Jose Cano:
Good morning. And thanks to everyone for joining us today. Our call is being hosted by Dr. Jalal Bagherli, our CEO, and Wissam Jabre, our CFO. In a moment, I will hand you over to Jalal to talk through the company's third quarter performance. But first of all, I need to remind everyone that today's briefing and some of the answers to your questions may contain forward-looking statements. These statements reflect management's current views, and there are risks associated with them. You can find a full explanation of these risks on page two of the investor presentation. The interim report and press release can also be found on our website. I would now like to introduce Jalal who will run through the main highlights from the third quarter. Jalal, over to you.

Jalal Bagherli:
Thank you, Jose. And good morning to everyone. Before we're going to take you through the financial results in more detail, I would like to run some of the details of the landmark license agreement with Apple that we announced on October 11th on slide 4.

The agreement with Apple includes: the licensing of certain Power Management Integrated Circuit technologies; the transfer of certain assets and employees; and the prepayment of future product purchases by Apple. This agreement strengthens our long-time partnership with Apple while generating immediate value from certain PMIC technologies and assets that are part of this agreement.

At closing, Dialog will receive $300 million in cash for the licensing of certain PMIC technologies and transfer of certain PMIC assets and employees. This includes over 300 employees from our European sites who will join Apple to support their future chip research and development efforts. Apple will also make a prepayment of $300 million to Dialog at closing. This prepayment is not specific to any product and will be credited to future product purchases over the next three years.

We will continue to ship all products currently in production to Apple and retain revenue and gross profit associated with those products throughout their lifespan.

Additionally, we were awarded a broad range of new contracts, including development and supply of new sub-PMICs, audio subsystems, charging and other ICs across multiple next-generation product platforms. Revenues from new contracts is expected to be realized starting in 2019 and accelerating in 2020.
The success we've had with Apple over the past 10 years is a validation of Dialog's unique technology and gives us confidence in our future growth potential. Let me touch on this briefly on slide 5.

This success starts with a core set of capabilities grounded in deep mixed-signal of expertise and power-efficient designs which shall become increasingly important in today's connected world.

When combined with our rapid design capabilities, this enables us to become key partners to market-leading, high-growth customers.

Building on our track record of delivering steep ramps of high-volume new products, we will continue to grow our business while increasing our profitability. At the same time, as the demands and profiles of our customers have changed over the years, we have adapted and evolved to meet that challenge. This is evidenced in our focus on configurable solutions. They simplify and accelerate the development process while providing flexibility for our customers.

This includes technologies like our GreenPAK CMICs, which have sold more than 4 billion units to-date; our leadership in the rollout of fast-charging smartphone adapters, shipping over a billion units a year; as well as Bluetooth low-energy SoCs, where we have the number two market share in the world.

Before I hand over to Wissam, I’d like to say how pleased I am about the performance this quarter, where we delivered a record Q3 revenue, increased profitability, and strong cash flow generation. With that, now over to Wissam.

Wissam Jabre:

Thanks, Jalal. Good morning, everyone. First, let's take a closer look at revenue performance on slide 7. Q3 2018 revenue of $384 million was up 6 percent year on year and slightly above the midpoint of our August guidance. The year-on-year increase was mainly driven by the revenue contribution from Silego to our Advanced Mixed-Signal segment, as well as moderate growth in connectivity and power conversion products.

Mobile Systems during Q3 was down 3 percent year on year. This small decline was the result of the reduced share volume from Apple for the main PMIC announced in May, partially offset by content growth in other platforms.

Advanced Mixed Signal Q3 revenue almost doubled year on year due to the $28 million revenue from Silego’s Configurable Mixed-Signal technology.
Excluding the contribution from Silego, Advanced Mixed Signal was up 3 percent year on year as a result of the increasing demand for charging ICs and the good performance of Backlighting product. Connectivity was up 2 percent year on year. This increase was mainly driven by growth in audio products. Finally, Automotive & Industrial was 11 percent below Q3 2017 due to lower volumes of automotive products.

Excluding the contribution from Silego, year-on-year revenue for the Group in Q3 2018 was 2 percent below the previous year. This was due to the 3 percent decline in Mobile Systems. On a year-to-date basis, revenue from the group was up 14 percent year on year with double-digit growth from both Connectivity and Advanced Mixed Signal. Excluding the contribution from Silego, year-on-year revenue growth for the first nine months of 2018 was 5 percent.

Turning to slide 8 to cover Gross Margin. Q3 2018 underlying gross margin was 48.6 percent, in line with our August guidance and broadly in line with Q3 2017, despite impact from the product mix and offset by savings in manufacturing costs. Compared to Q2 2018, gross margin was up 30 basis points. This was mainly the result of reduction in manufacturing costs. For the nine months of the year, underlying gross margin was 48.1 percent, 30 basis points below the previous year.

Let's now turn to slide 9 to cover operating expenses. During Q3 2018, underlying operating expenses were approximately $104 million, up 4 percent from Q3 2017.

This increase was the result of the consolidation of Silego into the Group. As a percentage of revenue, underlying operating expenses were down 30 basis points year on year.

Underlying R&D expenses in Q3 2018 were up 3 percent year on year. This increase was the result of the consolidation of Silego into the Group. As a percentage of revenue, underlying R&D expenses were down 40 basis points year on year at 19.5 percent. We continued to invest in R&D programs that supported the new areas of revenue growth and delivered diversification of our business.

Underlying SG&A expenses increased by 7 percent over Q3 2017. This increase was mainly due to the consolidation of Silego.
As a percentage of revenue, SG&A was broadly in line with the same quarter last year at 7.7 percent. For the first nine months of the year, underlying operating expenses as a percentage of revenue were down 70 basis points.

Moving on to slide 10 to take a look at operating profit and EPS. In Q3 2018, underlying Operating Profit was 9 percent higher than Q3 2017, growing faster than revenue. This was mostly due to the higher revenue partially offset by slightly higher OPEX.

All our operating segments were profitable on IFRS basis. Underlying operating margin for Mobile Systems and Automotive & Industrial was slightly below Q3 2017 to 25.3 percent and 34.5 percent respectively.

Connectivity underlying operating margin was broadly in line with the same quarter last year, 14.5 percent, and Advanced Mixed Signal almost doubled from 7.6 percent in Q3 2017 to 14.6 percent in Q3 2018. In Q3 2018, the combined underlying operating profit of the Advanced Mixed Signal, Connectivity and Automotive & Industrial was $17.5 million, representing approximately 21 percent of the total Group and was up 54 percent year on year. The combined underlying operating margin of the three business segments was 15.8 percent, 180 basis points or Q3 2017.

The underlying effective tax rate in Q3 2018 was approximately 22.6 percent, including a charge of $1.4 million resulting from the agreement of prior year items with tax authorities. Excluding this charge, the underlying effective tax rate was 21 percent, which is 100 basis points below Q3 2017. As a result of the higher revenue growth, underlying diluted EPS for the quarter was up 5 percent to 85 cents. For the first nine months of the year, underlying diluted EPS increased 14 percent to $1.83.

From earnings, let's now turn to slide 11 to take a closer look at inventory and cash. Inventory levels were 5 percent above the previous quarter, and days of inventory decreased by 14 days to 64.

During Q4 2018, we expect inventory value to increase sequentially and days of inventory to decrease.

At the end of Q3 2018, cash and cash equivalents balance was $617 million. Cash flow from operating activities during the third quarter was approximately $87 million which was more than double year on year. Free cash flow for Q3 2018 was $79 million, also significantly higher than the $7 million free cash flow achieved in Q3 2017.
In summary, during Q3, we have delivered another solid set of results with revenue growth and operating leverage resulting in strong cash generation. We are in a solid financial position and continue to focus on the successful execution of the product ramp.

Before we open the call to questions, I would like to talk about the Q4 outlook. Based on our current visibility and typical seasonal trends, we expect revenue for Q4 2018 to be in the range of $430 million to $470 million. At the midpoint, it will result in full year 2018 revenue of approximately $1,461 million up 8 percent year on year. We expect gross margin for full year 2018 to be broadly in line with full year 2017.

Tomorrow, we will be hosting a Capital Markets Day in London where we will discuss Dialog's long-term business strategy and financial targets. We will be providing further detail on our strategy plans, so please do keep that in mind for this Q and A session.

With that, I will now ask the operator to open the call for any questions on the quarter.

Operator:
Thank you very much. If you'd like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind and wish to withdraw your question, hit star followed by two. And when asking your question, please be sure that your line is not muted locally. And today's first question comes from Andrew Gardinier from Barclays. Andrew, please go ahead.

Andrew Gardinier:
Good morning, gentlemen. Thanks for taking the question, two if I could. One on the Mobile Systems business, specifically Apple, you had expressed earlier in the quarter, in the prior quarter in terms of the market share, that you were thinking you would be having around two thirds of the volume. I'm just wondering if indeed that has transpired and such and that the volumes you're seeing in the near term are meeting your expectations.

And then thinking to the other side of the business, we didn't see as much growth in either Advanced Mixed Signal, excluding Silego or Connectivity in the current quarter.

Jalal Bagherli:
Good morning, Andrew. So, on the first question, I think the -- what we said is that we are losing one circuit, I guess, and the -- you know, not knowing in advance how the products perform in the market, we assume it would be a third of our volume, one of the three. And I think we'll pretty much stick with that. There hasn't been any major change. I guess the first phone is only launched, or will be shipping soon, and they're taking preorders for that. So, until actually there is a couple of months of shipping, it's very hard to say the percentages between the different platforms. But yes, it's basically two out of three platforms.

00:15:07

Our comments in terms of growth, I mean, Silego performed very well relative to last year. But you know, the Connectivity is also performing well. It's just that the -- you know, I need to, I guess, remind what it constitutes on in terms of what's in Connectivity. We have the Bluetooth Low Energy in there, we have the audio, the new audio stereo for USB headsets. So, both of those are growing. But we also have a DECT business which is, you know, declining secularly on an ongoing basis as we've outlined before. So always bearing that in mind that, you know, when the top line growth isn't that impressive it's because the three elements, and two are growing, one is declining. But over time, the growth will overtake the declining products, if you like.

00:16:05

And AMS, in terms of Advanced Mixed Signal, we have rapid charge and also backlights, controllers, dimming controllers, as well as the configurable products. In this particular quarter, as we said, the configurable products, Silego performed very well, and so did the new backlighting controllers, by the way, in terms of advanced TVs and monitors.

The ACDC, the QuickCharge is performing okay, but, you know, there is softness in smartphone market in China. So, we are not immune to the movements there because a lot of our customers for the adapters are in China and Korea, so the Chinese segment does have an impact. But overall, we're very pleased with the performance of all of those operating segments.

00:17:05

Andrew Gardiner: Understood. Just quickly, can you remind us how much -- or inform us how much DECT is as a part of Connectivity these days? I imagine it's getting under the smaller end of the spectrum. But it would be helpful to understand how much.

Jalal Bagherli: I'm not sure if – Wissam, do you have that to hand? I think it's still quite a big part. It's not that small, but -- yes. Is it, what, maybe half or –

Jalal Bagherli:
It's about half, roughly, Andrew.

Andrew Gardiner:
Okay. Thank you, guys.

Jalal Bagherli:
That business declines between 6 to 10 percent a year if you want to model something…

Andrew Gardner: Thank you.

Operator:
And the next question on the line comes from Sandeep Deshpande from JPMorgan. Sandeep, please go ahead.

Sandeep Deshpande:
Yeah, Hi. Thanks. So, I don't know whether this was answered, but my question is, I mean, you're seeing -- for the last two quarters, you saw very strong growth in, you know, this "in your range" growth in terms of the Automotive, Industrial, Power businesses, Power Conversion businesses, whereas what we've seen in this quarter, the growth is much slower.

00:18:13

How are -- is there a particular reason why this has happened? And is this going to turn around quickly, because overall, in terms of your long-term plan, this is to grow 10 to 15 percent, so how should we be looking at it in the next few quarters or next year as such, really?

And my second question is regarding, you know, new product growth. Within these segments, as such, really, you've talked about the new PMICs that you want, which is going to be a separate business as such. But within this segment, as such, where do you expect the greatest growth to come from, and from what trend?

Jalal Bagherli:
Okay, I guess, let me answer the first one. I'm not sure I understood to the second question when you say, "these segments," which segments you're talking about.

00:19:03

So, the first one, I think -- so please make a distinction. It is our way of presenting. There is a distinction between what we reported Industrial, Automotive, Auto Industrial, rather, than when we talk about the new opportunities in automotive. So, the Auto Industrial segment as reported is the legacy Custom business we've had for years, in fact, over 10 years or so. And these are not ever going to be showing necessarily big growth. So, they do change from quarter to quarter. Sometimes they go up and sometimes
down. But it's not where we're putting a lot of energy or effort to expand because they typically relate to some of the older technologies of many years back.

Where we're talking about growth in Automotive, we're talking about new stuff that we're doing, and it comes out of reported currently within the other segments until they become significant enough to be taken out. So, for example, in Infotainment, we have Power Management, and that is reported as part of our Mobile business.

It's not part of -- it's not reported today as Automotive. So, because they are still small, we get a lot of design-ins actually. But by the time they go to production and they start showing volume revenues, that would be, you know, two or three years out. But we have -- we're making great progress, though, so maybe that answers part of your second question.

The other area we've been active in Automotive is, for example, on Bluetooth, for tire pressure monitors, which we have at least two to three customers who are taking volume and then we have products under development for time of flight with partners which are in the early stages of development. So those are, again, areas where we will be expanding in terms of Automotive.

And the third thing for Automotive would be our CMIC, the configurable products. We will be releasing auto qualified parts from our CMIC, Silego product line. That is suitable for Automotive.

So, the segment reported as Auto Industrial is purely legacy business. That's the, I guess, laboring that point.

The second question you had was, I think, about new products. So, we see four segments that -- where we will pay increasing attention. We're already doing mobile, and we will be expanding our energy now outside our largest customer to other customers in the market a lot more in terms of pushing our high-voltage charging into phones as well as sub-PMIC activity. In the -- and I'll just mention what we're doing with PMIC and Infotainment. We'll be also taking PMICs to other segments like gaming, for example, or solid state drives.

The other area, Bluetooth, for example, we have -- if you look at the nine months over a year ago, we have shown our growth continues.

We expect that growth to continue also next year. Some of the new areas we see coming through is in addition to accessories for Mobile application. We also see things like e-
share type products. We see sim cards, we see smart cards using our Bluetooth chips in China. There is e-vape to do with the new sort of, you know, e-cigarettes, et cetera.

A lot of these are -- in the short term, we'll start using our Bluetooth Low Energy. In the medium term, our eyes are set on person medical -- personal connected medical devices. And we have a number of opportunities and a great product that's going to come through which we've been designing for that segment.

So, I think I'll leave the rest for tomorrow because we have a whole day of new product discussion.

00:23:02

Sandeep Deshpande:
Thank you.

Operator:
And our next question on the line comes from Adithya Metuku from Bank of America Merrill Lynch. Adithya, you're live now.

Adithya Metuku:
Yeah, good morning, guys. So, two questions if I could. Firstly, on the Bluetooth Low-Energy market, could you give us some color on what your exposure currently to the health market is, so in the hearing aids and so on.

And secondly, just a clarification on the -- on your comment earlier, on the time of like work you're doing. I didn't quite catch that. Can you elaborate a bit on what exactly you're doing in this space? Thank you.

Jalal Bagherli:
All right. Good morning. So, on the health, connected health is a new area. I mean, we have one or two sockets today which are -- if you like the examples. But we actually have upwards of six or seven engagements with very big brand names, which are pharmaceutical companies or pharmaceutical-related electronics.

00:24:11

And we're not specifically doing hearing aids for Bluetooth. We do have other opportunities for hearing aids. But for Bluetooth Low Energy, what we're talking about is more disposable and also rechargeable medical, personal medical devices. And that encompasses things like glucose meters, insulin pumps, also some things like that which are moving towards being connected. Historically they've been, you know, “fire and forget”, now if people want to measure the dosage and the time of administration of medicine and relate that back to apps on the mobile phone so the doctors and medical professionals can actually track progress of a patient.
So, there's a lot of those things that are now moving to being connected. And we are at a very good position to tap into that market. There's a bunch of other not necessarily medical but health-related things like, you know, electronic toothbrushes, et cetera, which we also play a part with our Bluetooth.

On the second question, time of flight was related to an automotive project with two or three partners. We're working -- so we provide the Bluetooth Low Energy, working with people who provide sensors and software to deliver a complete system. This is for things like key fobs, where you want to make sure there is no -- if you like, alien, intruder opening your doors, et cetera. So that's where the time of flight becomes necessary.

Adithya Metuku:
Understood. Thank you.

Operator:
And the next question today comes from Achal Sultania from Credit Suisse. Achal, your line's now open.

Achal Sultania:
Hi, good morning. Just trying to understand, as we go through this transition away from Apple and your revenue shrinks, obviously, you've kind of said that gross margins, we should not see a material impact on gross margins. So, can you just help us understand what are the steps that you are taking to mitigate the pressure that we may see on gross margins with declining top line at least for the next two years as that transition happens and you come out of that transition, let's say, in 2020 or 2021, with your margins roughly at 47, 48 percent, which has been the level for the last few years. So just some color on that transition. Thank you.

Jalal Bagherli:
Okay. So, appreciate the question, but I think, you know -- I think this call is specifically for this quarter and the guidance for next quarter. And, you know, our comments are confined to that. We will be discussing a longer-term operating model tomorrow. And Wissam will, you know, take you through some of that in great depth tomorrow.

But, you know, basically what we have in plans is our gross margin at least in the projected future within the guidance range that we are talking about today, there is no change anticipated, and we'll be able to operationally absorb through better mix and managing our costs to maintain the gross margin.

Achal Sultania:
Okay. Maybe just a -- thanks, Jalal. Maybe just a follow up on Bluetooth. I think last year, you had 25 -- around 25 percent growth in Bluetooth Low Energy sales. I think this year, you started the year talking about 45, 50 percent growth target. Are we tracking to do the metrics this year so far in the first nine months? Can you give some color on those?

Jalal Bagherli:
First nine months…

Wissam Jabre:
Maybe I'll just give it quickly. On a nine-month year-to-date basis, we're up around 25 percent in the Bluetooth Low Energy business.

So, we are tracking to -- on a year-to-date basis, we're tracking to the numbers, yeah. Yeah.

Jalal Bagherli:
So --

Achal Sultania:
But I -- but I thought the target was more like -- like almost double that -- the pace last year. And I think last year was 25 percent, so --

Jalal Bagherli:
So -- so we did talk about -- we did talk about higher rate of growth, you're right, at the early part of - infact maybe Q4 last year into Q1. But the market, the growth that was anticipated for overall market slowed down somewhat through the year. But we still maintained 25 percent range growth for our particular products. But you are correct, we did talk about 40 percent this last year.

Achal Sultania:
Okay. And just on power conversion, ex-Silego, basically, can you talk about some of the -- you basically had a recent partnership with Samsung last year. How is that partnership evolving in have you seen like new product launches this year at all with your immediate customers?

Jalal Bagherli:
Yes, we do. So, you know, they're not -- there's a lot of derivative products launched, so our revenue from Samsung remains strong. So, for example, when we have 15-watt, they also introduced 18-watts type adapters, 22-watt adapters, and we are in all of those. You know, obviously, we don't have 100 percent share. We share the sockets.
But we have high share in Samsung, but more also on top of that, we have, in the top Chinese customers, we pretty much have close to 100 percent share of a number of those for the Quick Charge technology. So at least, I think three out of four, we have leadership and 100 percent share. And these are all new products rolled out through the year and continue to roll out into next year. And part of that, it comes back to what we said in the opening of configurability and responding to customer needs.

00:30:07

So, you know, you might think that the Quick Charge is the same for everybody, but actually, every one of these guys have a set product goal and different approach of how much time they want to be built-into their batteries and the ability to respond fast to those requirements may change, pretty much every three to six months is key. And that's what we are able to do. And this is why we maintain such high share.

Achal Sultania:
Okay. Thanks. Thanks a lot, Jalal.

Operator:
And we have another question from Robert Sanders from Deutsche Bank. Robert, please go ahead.

Robert Sanders:
Yeah, hi. Good morning. I was just wondering, on the Bluetooth Smart business again, it does look like you've only got sort of 8 percent market share of certifications whereas Nordic has 40. You're still a long way behind.

00:31:00

And it does seem like the number of companies that are certified Bluetooth Low Energy has gone up dramatically in the last two quarters if the look at the slides in Nordic Semi's presentation. So, have you seen an increase in pricing pressure in your Bluetooth business? And I've got a follow-up, thanks.

Jalal Bagherli:
Hi Rob, So, I haven’t looked at what Nordic has said or what their certifications say. I am looking at what we did. And this year has been, in our estimation, is number two in terms of volume. Nordic is number one and is actually enormous – bigger than us – in this area. And that's the only thing, pretty much, they do. So, for us, I think -- we see, we have some verticals where we can add value, so we do not have this focus on Bluetooth, and I think we've explained that on some of those other presentations.

00:32:01
Most of our products are tailored for customer specific applications. So, for example, for smart home or for other areas we integrate other pieces like Power and like Sensor Interfaces, other things that are relevant to that particular application.

So, you know, as the market volume grows, you would expect price pressure, and we do get price pressure, but it's not to the amount a standard Bluetooth low energy vendor would expense. So, we're managing pretty good cost margins for this business.

Robert Sanders:
And just another clarification, it looks like a lot of -- a lot of stuff will be revealed tomorrow at the Capital Markets Day. But will you actually give a 2019 guidance? Because, I mean, it's almost impossible for us to forecast your revenue at Apple, which is, you know, running at 75 per cent of your revenue. So, will you actually give a 2019 run rate sales guide as you go into next year?

00:33:06

Jalal Bagherli:
Well, I get your question, and you guys -- not just you, but all of you, you know, have effectively been asking for a Capital Market Day, and this is what we will go over tomorrow, so please be patient.

Robert Sanders:
Okay. Thank you.

Operator:
As a reminder, for any further, please press star followed by one on your telephone keypad.

Okay, it looks like we have no further questions so I'll turn the call back to you.

Jose Cano:
Great. Thank you. As always, if anyone have any other questions, please don't hesitate to give me a ring or email me. Thank you.

Male Speaker:
Thank you.

Male Speaker:
Thanks.

Operator:
Ladies and gentlemen, this concludes today's call. Thank you all for dialing in.

[end of transcript]