax expense in relation to the termination fee. Examination of the tax treatment of the termination fee by the UK tax authority is ongoing. We maintain our position that no tax liability should arise in respect of the termination fee.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project, the EU's action plan for fair and efficient corporate taxation and US tax reform. We continually monitor developments and assess the potential impact for Dialog of such initiatives. We have concluded that current or announced future tax law changes as a result of such initiatives give rise to no changes to the principal risks for Dialog.

# Notes to the consolidated financial information continued

## 7. Earnings per share

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

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 year 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:

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| **Profit attributable to shareholders in the Company** | | | |
| **For calculating basic and diluted earnings per share** | **84,495** | 301,452 | 139,799 |
| **Weighted average number of ordinary shares** | | | |
| Shares in issue at the beginning of the period | **76,382,139** | 76,382,139 | 76,382,139 |
| Effect on average number of shares during the period: | | | |
| – Shares issued to employee benefit trust | **2,093,151** | – | – |
| – Cancellation of treasury shares | **(2,301,096)** | – | – |
| Average number of shares in issue during the period | **76,174,194** | 76,382,139 | 76,382,139 |
| Deduct: | | | |
| Average number of shares held by employee benefit trusts | **(2,473,960)** | (1,759,457) | (2,422,787) |
| Average number of treasury shares | **(5,648,962)** | (2,726,643) | – |
| **For calculating basic earnings per share** | **68,051,272** | 71,896,039 | 73,959,352 |
| Add: | | | |
| Average number of dilutive share options and awards | **4,187,868** | 4,284,926 | 3,695,214 |
| **For calculating diluted earnings per share** | **72,239,140** | 76,180,965 | 77,654,566 |
| **Earnings per share (US$)** | | | |
| Basic | **1.24** | 4.19 | 1.89 |
| Diluted | **1.17** | 3.96 | 1.80 |

During 2020, the average number of anti-dilutive share options outstanding was 400,187 (2019: 486,253; 2018: 830,300).

## 8. Cash and cash equivalents

Cash and cash equivalents were as follows:

| | **As at 31 December 2020 US$000** | As at 31 December 2019 US$000 |
|---|---|---|
| Cash at bank | **24,315** | 21,056 |
| Cash available from receivables financing facilities | **74,232** | 65,439 |
| Bank deposits | **170,000** | 350,000 |
| Money market funds | **254,000** | 582,000 |
| Cash held by employee benefit trusts | **1,333** | 6,049 |
| **Total** | **523,880** | 1,024,544 |

Short-term deposits are made for varying periods of up to three months.

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

## 9. Inventories

Inventories were as follows:

| | **As at 31 December 2020 US$000** | As at 31 December 2019 US$000 |
|---|---|---|
| Raw materials | **21,749** | 31,938 |
| Work in progress | **72,426** | 44,097 |
| Finished goods | **65,218** | 46,589 |
| **Total** | **159,393** | 122,624 |

## 10. Goodwill

Movements on goodwill during the years ended 31 December 2020 and 2019 were as follows:

| | **2020 US$000** | 2019 US$000 |
|---|---|---|
| At the beginning of the year | **482,134** | 439,508 |
| Acquisition of Adesto* (note 2) | **318,875** | – |
| Acquisition of FCI | **76** | 9,929 |
| Acquisition of Creative Chips | **–** | 32,124 |
| Impairment of Adesto goodwill | **(44,900)** | – |
| Currency translation differences | **653** | 573 |
| **At the end of the year**** | **756,838** | 482,134 |

* Provisional goodwill.

** At the end of 2020, the carrying amount of goodwill was stated net of an impairment loss of US$44,900 (end of 2019: US$nil)].

Goodwill is monitored by management at the level of the Group's operating segments and is therefore allocated at that level. For the first three months following its acquisition, we managed Adesto on a stand-alone basis and reported it as a separate operating segment. We allocated the provisional goodwill recognised on the acquisition wholly to the Adesto operating segment. During the fourth quarter of 2020, we reorganised the Group's internal reporting structure, bringing together Adesto and the Industrial Mixed Signal business unit to form a single new operating segment, named Industrial IoT. At the year end, goodwill was allocated to four operating segments as follows:

| | **As at 31 December 2020 US$000** | As at 31 December 2019 US$000 |
|---|---|---|
| **Carrying amount** | | |
| Custom Mixed Signal business group | **107,163** | 107,163 |
| Advanced Mixed Signal | **244,147** | 244,147 |
| Connectivity & Audio | **99,104** | 98,375 |
| Industrial IoT* | **306,424** | 32,449 |
| **Total** | **756,838** | 482,134 |

* Comparative figure for the former Industrial Mixed Signal business unit.

### Impairment tests carried out during the year

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is tested for impairment at the level of the operating segments to which it is allocated. Goodwill is impaired if the carrying amount of the operating segment to which it is allocated exceeds its recoverable amount. Goodwill impairment tests conducted during 2020 measured the recoverable amount on a value in use basis. Value in use represents the present value of the future cash flows expected to be generated by the assets allocated to each operating segment in their current use and condition.

**Impairment of Adesto goodwill**

We agreed the purchase consideration for Adesto in early February 2020 based on profit forecasts for the business that were prepared before the extent of the impact of the COVID-19 pandemic could be predicted. By the time we completed the acquisition in late June 2020, it had become clear that the forecasts would have to be scaled back to reflect the impact of the pandemic, particularly in Adesto's industrial markets. We based the provisional purchase price allocation on our revised forecasts, projected over a ten-year period in order to capture the long-term growth potential of the business.

Following completion of the acquisition, there was an increase in the discount rate applicable to Adesto's forecast cash flows that caused us to perform an impairment test on the carrying amount of Adesto at the end of the third quarter of 2020. We concluded that the carrying amount was impaired and recognised an impairment loss of US$44,900 against the provisional goodwill relating to Adesto.

# Notes to the consolidated financial information continued

## 10. Goodwill continued

### Impairment tests carried out during the year continued

**Annual goodwill impairment tests**
In measuring value in use, expected future cash flows in the first three years were based on the Group's Strategic Plan 2021-2023. Except in the case of Industrial IoT, cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. We expect that the strong growth potential of Industrial IoT will take considerably longer than three years to be fully realised. We therefore based its expected future cash flows beyond the third year on profit forecasts for a further seven years and applied a perpetuity growth factor to the forecast cash flow in the tenth year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue ("revenue CAGR") during the forecast period, the perpetuity growth rate and the applicable discount rate.

Expected future revenue of each operating segment is based on external forecasts of the future volume of the end-markets for the operating segment's products adjusted to reflect factors specific to the operating segment such as its customer base and available distribution channels, the possibility of new entrants to the market and future technological developments. Cash flows during the forecast period also reflect the cost of materials and other direct costs, research and development expenditure and selling, general and administrative expenses. We estimated the cost of materials and other direct and indirect costs based on current prices and market expectations of future price changes.

We applied a perpetuity growth rate of 2% per annum in estimating the future cash flows of each operating segment in both 2020 and 2019, which we consider to be the long-term growth rate in the demand for the products of each operating segment in its end-markets.

Discount rates applied to the cash flow projections were determined using a capital asset pricing model and reflected current market interest rates, relevant equity and size risk premiums and the risks specific to the operating segment concerned. Pre-tax discount rates used were as follows:

| | **2020** | 2019 |
|---|---|---|
| **Pre-tax discount rate** | | |
| Custom Mixed Signal business group | **12.6%** | 13.1% |
| Advanced Mixed Signal | **13.0%** | 13.7% |
| Connectivity & Audio | **14.3%** | 13.9% |
| Industrial IoT* | **13.0%** | 19.1% |

* Comparative figure for the former Industrial Mixed Signal business unit.

With the exception of Industrial IoT, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount. Our calculations showed that Industrial IoT's recoverable amount exceeded its carrying amount by US$105,534. We consider that the recoverable amount is most sensitive to a reasonably possible change in the revenue CAGR over the ten-year forecast period or in the applicable discount rate. Our calculations reflect a revenue CAGR of 13.4% over the forecast period. Assuming the other key assumptions remain unchanged, we estimate that the recoverable amount would equal the carrying amount if the revenue CAGR was to fall to 11.4% over the forecast period or if the pre-tax discount rate was to increase from 13.0% to 14.9%.

## 11. Other intangible assets

Movements in the carrying amount of other intangible assets during the years ended 31 December 2020 and 2019 were as follows:

| | **2020 US$000** | 2019 US$000 |
|---|---|---|
| **Net book value** | | |
| At the beginning of the year | **272,068** | 217,445 |
| Acquisition of businesses | **157,943** | 85,674 |
| Additions | **21,462** | 23,821 |
| Amortisation charge for the year | **(60,903)** | (52,233) |
| Impairment of product development assets | **–** | (3,130) |
| Disposals | **(1,088)** | (937) |
| Currency translation differences | **1,508** | 1,428 |
| **At the end of the year** | **390,990** | 272,068 |

## 12. Property, plant and equipment

Movements on in the carrying amounts of property, plant and equipment during the years ended 31 December 2020 and 2019 were as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Owned US$000** | **Leased US$000** | Owned US$000 | Leased US$000 |
| **Net book value** | | | | |
| At the beginning of the year | **61,138** | **41,423** | 66,359 | 66,390 |
| Acquisition of businesses | **4,864** | **6,557** | 12,865 | 762 |
| Additions | **19,410** | **3,126** | 14,175 | 1,441 |
| Depreciation charge for the year | **(24,785)** | **(10,759)** | (27,155) | (12,456) |
| Disposals | **(260)** | **–** | (5,274) | (4,287) |
| Terminations | **–** | **(315)** | – | (10,160) |
| Other changes in lease payments | **–** | **(93)** | – | (285) |
| Currency translation differences | **361** | **663** | 168 | 18 |
| **At the end of the year** | **60,728** | **40,602** | 61,138 | 41,423 |

## 13. Share buyback programme

### Background

We initiated our share buyback programme in May 2016.

By the end of 2020, the Company had purchased 13,597,268 of its own ordinary shares at a total cost of US$518,810 (including transaction costs of US$3,679), of which 8,183,816 shares had been cancelled and 5,413,452 shares were held in treasury.

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. At the Company's 2020 AGM, 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.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2020 AGM authority.

Share purchases during 2020 were made under the 2019 AGM authority. We have not yet announced any purchases under the 2020 AGM authority.

### Shares purchased during 2020

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 made intermediate settlements of this tranche on 18 May 2020, 30 June 2020 and 10 August 2020 and final settlement and conclusion of the tranche took place on 8 October 2020. We purchased 2,036,705 shares in total under this tranche at a cost of €70.0 million (US$80,031) and incurred transaction costs of US$455. On conclusion of this tranche, we credited back to equity the remaining €20.0 million (US$23,386) of the obligation to purchase shares initially recognised.

During 2020, we showed a credit to retained earnings of US$1,374, which mirrored the loss recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period.

After taking into account hedging, we recognised a net currency translation loss of US$778 in profit or loss in relation to liabilities to purchase shares outstanding during 2020.

# Notes to the consolidated financial information continued

## 14. Share-based compensation

### Share options

Movements in the total number of options and conditional share awards outstanding during the years ended 31 December 2020 and 2019 were as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price €** | Options | Weighted average exercise price € |
| Outstanding at the beginning of the period | **4,342,689** | **0.13** | 5,472,635 | 0.65 |
| Granted | **1,909,129** | **0.05** | 1,552,279 | 0.09 |
| Exercised | **(1,174,603)** | **0.21** | (1,802,547) | 1.68 |
| Forfeited | **(328,176)** | **0.11** | (879,678) | 0.12 |
| **Outstanding at the end of the period** | **4,749,039** | **0.08** | 4,342,689 | 0.13 |
| Options exercisable at the end of the period | **519,877** | **0.14** | 533,304 | 0.43 |

When awards were exercised during 2020, the weighted average of the Company's share price was €37.88 (2019: €36.97).

The weighted average contractual life and exercise price of awards outstanding as at 31 December 2020 and 2019 were as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Range of exercise prices | **Number outstanding** | **Weighted average remaining contractual life (in years)** | Number outstanding | Weighted average remaining contractual life (in years) |
| €0.0 – 1.00 | **4,749,039** | **5.08** | 4,330,836 | 4.86 |
| €1.00 – 8.00 | **–** | **n/a** | – | n/a |
| €8.00 – 16.85 | **–** | **n/a** | 11,853 | 0.70 |
| **€0.00 – 16.85** | **4,749,039** | **5.08** | 4,342,689 | 4.85 |

## 15. 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 |
|---|---|---|---|---|---|---|
| As at 31 December 2017 | 571 | (3,699) | 7,822 | 5,283 | – | 9,977 |
| Other comprehensive income/(expense): | | | | | | |
| – Currency translation loss on foreign operations | – | (527) | – | – | – | (527) |
| – Fair value loss on available-for-sale investments | – | – | (23,764) | – | – | (23,764) |
| – Cash flow hedges: | | | | | | |
| Fair value loss recognised on effective hedges | – | – | – | (10,075) | – | (10,075) |
| Fair value gain transferred to profit or loss | – | – | – | (2,343) | – | (2,343) |
| – Income tax (expense)/credit | – | (78) | 1,015 | 2,376 | – | 3,313 |
| As at 31 December 2018 | 571 | (4,304) | (14,927) | (4,759) | – | (23,419) |
| Other comprehensive income/(expense): | | | | | | |
| – Currency translation gain on foreign operations | – | 3,019 | – | – | – | 3,019 |
| – Fair value loss on equity investments | – | – | (6,994) | – | – | (6,994) |
| – Cash flow hedges: | | | | | | |
| Fair value loss recognised on effective hedges | – | – | – | (3,941) | – | (3,941) |
| Fair value loss transferred to profit or loss | – | – | – | 9,549 | – | 9,549 |
| – Income tax expense | – | (91) | – | (1,065) | – | (1,156) |
| Other changes in equity: | | | | | | |
| – Purchase of own shares into treasury | – | – | – | – | (251,787) | (251,787) |
| As at 31 December 2019 | 571 | (1,376) | (21,921) | (216) | (251,787) | (274,729) |
| Other comprehensive income/(expense): | | | | | | |
| – Currency translation gain on foreign operations | **–** | **2,603** | **–** | **–** | **–** | **2,603** |
| – Fair value gain on equity investments | **–** | **–** | **53** | **–** | **–** | **53** |
| – Cash flow hedges: | | | | | | |
| Fair value gain recognised on effective hedges | **–** | **–** | **–** | **8,116** | **–** | **8,116** |
| Fair value gain transferred to profit or loss | **–** | **–** | **–** | **(607)** | **–** | **(607)** |
| – Income tax credit/(expense) | **–** | **370** | **–** | **(1,427)** | **–** | **(1,057)** |
| Other changes in equity: | | | | | | |
| – Purchase of own shares into treasury | **–** | **–** | **–** | **–** | **(80,500)** | **(80,500)** |
| – Cancellation of treasury shares | **449** | **–** | **–** | **–** | **129,270** | **129,719** |
| **As at 31 December 2020** | **1,020** | **1,597** | **(21,868)** | **5,866** | **(203,017)** | **(216,402)** |

## 16. Segment information

### Analysis by reporting segment

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.

Prior to the acquisition of Adesto at the beginning of the third quarter of 2020, the Group had three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Custom Mixed Signal included our Industrial Mixed Signal business unit. We initially managed Adesto on a stand-alone basis and reported its results separately to the Management Team. During the fourth quarter of 2020, we changed the Group's internal reporting structure, bringing together Adesto and the Industrial Mixed Signal business unit to form a single operating segment that we named Industrial IoT. The Group therefore now has four reporting segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and Industrial IoT:

- Custom Mixed Signal provides custom ICs designed to meet the needs of our customers in the mobile, 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;
- Connectivity & Audio provides standard products incorporating short-range wireless, digital cordless, Bluetooth® low energy, audio and low-power Wi-Fi technologies; and

# Notes to the consolidated financial information continued

## 16. Segment information continued

- Industrial IoT provides products enabling smart factory and building automation including non-volatile memory ("NVM") ICs, industrial communication ICs, custom-designed ASICs and embedded systems, servers and software.

Comparative information for 2019 has been restated to reflect the transfer of the Industrial Mixed Signal business unit from Custom Mixed Signal to Industrial IoT.

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 and our Automotive business unit, both of which meet 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.

The Management Team uses 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 the measure of segment profit/loss that is presented in the Group's segment disclosures.

### 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 the section entitled "Financial performance measures" on pages 36 to 42.

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

| | Underlying revenue[1] | | | Underlying operating profit/(loss) | | |
|---|---|---|---|---|---|---|
| | **2020 US$000** | Restated 2019 US$000 | 2018 US$000 | **2020 US$000** | Restated 2019 US$000 | 2018 US$000 |
| Custom Mixed Signal | **804,699** | 962,476 | 1,042,320 | **230,084** | 282,617 | 267,589 |
| Advanced Mixed Signal | **274,593** | 253,415 | 244,536 | **27,874** | 15,236 | 26,754 |
| Connectivity & Audio | **195,540** | 183,781 | 154,004 | **15,065** | 21,607 | 13,636 |
| Industrial IoT | **65,389** | 2,312 | – | **(706)** | (676) | – |
| **Total segments** | **1,340,221** | 1,401,984 | 1,440,860 | **272,317** | 318,784 | 307,979 |
| Corporate and other unallocated items[2] | **35,703** | 18,505 | 1,278 | **25,055** | 5,565 | (26,351) |
| **Total Group** | **1,375,924** | 1,420,489 | 1,442,138 | **297,372** | 324,349 | 281,628 |

1 Revenue is from sales to external customers (there were no inter-segment sales).
2 Unallocated revenue in 2020 and 2019 is revenue recognised on the effective IP licence granted to Apple in April 2019.

### Reconciliation of underlying revenue to revenue reported under IFRS

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| Underlying revenue | **1,375,924** | 1,420,489 | 1,442,138 |
| Perpetual licence fee | **–** | 145,750 | – |
| **Revenue reported under IFRS** | **1,375,924** | 1,566,239 | 1,442,138 |

## 16. Segment information continued

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

| | **2020 US$000** | 2019 US$000 | 2018 US$000 |
|---|---|---|---|
| **Underlying operating profit** | **297,372** | 324,349 | 281,628 |
| Licence and asset transfers to Apple: | | | |
| – Perpetual licence fee | **–** | 145,750 | – |
| – Gain on transfer of design centre businesses | **–** | 15,898 | – |
| Share-based compensation and related costs | **(60,973)** | (54,656) | (41,653) |
| Accounting for business combinations: | | | |
| – Acquisition-related costs | **(9,145)** | (4,040) | – |
| – Amortisation of acquired intangible assets | **(36,837)** | (26,113) | (22,629) |
| – Consumption of the fair value uplift of acquired inventory | **(15,257)** | (1,749) | (3,129) |
| – Consideration accounted for as compensation expense | **(7,482)** | (1,204) | (1,481) |
| – Forfeiture of deferred consideration | **55** | 116 | 204 |
| – Remeasurement of contingent consideration | **6,938** | – | 878 |
| Integration costs | **(6,490)** | (2,434) | (2,765) |
| Impairment of goodwill | **(44,900)** | – | – |
| Cost-reduction initiatives | **(2,406)** | – | – |
| Corporate transaction costs | **–** | (16,064) | (11,346) |
| **Operating profit reported under IFRS** | **120,875** | 379,853 | 199,707 |
| Interest income | **6,086** | 21,950 | 9,883 |
| Interest expense | **(8,173)** | (11,309) | (3,134) |
| Other finance (expense)/income | **(1,885)** | (5,456) | (10,263) |
| **Profit before income taxes** | **116,903** | 385,038 | 196,193 |

## 17. Subsequent event

### Proposed acquisition of Dialog by Renesas

On 8 February 2021, the Directors of the Company and Renesas Electronics Corporation ("Renesas"), a supplier of advanced semiconductor solutions, announced that they have reached agreement on the terms of the acquisition of the entire issued and to be issued share capital of the Company for €67.50 per share in cash, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

Renesas is incorporated in Japan and its shares are listed on the Tokyo Stock Exchange. With an extensive portfolio of microcontrollers, analog, power, and SoC products, Renesas provides the expertise, quality, and comprehensive solutions for a broad range of automotive, industrial, home electronics, office automation and ICT applications.

It is intended that the acquisition will be effected by means of a scheme of arrangement under the UK Companies Act 2006. As such, completion of the transaction will be subject to approval by the Company's shareholders and the court in England & Wales. It will also be subject to regulatory approvals in a number of jurisdictions and other customary closing conditions. Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition will become effective during the second half of 2021.

# Financial performance measures

## Use of non-IFRS measures

We use a number of measures to assess the financial performance of our businesses. We consider certain of these measures to be particularly important and identify them as "key performance indicators" ("KPIs"). We have identified the following financial measures as KPIs: revenue growth; gross margin, operating expenses as a percentage of revenue; operating margin; diluted EPS and free cash flow. We monitor the profit or loss measures that are KPIs on both an IFRS basis and an underlying basis.

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

We report underlying measures of performance because we believe they provide both management and investors with useful additional information about the financial performance of our businesses. Underlying measures of performance represent the equivalent IFRS measures adjusted for specific items that are considered by us to hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group's profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

We outline below the specific items of income and expense that are recognised in profit or loss in accordance with IFRS but are excluded from our underlying results.

### Licence and asset transfers to Apple

We excluded from our underlying results the following discrete benefits that were recognised on completion of the licensing and asset transfer agreement with Apple in April 2019:

- the revenue attributed to the perpetual licence over our existing Power Management IP; and
- the gain on the transfer of design centre businesses.

### Share-based compensation and related expenses

We exclude the share-based compensation expense recognised in relation to options and other awards granted under the Company's share-based compensation plans because the awards are equity-settled and their effect on shareholders' returns is already reflected in diluted earnings per share measures. In 2019, we also excluded discrete compensation payments to certain US persons following the modification of options awarded to them. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such awards because the accrual fluctuates with the Company's share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

### Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group's trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration in profit or loss.

During the periods under review, we excluded from our underlying results the following items in relation to the accounting for business combinations:

- acquisition-related costs;
- the recognition in cost of sales of the consumption of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
- the elements of deferred amounts payable for Adesto and Silego that are recognised as compensation expense;
- credits recognised on the forfeiture of deferred consideration payable for Adesto and Silego;
- the effect of changes in estimates of contingent consideration payable for Creative Chips and Silego; and
- the interest expense recognised on the unwinding of the discount on liabilities for contingent consideration.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

### Integration costs

We exclude the costs of integrating acquired businesses because we consider that they hinder the assessment of the financial performance of those businesses in comparison with others. In 2020, integration costs were incurred principally in relation to Adesto. In 2019, integration costs related to FCI and Creative Chips. In 2018, integration costs related to Silego.

## Underlying measures of performance continued

### Consequences of the COVID-19 pandemic

We excluded from our underlying results the following significant discrete items that arose principally from the COVID-19 pandemic:

- the impairment loss of US$44,900 incurred in September 2020 on the provisional goodwill recognised on the acquisition of Adesto; and
- expenses incurred in relation to cost-reduction initiatives that commenced during 2020 in response to the pandemic (largely employee termination benefits).

### Corporate transaction costs

We exclude significant transaction costs and other discrete items recognised in relation to corporate transactions other than business combinations. In 2019 and 2018, we excluded transaction costs incurred in relation to the licensing and asset transfer agreement with Apple. In 2018, we also excluded the costs incurred in relation to the acquisition discussions that we held with Synaptics Incorporated.

### Strategic investments

We excluded the effect on profit or loss of the measurement at fair value of the warrants that we held in Energous prior to their expiry in November 2019 and July 2020 and the call option that we held over the shares that we did not own in Dyna Image prior to its expiry in June 2018. We held these instruments for strategic reasons linked to our commercial partnerships with the relevant companies. Since we did not hold these instruments for trading purposes, we excluded fluctuations in their fair values when assessing our trading performance.

### Effective interest on financial liabilities

We excluded the non-cash element of the interest expense recognised in relation to a patent licensing agreement that was accounted for as a hire purchase contract prior to its expiry in 2018. We considered that the cash interest payments were more indicative of the effect of this arrangement on shareholders' returns.

### Income tax effect of underlying adjustments

We calculate the income tax effect of underlying adjustments 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 years ended 31 December 2020, 2019 and 2018 are presented in the following tables:

### Year ended 31 December 2020

| US$000 unless stated otherwise | IFRS basis | Share-based compensation and related expenses | Accounting for business combinations | Integration costs | Impairment of goodwill | Cost-reduction initiatives | Strategic investments | Underlying basis |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,375,924 | – | – | – | – | – | – | 1,375,924 |
| Cost of sales | (697,805) | 2,922 | 15,843 | – | – | – | – | (679,040) |
| **Gross profit** | 678,119 | 2,922 | 15,843 | – | – | – | – | 696,884 |
| *Gross margin %* | *49.3%* | | | | | | | *50.6%* |
| SG&A expenses | (210,789) | 29,815 | 39,808 | 6,490 | – | 2,406 | – | (132,270) |
| R&D expenses | (325,860) | 28,236 | 13,015 | – | – | – | – | (284,609) |
| Other operating expense | (20,595) | – | (6,938) | – | 44,900 | – | – | 17,367 |
| **Operating profit** | 120,875 | 60,973 | 61,728 | 6,490 | 44,900 | 2,406 | – | 297,372 |
| *Operating margin %* | *8.8%* | | | | | | | *21.6%* |
| Net finance expense | (3,972) | – | 272 | – | – | – | (777) | (4,477) |
| **Profit before income taxes** | 116,903 | 60,973 | 62,000 | 6,490 | 44,900 | 2,406 | (777) | 292,895 |
| Income tax expense | (32,408) | (8,467) | (10,287) | (1,301) | – | (419) | 148 | (52,734) |
| **Net income** | 84,495 | 52,506 | 51,713 | 5,189 | 44,900 | 1,987 | (629) | 240,161 |
| EBITDA | n/a | | | | | | | 356,982 |
| *EBITDA margin %* | *n/a* | | | | | | | *25.9%* |

Financial performance measures

# Financial performance measures continued

## Reconciliation of underlying measures to equivalent IFRS measures continued

### Year ended 31 December 2019

| US$000 unless stated otherwise | IFRS basis | Licence and asset transfers to Apple | Share-based compensation and related payroll taxes | Accounting for business combinations | Integration costs | Corporate transaction costs | Strategic investments | Underlying basis |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,566,239 | (145,750) | – | – | – | – | – | 1,420,489 |
| Cost of sales | (717,703) | – | 2,213 | 1,749 | – | – | – | (713,741) |
| Gross profit | 848,536 | (145,750) | 2,213 | 1,749 | – | – | – | 706,748 |
| *Gross margin %* | *54.2%* | | | | | | | *49.8%* |
| SG&A expenses | (194,538) | – | 26,254 | 20,670 | 2,086 | 16,064 | – | (129,464) |
| R&D expenses | (313,550) | – | 26,189 | 10,571 | 348 | – | – | (276,442) |
| Other operating income | 39,405 | (15,898) | – | – | – | – | – | 23,507 |
| Operating profit | 379,853 | (161,648) | 54,656 | 32,990 | 2,434 | 16,064 | – | 324,349 |
| *Operating margin %* | *24.3%* | | | | | | | *22.8%* |
| Net finance income | 5,185 | – | – | 464 | – | – | (150) | 5,499 |
| Profit before income taxes | 385,038 | (161,648) | 54,656 | 33,454 | 2,434 | 16,064 | (150) | 329,848 |
| Income tax expense | (83,586) | 32,449 | (7,937) | (4,998) | (175) | (1,213) | 29 | (65,431) |
| Net income | 301,452 | (129,199) | 46,719 | 28,456 | 2,259 | 14,851 | (121) | 264,417 |
| EBITDA | n/a | | | | | | | 390,081 |
| *EBITDA margin %* | *n/a* | | | | | | | *27.5%* |

### Year ended 31 December 2018

| US$000 unless stated otherwise | IFRS basis | Share-based compensation and related expenses | Accounting for business combinations | Integration costs | Corporate transaction costs | Effective interest | Strategic investments | Underlying basis |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,442,138 | – | – | – | – | – | – | 1,442,138 |
| Cost of sales | (751,070) | 1,791 | 3,129 | 13 | – | – | – | (746,137) |
| Gross profit | 691,068 | 1,791 | 3,129 | 13 | – | – | – | 696,001 |
| *Gross margin %* | *47.9%* | | | | | | | *48.3%* |
| SG&A expenses | (168,228) | 17,163 | 14,757 | 2,524 | 11,346 | – | – | (122,438) |
| R&D expenses | (326,309) | 22,699 | 9,148 | 228 | – | – | – | (294,234) |
| Other operating income | 3,176 | – | (877) | – | – | – | – | 2,299 |
| Operating profit | 199,707 | 41,653 | 26,157 | 2,765 | 11,346 | – | – | 281,628 |
| *Operating margin %* | *13.8%* | | | | | | | *19.5%* |
| Net finance (expense)/income | (3,514) | – | 2,220 | – | – | 50 | 9,269 | 8,025 |
| Profit before income taxes | 196,193 | 41,653 | 28,377 | 2,765 | 11,346 | 50 | 9,269 | 289,653 |
| Income tax expense | (55,281) | (2,108) | (3,448) | (555) | (1,024) | (9) | (746) | (63,171) |
| Profit after income taxes | 140,912 | 39,545 | 24,929 | 2,210 | 10,322 | 41 | 8,523 | 226,482 |
| Share of loss of associate | (1,113) | – | – | – | – | – | – | (1,113) |
| Net income | 139,799 | 39,545 | 24,929 | 2,210 | 10,322 | 41 | 8,523 | 225,369 |
| EBITDA | n/a | | | | | | | 339,584 |
| *EBITDA margin %* | *n/a* | | | | | | | *23.5%* |

## 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 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Acquisition-related costs | **9,145** | 4,040 | – |
| Amortisation of acquired intangible assets | **36,837** | 26,112 | 22,629 |
| Consumption of the fair value uplift of acquired inventory | **15,257** | 1,750 | 3,129 |
| Consideration accounted for as compensation expense | **7,482** | 1,204 | 1,481 |
| Forfeiture of deferred consideration | **(55)** | (116) | (204) |
| Remeasurement of contingent consideration | **(6,938)** | – | (878) |
| **Increase in operating profit** | **61,728** | 32,990 | 26,157 |
| Unwinding of discount on contingent consideration | **272** | 464 | 2,220 |
| **Increase in profit before income taxes** | **62,000** | 33,454 | 28,377 |
| Income tax credit | **(10,287)** | (4,998) | (3,448) |
| **Increase in net income** | **51,713** | 28,456 | 24,929 |

## Explanation of financial performance measures

### Change in revenue

We monitor the change in revenue from one period to another and the trend in revenue over time because they are important measures of the growth in our business. During each period, the change in revenue was as follows:

| US$000 unless stated otherwise | **2020** | 2019 | 2018 |
|---|---|---|---|
| **IFRS measures** | | | |
| Revenue in the period | **1,375,924** | 1,566,239 | 1,442,138 |
| Revenue in the comparative period | **1,566,239** | 1,442,138 | 1,352,841 |
| (Decrease)/Increase in revenue | **(12.2)%** | 8.6% | 6.6% |
| **Underlying measures** | | | |
| Revenue in the period | **1,375,924** | 1,420,489 | 1,442,138 |
| Revenue in the comparative period | **1,420,489** | 1,442,138 | 1,352,841 |
| (Decrease)/increase in revenue | **(3.1)%** | (1.5)% | 6.6% |

### Gross margin

Gross margin is gross profit expressed as a percentage of revenue. We monitor gross margin because we believe it provides a measure of the value that we add to our products. Gross margin determined in accordance with IFRS and on an underlying basis was as follows:

| US$000 unless stated otherwise | **2020** | 2019 | 2018 |
|---|---|---|---|
| **IFRS measures** | | | |
| Revenue | **1,375,924** | 1,566,239 | 1,442,138 |
| Gross profit | **678,119** | 848,536 | 691,068 |
| Gross margin | **49.3%** | 54.2% | 47.9% |
| **Underlying measures** | | | |
| Revenue | **1,375,924** | 1,420,489 | 1,442,138 |
| Gross profit | **696,884** | 706,748 | 696,001 |
| Gross margin | **50.6%** | 49.8% | 48.3% |

# Financial performance measures continued

## Explanation of financial performance measures continued

### Operating expenses as a percentage of revenue

We monitor operating expenses as a percentage of revenue because we believe it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative ("SG&A") expenses and research and development ("R&D") expenses. Operating expenses as a percentage of revenue determined in accordance with IFRS and on an underlying basis was as follows:

| US$000 unless stated otherwise | **2020** | 2019 | 2018 |
|---|---|---|---|
| **IFRS measures** | | | |
| Revenue | **1,375,924** | 1,566,239 | 1,442,138 |
| Operating expenses | **(536,649)** | (508,088) | (494,537) |
| Operating expenses as a percentage of revenue | **39.0%** | 32.4% | 34.3% |
| **Underlying measures** | | | |
| Revenue | **1,375,924** | 1,420,489 | 1,442,138 |
| Operating expenses | **(416,879)** | (405,906) | (416,672) |
| Operating expenses as a percentage of revenue | **30.3%** | 28.6% | 28.9% |

### Change in operating profit

We monitor the change in operating profit from one period to another and the trend in operating profit over time because we believe they are important measures of the performance of our operations. Operating profit growth determined in accordance with IFRS and on an underlying basis was as follows:

| US$000 unless stated otherwise | **2020** | 2019 | 2018 |
|---|---|---|---|
| **IFRS measures** | | | |
| Operating profit in the period | **120,875** | 379,853 | 199,707 |
| Operating profit in the comparative period | **379,853** | 199,707 | 187,017 |
| (Decrease)/increase in operating profit | **(68.2)%** | 90.2% | 6.8% |
| **Underlying measures** | | | |
| Operating profit in the period | **297,372** | 324,349 | 281,628 |
| Operating profit in the comparative period | **324,349** | 281,628 | 259,458 |
| (Decrease)/increase in operating profit | **(8.3)%** | 15.2% | 8.5% |

### Operating margin

Operating margin is operating profit or loss expressed as a percentage of revenue. We monitor operating margin because we believe it provides a measure of the overall profitability of our operations. Operating margin determined in accordance with IFRS and on an underlying basis was as follows:

| US$000 unless stated otherwise | **2020** | 2019 | 2018 |
|---|---|---|---|
| **IFRS measures** | | | |
| Revenue | **1,375,924** | 1,566,239 | 1,442,138 |
| Operating profit | **120,875** | 379,853 | 199,707 |
| Operating profit margin | **8.8%** | 24.3% | 13.8% |
| **Underlying measures** | | | |
| Revenue | **1,375,924** | 1,420,489 | 1,442,138 |
| Operating profit | **297,372** | 324,349 | 281,628 |
| Operating profit margin | **21.6%** | 22.8% | 19.5% |

# Explanation of financial performance measures continued

## Underlying EBITDA and EBITDA margin

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because we believe these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

| US$000 | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Net income** | **84,495** | 301,452 | 139,799 |
| Net finance expense/(income) | **3,972** | (5,185) | 3,514 |
| Income tax expense | **32,408** | 83,586 | 55,281 |
| Depreciation expense | **35,544** | 39,611 | 31,455 |
| Amortisation expense | **60,903** | 52,233 | 49,130 |
| **EBITDA** | **217,322** | 471,697 | 279,179 |
| Licence and asset transfers to Apple | **–** | (161,648) | – |
| Share-based compensation and related expenses | **60,973** | 54,656 | 41,653 |
| Acquisition-related costs | **9,145** | 4,040 | – |
| Consumption of the fair value uplift of acquired inventory | **15,257** | 1,750 | 3,129 |
| Consideration accounted for as compensation expense | **7,482** | 1,204 | 1,481 |
| Forfeiture of deferred consideration | **(55)** | (116) | (204) |
| Remeasurement of contingent consideration | **(6,938)** | – | (878) |
| Integration costs | **6,490** | 2,434 | 2,765 |
| Impairment of goodwill | **44,900** | – | – |
| Cost-reduction initiatives | **2,406** | – | – |
| Corporate transaction costs | **–** | 16,064 | 11,346 |
| Share of loss of associate | **–** | – | 1,113 |
| **Underlying EBITDA** | **356,982** | 390,081 | 339,584 |

Underlying EBITDA margin was as follows:

| US$000 unless stated otherwise | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Underlying measures** | | | |
| Revenue | **1,375,924** | 1,420,489 | 1,442,138 |
| EBITDA | **356,982** | 390,081 | 339,584 |
| EBITDA margin | **25.9%** | 27.5% | 23.5% |

# Financial performance measures continued

## Explanation of financial performance measures continued

### Earnings per share

We monitor basic and diluted earnings per share ("EPS") on an IFRS basis and on an underlying basis. We believe that underlying EPS measures are useful to investors in assessing our ability to generate earnings and provide a basis for assessing the value of the Company's shares (for example, by way of price earnings multiples). Earnings for calculating IFRS and underlying EPS measures were calculated as follows:

| US$000 | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Earnings for calculating basic and diluted EPS** | **84,495** | 301,452 | 139,799 |
| **Underlying net income** | **240,161** | 264,417 | 225,369 |

Underlying and diluted EPS measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 7 to the consolidated financial information.

Basic and diluted EPS on an IFRS basis and on an underlying basis were as follows:

| US$000 | **2020** | 2019 | 2018 |
|---|---|---|---|
| **IFRS earnings per share** | | | |
| Basic | **1.24** | 4.19 | 1.89 |
| Diluted | **1.17** | 3.96 | 1.80 |
| **Underlying earnings per share** | | | |
| Basic | **3.53** | 3.68 | 3.05 |
| Diluted | **3.32** | 3.47 | 2.90 |

### Free cash flow

Free cash flow is a non-IFRS measure that represents cash flow from operating activities, less capital expenditure. We believe that free cash flow is useful to investors because it provides a measure of the cash generated by our business that is available for expansion, to make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

Free cash flow was calculated as follows:

| US$000 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Cash flow from operating activities | **142,243** | 496,465 | 288,649 |
| Purchase of property, plant and equipment | **(19,410)** | (12,129) | (26,145) |
| Purchase of intangible assets | **(7,256)** | (8,437) | (6,197) |
| Payments for capitalised development costs | **(13,746)** | (15,384) | (24,771) |
| Capital element of lease payments | **(9,734)** | (11,086) | (1,651) |
| **Free cash flow** | **92,097** | 449,429 | 229,885 |

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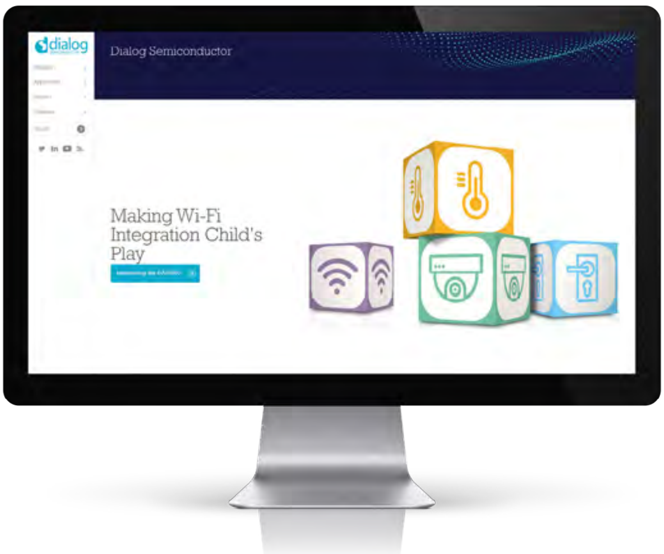


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