Press release – 12 May 2021

Dialog Semiconductor reports results for the first quarter ended 2 April 2021

Q1 2021 revenue at US$366 million, up 47% year-on-year. Underlying operating profit at US$79.2 million, more than doubled year-on-year. Revenue excluding legacy licensed PMICs was up 61% year-on-year.

London, UK, 12 May 2021 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the first quarter ended 2 April 2021.

	IFRS basis (unaudited)		Underlying basis[1] (unaudited)		
US$ millions unless stated otherwise	**Q1 2021**	Q1 2020	**Q1 2021**	Q1 2020	Change
Revenue	**365.9**	248.5	**365.9**	248.5	+47%
Gross margin	**49.7%**	49.8%	**50.0%**	50.4%	-40bps
Operating expenses[2]	**146.8**	114.8	**105.2**	95.2	+11%
Operating profit	**36.6**	17.5	**79.2**	33.0	+140%
Operating margin	**10.0%**	7.0%	**21.6%**	13.3%	+830bps
Diluted EPS	**$0.36**	$0.19	**$0.89**	$0.39	128%
Free cash flow	**N/A**	N/A	**9.9**	(59.0)	nm

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 5).
2 Comprising SG&A and R&D expenses.

Q1 2021 Financial highlights

– Revenue of US$366 million, including acquisitions, 47% above Q1 2020.
– Strength across the product portfolio with revenue excluding legacy licensed main Power Management ICs ("PMICs") up 61% year-on-year.
– Gross margin at 49.7% (Q1 2020: 49.8%), and underlying gross margin at 50.0% (Q1 2020: 50.4%).
– Operating profit of US$36.6 million (Q1 2020: US$17.5 million), and underlying operating profit of US$79.2 million (Q1 2020: US$33.0 million).
– Diluted EPS of US$0.36 (Q1 2020: US$0.19) and underlying diluted EPS of US$0.89 (Q1 2020: US$0.39).
– Q1 2021 cash flow from operating activities of US$26.0 million (Q1 2020: cash outflow US$49.0 million) which included US$25 million recoupment of the prepayment relating to the license agreement.
– 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.
– Subsequent to quarter end, on 9 April 2021, at the Court Meeting and the Dialog General Meeting in connection with the recommended cash offer made by Renesas, all the resolutions proposed were passed by the requisite majorities.

Q1 2021 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 38% year-on-year.
– Q1 2021 revenue from Advanced Mixed Signal segment up 57% year-on-year driven by strong demand for Configurable Mixed-signal ICs ("CMICs") and backlighting products.
– In Q1 2021 we expanded our GreenPAK™ family, with the new Nanoamp device the SLG46811, the first GreenPAK IC to incorporate configurable op amp functionality. This device allows designers to create, simulate and prototype their own unique sophisticated analog ICs in minutes at a lower cost than a discrete component implementation.
– Q1 2021 revenue in Connectivity &Audio segment up 64% mostly driven by strong demand for audio products.
– During Q1 2021, industry-wide capacity constraints continued to impact our ability to meet incremental customer demand.

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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 with tightness in supply of certain products and most suppliers continued to operate at 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.

Q1 2021 Financial overview

Revenue increased 47% over Q1 2020 at US$366 million due to strong performance across the product portfolio. Excluding the contribution of Adesto, revenue was 37% above Q1 2020. 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 legacy licensed main PMICs was up 61% year-on-year.

Gross margin was 49.7%, 10 bps below Q1 2020 (Q1 2020: 49.8%). Underlying gross margin was 50.0% 40bps below Q1 2020 (Q1 2020: 50.4%). This decrease was mainly the result of revenue mix.

Operating expenses (“OPEX”), comprising SG&A and R&D expenses, in Q1 2021 were 28% higher than in Q1 2020, representing 40.1% of revenue (Q1 2020: 46.2%). The increase in OPEX was mainly due to the acquisition of Adesto, and costs related to the recommended acquisition by Renesas. In Q1 2021, we incurred US$9.5 million related to the Renesas transaction and US$0.9 million integration costs related to the acquisition of Adesto. Underlying OPEX in Q1 2021 was 11% above Q1 2020 (Q1 2020: US$95.2 million), representing 28.8% of revenue (Q1 2020: 38.3%). The increase in underlying OPEX was mainly driven by the additional OPEX from Adesto.

In Q1 2021, the Company continued to make good progress on the execution of the planned cost synergies. This aims to improve efficiency, protect profitability, and strengthen cash flow generation.

R&D expenses were 13% above Q1 2020 representing 22.3% of revenue (Q1 2020: 29.1%). Underlying R&D expenses in Q1 2021 were 9% above Q1 2020 representing 19.1% of revenue (Q1 2020: 25.9%). The increase in R&D and underlying R&D expenses was mainly due to the acquisition of Adesto as well as continuing investment in future growth.

SG&A expenses in Q1 2021 were 54% higher than in Q1 2020, representing 17.8% of revenue (Q1 2020: 17.1%). Underlying SG&A expenses in Q1 2021 were 14% above Q1 2020 representing 9.7% of revenue (Q1 2020: 12.4%). The increase in SG&A and underlying SG&A expenses was mainly the result of additional expenses from the acquisition of Adesto.

In Q1 2021, other operating income and underlying operating income, which comprised income from R&D contracts, were below Q1 2020 at US$1.5 million (Q1 2020: US$8.5 million and US$3.1 million respectively).

Operating profit in Q1 2021 was US$36.6 million, 109% above Q1 2020 (Q1 2020: US$17.5 million), mainly due to the higher revenue and partially offset by the incremental operating expenses from the acquisition of Adesto. Underlying operating profit was 140% above Q1 2020, at US$79.2 million (Q1 2020: US$33.0 million) driven by the increase in revenue offsetting additional operating expenses from the acquisition of Adesto.

The effective tax rate in Q1 2021 was 29.2% (Q1 2020: 30.4%). Our relatively high effective tax rates for Q1 2021 and Q1 2020 are principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation and business combinations. The underlying effective tax rate in Q1 2021 was 19.6%, down 10bps on the Q1 2020 underlying effective tax rate of 19.7%.

In Q1 2021, net income was US$26.1 million, 92% above Q1 2020 (Q1 2020: US$13.6 million). This increase was mostly due to the increase in operating profit. Underlying net income was US$63.9, 128% higher year-on-year mainly driven by the same factor.

Diluted EPS in Q1 2021 was 89% above Q1 2020 at US$0.36 (Q1 2020: US$0.19). Underlying diluted EPS in Q1 2021 was 128% higher year-on-year to US$0.89 (Q1 2020: US$0.39).

At the end of Q1 2021, our total inventory level was US$143 million, 10% below the previous quarter. This is equivalent to 70 days of inventory representing a 6-day increase in our days of inventory from Q4 2020, mainly due to the lower revenue.

At the end of Q1 2021, we held cash and cash equivalents of US$534 million (Q1 2020: US$965 million). The year-on-year movement was mostly due to the acquisition of Adesto. Cash flow from operating activities in Q1 2021 was US$26.0 million which was above Q1 2020 (Q1 2020: outflow of US$49.0 million). The year-on-year movement was mainly due to higher cash generated from operations and working capital. In Q1 2021, the Group generated free cash flow of US$9.9 million, which was above Q1 2020 (Q1 2020: outflow of US$59.0 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 from our largest customer that is outstanding was US$50.0 million.

Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition of the entire issued and to be issued share capital of the Company by Renesas Electronics Corporation, will become effective during the second half of 2021.

Q1 2021 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	**Q1 2021**	Restated* Q1 2020	Change	**Q1 2021**	Restated* Q1 2020	**Q1 2021**	Restated* Q1 2020
Custom Mixed Signal	**187.8**	147.9	+27%	**52.6**	29.8	**28.0%**	20.1%
Advanced Mixed Signal	**80.8**	51.5	+57%	**12.1**	0.1	**15.0%**	0.1%
Connectivity & Audio	**57.0**	34.7	+64%	**8.6**	(3.3)	**15.1%**	(9.3)%
Industrial IoT	**31.0**	5.5	nm	**(0.8)**	0.3	**(2.6)%**	6.2%
Total Segments	**356.6**	239.6	+49%	**72.5**	26.9	**20.3%**	11.2%
Corporate and other unallocated items	**9.3**	8.9	+5%	**6.7**	6.1	**71.7%**	68.4%
Total Group	**365.9**	248.5	+47%	**79.2**	33.0	**21.6%**	13.3%

* Restated to reflect the segment reorganisation (see page 5).

Custom Mixed Signal (CMS)

In Q1 2021, underlying revenue was US$188 million, 27% above Q1 2020 due to growth in new mixed-signal products as well as in certain legacy licensed main PMICs. Revenue in CMS from our largest customer's products excluding legacy licensed PMICs was up 38% year-on-year to US$102.9 million (Q1 2020: US$74.4 million). Underlying operating profit for CMS increased 77% year-on-year to US$52.6million, mainly due to the higher revenue.

During the quarter, we continued to receive requests for quotations from a range of tier one customers, for new custom designs to be launched in 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 since 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.

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Advanced Mixed Signal (AMS)

During Q1 2021, underlying revenue increased by 57% from Q1 2020 mainly due to a strong recovery in demand and design-in momentum for backlighting products as well as a strong performance of CMICs. Underlying operating profit was US$12.1 million (Q1 2020: US$ 0.1 million) mainly driven by the higher revenue and product mix.

Dialog has successfully maintained a commanding share in the high power delivery rapid charge market through a combination of differentiated technology, speed of execution and wide support of rapid charge products, leading the industry in high power density AC/DC chargers.

Our broad product portfolio, which includes LED backlighting and 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. In addition, we launched 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. During Q1 2021, we launched a new member of the GreenPAK™ family, the SLG46811, the smallest, cost effective GreenPAK device to include an I2C communication interface, allowing engineers to create more complex and compact digital projects. 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 Q1 2021, underlying revenue grew 64% from Q1 2020 mainly due to higher revenue from audio products and BLE. Underlying operating profit in the quarter was significantly above Q1 2020 at US$8.6 million (Q1 2020: operating loss of US$3.2 million) and operating margin was 15.1%. 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 81% above Q1 2020, 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 Q1 2021, the combined revenue from new audio products and Codecs more than quadrupled 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.

In Q1 2021, underlying revenue was US$31.0 million and generated an underlying operating loss of US$0.8 million. 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.

Our SmartServer IoT Partner 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.

On 26 April 2021, we launched the AT25EU family of SPI NOR Flash devices, to support the development of power-conscious, size-constrained connected devices. The AT25EU focuses on achieving the lowest power consumption and the fastest operation in order to achieve the lowest energy.

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 Q1 2021. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

Q1 2021

US$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Cost-reduction initiatives	Underlying basis
Revenue	**365,863**	**–**	**–**	**–**	**–**	**–**	**365,863**
Gross profit	**181,855**	**1,009**	**9**	**–**	**–**	**–**	**182,873**
SG&A expenses	**(65,257)**	**12,205**	**7,047**	**904**	**9,541**	**235**	**(35,325)**
R&D expenses	**(81,560)**	**8,179**	**3,462**	**–**	**–**	**–**	**(69,919)**
Other operating income	**1,530**	**–**	**–**	**–**	**–**	**–**	**1,530**
Operating profit	**36,568**	**21,393**	**10,518**	**904**	**9,541**	**235**	**79,159**
Net finance income	**323**	**–**	**–**	**–**	**–**	**–**	**323**
Profit before income taxes	**36,891**	**21,393**	**10,518**	**904**	**9,541**	**235**	**79,482**
Income tax expense	**(10,777)**	**(2,304)**	**(1,905)**	**(168)**	**(365)**	**(45)**	**(15,564)**
Net income	**26,114**	**19,089**	**8,613**	**736**	**9,176**	**190**	**63,918**

Q1 2020

US$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Strategic investments	Underlying basis
Revenue	248,481	–	–	–	–	248,481
Gross profit	123,805	598	712	–	–	125,115
SG&A expenses	(42,411)	4,100	7,353	77	–	(30,881)
R&D expenses	(72,345)	5,534	2,466	–	–	(64,345)
Other operating income	8,467	–	(5,347)	–	–	3,120
Operating profit	17,516	10,232	5,184	77	–	33,009
Net finance income	2,026	–	218	–	(361)	1,883
Profit before income taxes	19,542	10,232	5,402	77	(361)	34,892
Income tax expense	(5,943)	448	(1,442)	(13)	69	(6,881)
Net income	13,599	10,680	3,960	64	(292)	28,011

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Accounting for business combinations

US$000	Q1 2021	Q1 2020
Acquisition-related costs	–	2,419
Amortisation of acquired intangible assets	**10,461**	7,163
Consumption of the fair value uplift of acquired inventory	–	712
Consideration accounted for as compensation expense	**57**	260
Forfeiture of deferred consideration	–	(23)
Remeasurement of contingent consideration	–	(5,347)
Increase in operating profit	**10,518**	5,184
Unwinding of discount on contingent consideration	–	218
Increase in profit before income taxes	**10,518**	5,402
Income tax credit	**(1,905)**	(1,442)
Increase in net income	**8,613**	3,960

EBITDA

US$000	Q1 2021	Q1 2020
Net income	**26,114**	13,599
Net finance income	**(323)**	(2,026)
Income tax expense	**10,777**	5,943
Depreciation expense	**9,006**	8,434
Amortisation expense	**16,650**	13,097
EBITDA	**62,224**	39,047
Share-based compensation and related expenses	**21,393**	10,232
Acquisition-related costs	–	2,419
Consumption of the fair value uplift of acquired inventory	–	712
Consideration accounted for as compensation expense	**57**	260
Forfeiture of deferred consideration	–	(23)
Remeasurement of contingent consideration	–	(5,347)
Integration costs	**904**	77
Cost-reduction initiatives	**235**	–
Corporate transaction costs	**9,541**	–
Underlying EBITDA	**94,354**	47,377

Free cash flow

US$000	Q1 2021	Q1 2020
Cash flow from operating activities	**25,992**	(49,030)
Purchase of property, plant and equipment	**(4,766)**	(2,492)
Purchase of intangible assets	**(720)**	(1,564)
Payments for capitalised development costs	**(7,859)**	(3,887)
Capital element of lease payments	**(2,719)**	(2,028)
Free cash flow	**9,928**	(59,001)

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The full release including the Company's unaudited consolidated financial statements for the quarter ended 2 April 2021 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 2020, it had approximately US$ 1.38 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.