dialog SEMICONDUCTOR

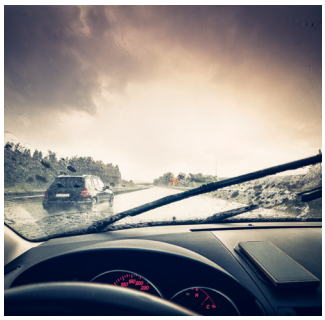
Building a power-efficient connected world

Dialog Semiconductor Plc
Interim report – 9M 2020

Contents

Interim report – 9M 2020



Press release – 5 November 2020

Dialog Semiconductor reports results for the third quarter ended 25 September 2020

Q3 2020 revenue at US$386 million, above the high-end of the August outlook range. Revenue excluding licensed PMICs was up 24% year-on-year.

London, UK, 5 November 2020 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the third quarter ended 25 September 2020.

	IFRS basis (unaudited)		Underlying basis[1] (unaudited)		
US$ millions unless stated otherwise	**Q3 2020**	Q3 2019	**Q3 2020**	Q3 2019	Change
Revenue	**386.4**	408.8	**386.4**	408.8	-5%
Gross margin	**48.3%**	49.2%	**50.7%**	49.5%	+120bps
Operating expenses[2]	**152.5**	122.5	**108.5**	103.7	+5%
Operating (loss)/profit	**(7.0)**	83.9	**91.5**	103.8	-12%
Operating margin	**(1.8)%**	20.5%	**23.7%**	25.4%	-170bps
Diluted EPS	**$(0.27)**	$0.91	**$1.00**	$1.13	-12%
Free cash flow			**11.8**	86.8	-86%

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.

Q3 2020 Financial highlights

- Revenue of US$386 million 7% above the mid-point of the August outlook range and 5% below Q3 2019.
- Strength across the product portfolio with revenue excluding licensed main Power Management ICs ("PMICs") was up 24% year-on-year.
- Gross margin at 48.3% (Q3 2019: 49.2%). Continued progress on underlying gross margin at 50.7% (Q3 2019: 49.5%) up 120bps year-on-year.
- Operating loss of US$7.0 million (Q3 2019: operating profit of US$83.9 million) mainly due to a US$44.9 million impairment loss in relation to the acquisition of Adesto Technologies Corporation ("Adesto"), and underlying operating profit of US$91.5 million (Q3 2019: US$103.8 million).
- Second consecutive quarter of sequential revenue growth and increased underlying operating profit.
- Diluted EPS of US$(0.27) (Q3 2019: US$0.91) and underlying diluted EPS of US$1.00 (Q3 2019: US$1.13).
- On 29 June 2020, the Company closed its acquisition of Adesto broadening its presence in the Industrial IoT market.
- In Q3 2020, the Company purchased 685,769 ordinary shares for €25.6 million (US$29.5 million) as part of the 2019 Share Buyback Programme. Subsequent to quarter end, 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.
- Q3 2020 cash flow from operating activities of US$27.3 million (Q3 2019: US$97.3 million) which included the recoupment of the prepayment relating to the license agreement.

Q3 2020 Operational highlights

- Continued design-in momentum at our largest customer 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, including next generation display technologies.
- Strong operational performance despite evolving lockdown restrictions.
- Revenue in Custom Mixed Signal business segment from our largest customer driven by new mixed-signal products was up 12% year-on-year.
- Q3 2020 revenue from Configurable Mixed-signal ICs ("CMICs") was up 36% year-on-year, led by GreenPAK™ and charger switches.
- Q3 2020 revenue from Bluetooth® low energy ("BLE") was up 60% sequentially and 8% year-on-year, led by strong demand for fitness trackers and digital watches.
- Dialog and Renesas extended their cooperation with Dialog's PMICs for the R-Car M3 and R-Car E3 reference platforms, and Telechips selected Dialog as preferred power management partner for next generation automotive platforms.
- Subsequent to quarter end, on 19 October 2020, we entered into an agreement to license our Conductive Bridging RAM ("CBRAM") technology to GLOBALFOUNDRIES.

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

"Revenue for the third quarter exceeded our August guidance due to improving trends across the portfolio, which were particularly strong in PMICs, BLE and CMICs. As consumer trends adapted to new social realities brought by the pandemic, we saw demand increase for our products in headphones, fitness trackers, digital watches, notebooks, and tablets. We expect this trend to continue through Q4."

"While we continue to successfully navigate evolving lockdown restrictions we remain focused on the integration of Adesto. We are excited about the expansion of our business into industrial IoT and Adesto's long-term growth prospects. Our solid financial position supports our growth strategy as we continue to expand our product portfolio and leverage our technology into new markets. These investments help to rebalance the end-market exposure of our business, creating long-term value for shareholders."

Press release – 5 November 2020 continued

Outlook

In Q4 2020 we anticipate revenue to be in the range of US$380 million to US$430 million and underlying gross margin to be broadly in line with 9M 2020.

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.

Q3 2020 Financial overview

Revenue was 5% below Q3 2019 at US$386 million mostly due to the expected decline in licensed main PMICs to US$103.9 million (Q3 2019: US$181.9 million) partially offset by improving trends across the product portfolio. In particular, sales growth of PMICs, BLE, and CMICs 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 24% year-on-year. License revenue of US$9 million related to the Apple agreement was reported in Corporate.

Gross margin was 48.3%, 90bps below Q3 2019 (Q3 2019: 49.2%) as a result of the consumption of the fair value uplift of the acquired Adesto inventory. Underlying gross margin was up 120bps year-on-year at 50.7%. This increase was mainly the result of revenue mix and continuing savings in manufacturing and overhead costs.

Operating expenses ("OPEX"), comprising SG&A and R&D expenses, in Q3 2020 were 25% above Q3 2019, representing 39.5% of revenue (Q3 2019: 30.0%). The increase in OPEX was due to the acquisitions of Adesto and Creative Chips. In Q3 2020 we incurred US$5.6 million transaction costs and US$4.6 million integration costs related to the acquisition of Adesto. Underlying OPEX in Q3 2020 was 5% above Q3 2019 (Q3 2019: US$103.7 million), representing 28.1% of revenue (Q3 2019: 25.4%). The additional OPEX from Adesto and Creative Chips was partially offset by an 8% year-on-year reduction in R&D and SG&A.

In line with its long-term financial objectives, the Company has initiatives in place to reduce its cost base over time. In Q3 2020, following the closing of the acquisition of Adesto, the Company has made 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 8% above Q3 2019 representing 22.0% of revenue (Q3 2019: 19.3%). Underlying R&D expenses in Q3 2020 were 2% above Q3 2019 representing 19.0% of revenue (Q3 2019: 17.6%). The increase in R&D expenses was mainly due to the acquisitions of Adesto and Creative Chips partially offset by cost savings.

SG&A expenses in Q3 2020 were 55% above Q3 2019, representing 17.4% of revenue (Q3 2019: 10.7%). The increase was driven by the acquisitions of Adesto and Creative Chips partially offset by cost savings. In Q3 2020 we incurred US$10.1 million costs relating to the acquisition of Adesto. Underlying SG&A expenses in Q3 2020 were 11% above Q3 2019 representing 9.1% of revenue (Q3 2019: 7.7%). 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 Q3 2020 we incurred a US$40.9 million other operating loss driven by US$4.0 million income from contributions to product development costs and an impairment loss of US$44.9 million in relation to the provisional goodwill recognised on the acquisition of Adesto. The goodwill impairment loss was the result of an increase in the applicable discount rate and the estimated impact to Adesto's forecast of the COVID-19 pandemic. Further information is presented in note 8 to the interim financial statements. Underlying other operating income, which comprised income from contributions to product development costs, were US$4.0 million, below Q3 2019 (Q3 2019: US$5.2 million).

In Q3 2020 we incurred an operating loss of US$7.0 million, significantly below Q3 2019 (Q3 2019: operating profit US$83.9 million), mainly due to the impairment loss combined with lower revenue and additional operating expenses from the acquisitions of Adesto and Creative Chips, partially offset by cost savings. Underlying operating profit was 12% below Q3 2019, at US$91.5 million (Q3 2019: US$103.8 million) driven by lower revenue together with additional operating expenses from the acquisitions of Creative Chips and Adesto, partially offset by higher underlying gross margin and cost savings.

The effective tax rate in Q3 2020 was (114.6)% (Q3 2019: 21.3%). Our high effective tax rate for Q3 2020 is principally due to the distorting effect on our income tax expense of the nil tax relief on the Adesto goodwill impairment as well as the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments. The underlying effective tax rate in Q3 2020 was 19.7%, down 80bps on the Q3 2019 underlying effective tax rate of 20.5%.

In Q3 2020 we incurred a net loss of US$19.4 million, significantly below Q3 2019 (Q3 2019: net income of US$68.2 million). This decrease was mostly due to the decrease in operating profit. Underlying net income was 15% lower year-on-year mainly driven by the decrease in underlying operating profit.

Diluted EPS in Q3 2020 was significantly below Q3 2019 at US$(0.27) (Q3 2019: US$0.91). Underlying diluted EPS in Q3 2020 was 12% lower year-on-year to US$1.00 (Q3 2019: US$1.13).

At the end of Q3 2020, our total inventory level, including Adesto, was US$161 million, 26% above the previous quarter. This is equivalent to 72 days of inventory representing a 4-day decrease in our days of inventory from Q2 2020, mainly due to the higher revenue. During Q4 2020, we expect inventory value and days of inventory to increase slightly.

In Q3 2020, the second and third settlements of the second tranche of the 2019 Buyback Programme took place. In the second interim settlement the Company purchased 354,968 ordinary shares for €12.3 million at an initial average price of €34.57. In the third settlement the Company purchased 330,801 shares for €13.3 million at an average price of €40.17. Subsequent to quarter end, on 8 October 2020, we completed the fourth and final settlement of this tranche, purchasing 696,849 ordinary shares for €29.7 million. Under the second tranche of the 2019 Buyback Programme, 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.

In support of our growth strategy and the diversification of our business, on 29 June 2020, the Company acquired Adesto resulting in a cash outflow of approximately US$498 million, funded from the Company's cash balances. This acquisition accelerates Dialog's expansion into the growing Industrial IoT market that enables smart buildings and industrial automation (Industry 4.0), seamlessly driving cloud connectivity. Adesto has an established portfolio of industrial solutions for smart building automation that fully complements Dialog's manufacturing automation products.

At the end of Q3 2020, we held cash and cash equivalents of US$439 million (Q3 2019: US$1,171 million). Cash flow from operating activities in Q3 2020 was US$27.3 million which was below Q3 2019 (Q3 2019: US$97.3 million). The year-on-year movement was mainly due to the lower revenue and working capital. In Q3 2020, the Group generated free cash flow of US$11.8 million, which was below Q3 2019 (Q3 2019: US$86.8 million) due to the lower cash flow from operating activities. At the end of the quarter, the remaining principal amount of the US$300 million prepayment outstanding was US$87.5 million.

Q3 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. In line with our strategic goals, we intend to continue the expansion of our product portfolio through a combination of organic and inorganic initiatives. 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	**Q3 2020**	Q3 2019	Change	**Q3 2020**	Q3 2019	**Q3 2020**	Q3 2019
Custom Mixed Signal	**223.6**	278.2	-20%	**69.2**	88.7	**31.0%**	31.9%
Advanced Mixed Signal	**78.2**	70.0	+12%	**11.4**	6.2	**14.6%**	8.8%
Connectivity & Audio	**56.0**	54.3	+3%	**6.8**	5.4	**12.1%**	10.0%
Adesto	**19.7**	–	na	**(2.4)**	–	**(12.4)%**	–
Total Segments	**377.5**	402.5	-6%	**85.0**	100.3	**22.5%**	24.9%
Corporate and other unallocated items	**8.9**	6.3	+43%	**6.5**	3.5	**72.8%**	55.7%
Total Group	**386.4**	408.8	-5%	**91.5**	103.8	**23.7%**	25.4%

Custom Mixed Signal (CMS)

In Q3 2020, revenue was US$224 million, 20% below Q3 2019 due to the expected decline in legacy licensed main PMICs partially offset by growth in new mixed-signal products and the contribution from Creative Chips. Revenue in CMS from our largest customer's products not covered by the licensing agreement was up 12% year-on-year to US$103.2 million (Q3 2019: US$91.8 million). Underlying operating profit for CMS decreased 22% year-on-year to US$69.2 million, mainly due to the lower revenue partially offset by lower operating expenses.

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 in 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.

Advanced Mixed Signal (AMS)

During Q3 2020, revenue increased by 12% from Q3 2019 due to strong revenue growth in CMICs more than offsetting lower volumes in backlighting. The lower volumes resulted from the impact of the lack of live sport events on the high-end TV market. While demand in 2020 has remained soft, we are seeing the beginning of strong design-in momentum. Operating profit was up 84% year-on-year 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 Q3 2020 we started shipping high-voltage power delivery products.

Press release – 5 November 2020 continued

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. We also released a new update for the GreenPAK™ Designer software package containing simulation capabilities to incorporate external components, ranging from passive components like shunt resistors to more complex devices like motors, which will further reduce development time and simplify the design process across the entire GreenPAK™ portfolio. 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 Q3 2020, revenue grew by 3% from Q3 2019 mainly due to higher revenue from BLE and audio products offsetting lower revenue from legacy Digital Enhanced Cordless Telecommunications ("DECT") products. Excluding revenue from legacy DECT of US$12.9 million (Q3 2019: US$17.4 million) year-on-year revenue growth was 17%. Operating profit in the quarter was 25% above Q3 2019 at US$6.8 million (Q3 2019: US$5.4 million). 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.

The financial performance this quarter improved significantly over Q2 2020. Sales increased by 28% sequentially driven by strong performance of BLE and audio products and operating profit increased significantly from US$1.8 million in Q2 2020 (Q3 2020: US$6.8 million).

Revenue from our SmartBond™ BLE System-on-Chip ("SoC") was 8% above Q3 2019, and up 60% sequentially as a result of increased demand from customers in Asia. Following the launch of SmartBond TINY™ and the SmartBond TINY™ module, last quarter 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 Q3 2020, the combined revenue from new audio products and Codecs doubled 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.

Adesto
In Q3 2020, we consolidated Adesto into the Group. Revenue was US$20 million, in line with our August expectations. Adesto generated an operating loss of US$2.4 million. During this quarter we made good progress on the integration and we expect it to be completed by the end of 2021.

Adesto's technology enable 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, Adesto brings an innovative product portfolio to thousands of customers worldwide across the industrial, consumer, medical, and communications markets.

Following the completion of the acquisition in Q3 2020, we announced the qualification and compatibility of EcoXiP™ Octal xSPI flash memory with Renesas high-performance RZ/A2M microprocessor, benefiting a growing number of applications, accelerating intelligence at the IoT edge. Alongside this, FusionHD™ NOR flash memories are now also compatible with our BLE SoC, enabling customers to deploy the latest BLE technology while keeping power consumption to an absolute minimum in a wide range of industrial and connected consumer applications.

Subsequent to quarter end, on 19 October 2020, we entered into an agreement in which we license our CBRAM technology to GLOBALFOUNDRIES, the world's leading specialty foundry. GLOBALFOUNDRIES will first offer Dialog's CBRAM as an embedded, NVM option on its 22FDX® platform, with the plan to extend to other platforms. CBRAM technology is a low power NVM solution designed to enable a range of applications from IoT and 5G connectivity to artificial intelligence. Low power consumption, high read and write speeds, reduced manufacturing costs, and tolerance for harsh environments make CBRAM particularly suitable for consumer, medical, and select industrial and automotive applications.

In addition, we have closed two major deals with satellite operators for RF transceiver ASICs starting production from 2022.

***

Dialog Semiconductor invites you today at 09.30 am (London) / 10.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q3 2020 performance, as well as guidance for Q4 2020. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

https://webcast.openbriefing.com/dialog-q320/

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

https://webcast.openbriefing.com/dialog-q320/

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

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

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

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

The full release including the Company's unaudited consolidated financial statements for the quarter ended 26 June 2020 is available under the investor relations section of the Company's website at:

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

Dialog, the Dialog logo, SmartBond™, SmartBond TINY™, RapidCharge™, SmartBeat™, VirtualZero™ are registered trademarks of Dialog Semiconductor Plc or its subsidiaries. All other product or service names are the property of their respective owners.
©Copyright 2020 Dialog Semiconductor Plc. All rights reserved.

Press release – 5 November 2020 continued

For further information please contact:

Dialog Semiconductor
Jose Cano
Head of Investor Relations
T: +44 (0)1793 756 961
jose.cano@diasemi.com

FTI Consulting London
Matt Dixon
T: +44 (0)2037 271 137
matt.dixon@fticonsulting.com

FTI Consulting Frankfurt
Steffi Kim
T: +49 (0)17 1556 5996
steffi.kim@fticonsulting.com

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

Basis of preparation

The interim financial statements of Dialog Semiconductor Plc ("the Company") and its subsidiaries (together "Dialog" or "the Group") for the three- and nine- month periods ended 25 September 2020 are set out in Section 2 of this Interim Report.

The interim financial statements are unaudited but have been reviewed by the Company's auditor, Deloitte LLP, whose review report is set out on page 14.

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

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

Non-IFRS measures

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

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

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, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements our range of manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

On completion, we paid US$397.3 million in cash for Adesto's outstanding issued common shares and US$8.4 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.

During Q3 2020, 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.

We have not yet completed the purchase accounting for Adesto. Our provisional purchase price allocation shows that Adesto's net assets on acquisition were US$97.6 million (after deducting the liability to settle the convertible notes). We recognised identifiable intangible assets including customer relationships (US$105.1 million), order backlog (US$0.5 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$319.2 million in relation to Adesto. Details of the provisional purchase price allocation are set out in note 5 to the interim financial statements.

During 9M 2020, we incurred transaction costs of US$9.1 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 9M 2020, we incurred integration costs amounting to US$4.6 million in relation to Adesto, which principally comprised employee severance costs.

Pending a segment reorganisation, the results of the Adesto businesses are reported separately to the Management Team and they are therefore presented as a separate reporting segment in the interim financial statements.

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 Q3 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 at the end of Q3 2020. 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 8 to the interim financial statements.

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$2.2 million, that were principally employee termination benefits.

Results by reporting segment

	Underlying revenue			Underlying operating profit/(loss)	
US$ millions unless stated otherwise	**9M 2020**	9M 2019	Change	**9M 2020**	9M 2019
9M 2020 compared with 9M 2019					
Custom Mixed Signal	**563.2**	709.1	-21%	**147.6**	200.2
Advanced Mixed Signal	**192.8**	185.0	+4%	**16.9**	12.5
Connectivity & Audio	**134.7**	133.6	+1%	**5.3**	17.3
Adesto	**19.7**	–	na	**(2.4)**	–
Total segments	**910.4**	1,027.7	-11%	**167.4**	230.0
Corporate and other unallocated items	**26.8**	12.2	nm	**19.5**	3.1
Total Group	**937.2**	1,039.9	-10%	**186.9**	233.1

Financial review continued

Results of operations

Analysis by reporting segment

Custom Mixed Signal's underlying revenue was US$563.2 million in 9M 2020 compared with US$709.1 million in 9M 2019, a decrease of 21%. 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 including the contribution from Creative Chips that we acquired in Q4 2019.

Revenue from our largest customer for products not covered by the perpetual IP licence increased by 26% to US$253.7 million in 9M 2020 compared with US$201.7 million in 9M 2019.

Custom Mixed Signal's underlying operating profit was US$147.6 million in 9M 2020 compared with US$200.2 million in 9M 2019. Underlying operating profit decreased principally due to lower revenue, though this was partially offset by lower R&D expenses following the transfer of design centre businesses to Apple at the beginning of Q2 2019. Underlying operating margin was 26.2% compared with 28.2% in 9M 2019.

Advanced Mixed Signal's underlying revenue was US$192.8 million in 9M 2020 compared with US$185.0 million in 9M 2019, an increase of 4%. Revenue benefited from higher sales of CMICs, 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$16.9 million in 9M 2020 compared with US$12.5 million in 9M 2019. Underlying operating profit increased principally due to increased revenue and lower selling and marketing expenses, though these benefits were partially offset by higher R&D expenses. Underlying operating margin was 8.8% compared with 6.8% in 9M 2019.

Connectivity & Audio's underlying revenue was US$134.7 million in 9M 2020 compared with US$133.6 million in 9M 2019, an increase of 1%. Sales of Bluetooth® low-energy and new audio products increased but this was largely offset by lower sales of legacy DECT-based products.

Connectivity & Audio's underlying operating profit was US$5.3 million in 9M 2020 compared with US$17.3 million in 9M 2019, with the decline principally due to higher R&D expenses and lower customer contributions to product development costs. Underlying operating margin was 3.9% compared with 12.9% in 9M 2019.

Adesto contributed underlying revenue of US$19.7 million and incurred an underlying operating loss of US$2.4 million in the period since acquisition at the beginning of Q3 2020, performing broadly in line with our expectations when we completed the acquisition.

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

Corporate and other unallocated items represented an underlying operating profit of US$19.5 million in 9M 2020 compared with US$3.1 million in 9M 2019, with the improvement being principally due to the recognition of higher revenue on the effective IP licence granted to Apple in Q2 2019.

Analysis of the Group's results

Revenue was US$937.2 million in 9M 2020 compared with US$1,185.7 million in 9M 2019, a decrease of 21%. Revenue declined principally due to the effect of the licensing arrangements with Apple that became effective at the beginning of Q2 2019.

Excluding the perpetual IP licence fee of US$145.8 million that was recognised in Q2 2019, underlying revenue declined from US$1,039.9 million in 9M 2019 to US$937.2 million in 9M 2020, a decrease of 10%. 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, higher sales of CMICs in Advanced Mixed Signal and Bluetooth® low-energy and new audio products in Connectivity & Audio, and the contribution of recently-acquired businesses.

Cost of sales was lower at US$475.1 million in 9M 2020 compared with US$527.3 million in 9M 2019, with the decrease principally reflecting lower sales volumes of higher cost products.

Gross profit was US$462.1 million in 9M 2020 compared with US$658.4 million in 9M 2019. Gross margin decreased to 49.3% compared with 55.5% in 9M 2019, principally due to the recognition of the perpetual IP licence fee in Q2 2019.

Underlying gross profit was US$474.0 million compared with US$515.6 million in 9M 2019, a decrease of 8%. Underlying gross margin was 100 basis points higher at 50.6% compared with 49.6% in 9M 2019.

Underlying gross profit excludes share-based compensation and related expenses of US$2.6 million (9M 2019: US$2.1 million) and the consumption of the fair value uplift on acquired inventory of US$8.8 million (9M 2019: US$0.9 million), deferred consideration accounted for as compensation expense of US$0.5 million (9M 2019: US$nil) and, in 9M 2019, the perpetual IP licence fee of US$145.8 million.

Summary of the Group's results

	IFRS basis (unaudited)		Underlying (unaudited)*		
US$ millions unless stated otherwise	**9M 2020**	9M 2019	**9M 2020**	9M 2019	Change
Revenue	**937.2**	1,185.7	**937.2**	1,039.9	-10%
Gross margin	**49.3%**	55.5%	**50.6%**	49.6%	+100bps
Operating expenses	**387.5**	371.0	**301.6**	305.4	-1%
Operating profit	**51.0**	326.2	**186.9**	233.1	-20%
Operating margin	**5.4%**	27.5%	**19.9%**	22.4%	-250bps
Diluted EPS	**$0.37**	$3.33	**$2.07**	$2.46	-16%
Free cash flow			**(23.2)**	405.1	

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

Selling and marketing expenses were US$76.5 million in 9M 2020 compared with US$67.3 million in 9M 2019, the increase being principally due to the addition of recently-acquired businesses.

Underlying selling and marketing expenses were unchanged compared with 9M 2019 at US$51.7 million but increased to 5.5% of the Group's underlying revenue compared with 5.0% in 9M 2019.

Underlying selling and marketing expenses exclude share-based compensation and related expenses totalling US$5.9 million (9M 2019: US$3.9 million), amortisation of acquired intangible assets of US$17.0 million (9M 2019: US$11.4 million) and deferred consideration accounted for as compensation expense of US$1.9 million (9M 2019: US$0.3 million).

General and administrative expenses were US$76.3 million in 9M 2020 compared with US$68.7 million in 9M 2019, the increase being principally due to the acquisition of Adesto and expenses incurred in relation to cost-reduction initiatives.

Underlying general and administrative expenses were also higher at US$43.2 million compared with US$41.8 million in 9M 2019 and increased to 4.6% of the Group's underlying revenue compared with 4.0% in 9M 2019.

Underlying general and administrative expenses exclude share-based compensation and related expenses totalling US$12.7 million (9M 2019: US$12.7 million), transaction costs of US$9.3 million (9M 2019: US$13.6 million), deferred consideration accounted for as compensation expense of US$3.7 million (9M 2019: US$0.1 million) and integration costs of US$5.2 million (9M 2019: US$0.5 million) and, in 9M 2020, expenses of US$2.2 million incurred in relation to cost-reduction initiatives.

R&D expenses were US$234.7 million in 9M 2020, broadly unchanged compared with US$235.0 million in 9M 2019.

R&D costs totalled US$245.5 million (9M 2019: US$250.3 million), of which US$7.7 million (9M 2019: US$11.2 million) was capitalised and US$3.1 million (9M 2019: US$4.1 million) was offset by R&D expenditure credits. R&D costs were lower compared with 9M 2019 due to the transfer of design centre businesses to Apple at the beginning of Q2 2019, though this was partially offset by the addition of recently-acquired businesses.

Underlying R&D expenses were lower at US$206.7 million compared with US$211.9 million in 9M 2019 but increased to 22.1% of the Group's underlying revenue compared with 20.4% in 9M 2019.

Underlying R&D expenses exclude share-based compensation and related expenses totalling US$18.9 million (9M 2019: US$15.5 million), amortisation of acquired intangible assets of US$8.4 million (9M 2019: US$7.2 million) and deferred consideration accounted for as compensation expense of US$0.7 million (9M 2019: US$0.4 million).

Other operating expense was US$23.5 million in 9M 2020 compared with other operating income of US$38.8 million in 9M 2019. During 9M 2020, we incurred the impairment loss on the Adesto goodwill of US$44.9 million that was partially offset by a credit of US$6.9 million on the remeasurement of the contingent consideration payable for Creative Chips. During 9M 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$14.5 million in 9M 2020 compared with US$22.9 million in 9M 2019, with the decline principally reflecting the lower customer contributions to product development costs.

Operating profit was US$51.0 million in 9M 2020 compared with US$326.2 million in 9M 2019.

Underlying operating profit was US$186.9 million compared with US$233.1 million in 9M 2019, a decrease of 20%. Underlying operating profit decreased principally due to lower revenue in Custom Mixed Signal. Underlying operating margin was lower at 19.9% compared with 22.4% in 9M 2019.

Interest income was US$5.9 million in 9M 2020 compared with US$16.9 million in 9M 2019 due to our lower average cash balance in 9M 2020 compared with 9M 2019 and a decline in market interest rates.

Interest expense was US$6.5 million in 9M 2020 compared with US$8.1 million in 9M 2019, with the decease principally reflecting the lower amount outstanding on the prepayment from Apple.

Other finance income was US$0.6 million in 9M 2020 compared with an expense of US$4.0 million in 9M 2019.

We recognised a net currency translation loss on monetary assets and liabilities of US$0.2 million compared with a loss of US$3.8 million in 9M 2019.

We recognised no appreciable fair value gain or loss on our now expired warrants over shares in Energous during 9M 2020 (9M 2019: loss of US$1.4 million). During 9M 2020, we recognised a credit of US$0.8 million (9M 2019: US$1.2 million) from the amortisation of the gain on initial recognition of the warrants.

Income tax expense was US$24.2 million (9M 2019: US$74.3 million) on profit before tax of US$50.9 million (9M 2019: US$331.0 million), an effective tax rate for the period of 47.6% (9M 2019: 22.4%).

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

Our high effective tax rate for both 9M 2020 and 9M 2019 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations, the impairment of goodwill and changes in the fair value of certain strategic investments.

Our underlying income tax expense was US$36.7 million (9M 2019: US$48.8 million) on underlying profit before tax of US$186.3 million (9M 2019: US$238.5 million). Our underlying effective tax rate for 9M 2020 was therefore 19.7%, which compares with 20.5% for 9M 2019.

Net income was US$26.7 million in 9M 2020 compared with US$256.7 million in 9M 2019. Underlying net income was US$149.6 million compared with US$189.6 million in 9M 2019, a decrease of 21%.

Basic earnings per share were US$0.39 (9M 2019: US$3.53) based on the weighted average of 68.3 million shares (9M 2019: 72.6 million shares) that were in issue during the period excluding the weighted average of 1.9 million shares (9M 2019: 2.0 million shares) held by employee benefit trusts and the weighted average of 5.8 million shares (9M 2019: 1.8 million) that were held in treasury. Underlying basic earnings per share were US$2.19 (9M 2019: US$2.61).

Diluted earnings per share were US$0.37 (9M 2019: US$3.33). Diluted earnings per share additionally reflect the weighted average of 4.0 million (9M 2019: 4.4 million) dilutive employee share options. Underlying diluted earnings per share were US$2.07 (9M 2019: US$2.46).

Financial review continued

Summary cash flow statement

US$ millions	9M 2020	9M 2019
Cash generated from operations	**57.6**	473.0
Interest received, net	**4.4**	13.0
Income taxes paid	**(50.6)**	(47.0)
Cash inflow from operating activities	**11.4**	439.0
Purchase of property, plant and equipment	**(14.8)**	(10.1)
Purchase of intangible assets	**(5.1)**	(4.0)
Capitalised development expenditure	**(7.7)**	(11.2)
Capital element of lease payments	**(7.0)**	(8.6)
Free cash flow	**(23.2)**	405.1
Purchase of businesses, net of acquired cash	**(407.6)**	(63.0)
Proceeds from transfer of design centres, net of cash disposed	**–**	27.8
(Repayment)/receipt of the prepayment from Apple, net	**(12.9)**	268.3
Sale of Dialog shares by EBTs	**0.1**	3.2
Purchase of own shares	**(47.9)**	(148.9)
Settlement of Adesto convertible notes, net	**(92.1)**	–
Other cash flows, net	**(0.8)**	(0.2)
Net cash (outflow)/inflow during the period	**(584.4)**	492.3
Currency translation differences	**(1.0)**	0.7
(Decrease)/increase in cash and cash equivalents	**(585.4)**	493.0

Cash flows

Cash flow from operating activities

During 9M 2020, there was a cash inflow from operating activities of US$11.4 million compared with US$439.0 million in 9M 2019.

Cash generated from operations before changes in working capital was US$172.0 million in 9M 2020 compared with US$539.9 million in 9M 2019. During 9M 2019, we received consideration totalling US$282.2 million on completion of our IP licensing arrangements with Apple. Excluding the cash inflow from the Apple licences, cash generated from operations before changes in working capital of US$172.0 million in 9M 2020 compares with US$257.7 million in 9M 2019, with the decrease principally reflecting lower revenue, the addition of the operating expenses of recently-acquired businesses and lower customer contributions to product development costs in 9M 2020.

Excluding the effect of acquisitions and disposals of businesses, net working capital increased by US$114.4 million in 9M 2020 compared with US$66.9 million in 9M 2019.

Demand for our products is typically higher in the third and fourth quarters of the year and lower in the first and second quarters. Movements in working capital during 9M 2020 were broadly consistent with this pattern.

Movements in trade and other receivables during 9M 2020 absorbed cash of US$86.6 million. During 9M 2020, we settled US$99.6 million of the quarterly instalments totalling US$112.5 million due in relation to the prepayment from Apple by recoupment against receivables. If those receivables had been settled in cash, cash of US$13.0 million would have been released from trade and other receivables during 9M 2020. At the end of 9M 2020, trade and other receivables represented 34 days' sales in the preceding quarter (end of 2019: 31 days' sales).

Inventories increased during 9M 2020, absorbing cash of US$3.5 million. At the end of 9M 2020, inventories represented 72 days' cost of sales in the preceding quarter (end of 2019: 58 days' cost of sales).

Trade and other payables decreased during 9M 2020, absorbing cash of US$14.7 million. At the end of 9M 2020, trade and other payables represented 60 days' cost of sales in the preceding quarter (end of 2019: 49 days' cost of sales).

Movements on other working capital items had the effect of absorbing cash of US$9.6 million during 9M 2020.

Net interest received was US$4.4 million in 9M 2020 compared with US$13.0 million in 9M 2019.

Net income tax payments were US$50.6 million in 9M 2020 compared with US$47.0 million in 9M 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 flow from investing activities

During 9M 2020, the cash outflow from investing activities was US$435.2 million compared with US$60.5 million in 9M 2019.

During 9M 2020, there was a cash outflow of US$407.6 million (9M 2019: US$63.0 million) relating to the purchase of businesses.

During 9M 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) and we paid deferred consideration for Adesto and Silego totalling US$6.6 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 9M 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) and we paid deferred and contingent consideration for Silego totalling US$18.4 million.
Also during 9M 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).

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$27.6 million in 9M 2020 compared with US$25.3 million in 9M 2019.

Cash flow from financing activities

During 9M 2020, the cash outflow from financing activities of US$160.5 million compared with an inflow of US$113.8 million in 9M 2019.

During 9M 2019, we recognised the receipt of the prepayment from Apple at its fair value of US$288.6 million. During 9M 2020, we settled US$12.9 million (9M 2019: US$20.3 million) of the quarterly instalments due in relation to the prepayment in cash. Excluding the cash flows relating to the prepayment, there was a cash outflow from financing activities of US$147.6 million in 9M 2020 compared with an outflow of US$154.5 million in 9M 2019, broadly unchanged because the effect of lower purchases under the share buyback programme during 9M 2020 was largely offset by the net cash outflow on the settlement of convertible notes acquired with Adesto.

During 9M 2020, we made purchases under the share buyback programme at a total cost of US$47.9 million (9M 2019: US$148.9 million) and paid US$0.3 million (9M 2019: US$nil) on the settlement of currency hedges of share buyback liabilities.

During Q3 2020, we paid US$98.2 million on the settlement of Adesto's convertible notes and received US$6.1 million on the settlement of related capped call contracts over Adesto's common shares.

During 9M 2020, we also paid the capital element of lease payments totalling US$7.0 million (9M 2019: US$8.7 million) and there were capital repayments of US$0.5 million on loans acquired with Creative Chips in Q4 2019. Employee benefit trusts received proceeds of US$0.1 million on the exercise of share options (9M 2019: US$3.2 million), significantly lower because the majority of the exercises during 9M 2020 were of nominal cost options.

Liquidity and capital resources

Cash and cash equivalents

At the end of 9M 2020, cash and cash equivalents amounted to US$439.1 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 9M 2020, the remaining principal amount of the initial US$300.0 million prepayment outstanding was US$87.5 million, of which US$50.0 million is expected to be settled within 12 months by recoupment against receivables.

Revolving credit facility

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

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

The facility will mature on 28 July 2022.

Receivables financing facilities

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

Gross receivables sold under the facilities US$77.5 million at the end of 9M 2020, broadly unchanged compared with US$77.0 million at the end of 2019.

At the end of 9M 2020, cash and cash equivalents included US$65.8 million (end of 2019: US$65.4 million) in relation to receivables sold under these facilities.

Balance sheet

Summary balance sheet

US$ millions	**As at 25 September 2020**	As at 31 December 2019
Assets		
Cash and cash equivalents	**439.1**	1,024.5
Other current assets	**342.7**	281.4
Total current assets	**781.8**	1,305.9
Goodwill	**756.4**	482.1
Other intangible assets	**398.3**	272.1
Property, plant and equipment – owned	**62.3**	61.1
Property, plant and equipment – leased	**40.1**	41.4
Other non-current assets	**23.6**	14.4
Total non-current assets	**1,280.7**	871.1
Total assets	**2,062.5**	2,177.0
Liabilities and equity		
Current liabilities	**369.1**	373.4
Non-current liabilities	**150.0**	231.0
Total liabilities	**519.1**	604.4
Total equity	**1,543.4**	1,572.6
Total liabilities and equity	**2,062.5**	2,177.0

Share buyback programme

By the end of 9M 2020, the Company had purchased 12,900,419 of its own ordinary shares and returned €436.1 million (US$482.7 million) to shareholders.

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

On 12 March 2020, the Company announced details of the second tranche of purchases under the 2019 AGM authority, under which the Company committed to purchase shares with a minimum cost of €70.0 million and a maximum cost of €90.0 million. On initiation of the tranche, we recognised a liability of €90.0 million (US$101.1 million) and a corresponding debit to retained earnings in respect of the maximum obligation to purchase shares.

By the end of 9M 2020, we had completed three intermediate settlements of the tranche, purchasing a total of 1,339,856 shares at an initial cost of €42.4 million (US$47.6 million). We had also incurred transaction costs of US$0.3 million.

On 8 October 2020, we completed the fourth and final settlement of the tranche, purchasing a further 696,849 shares and making a final payment of €27.6 million (US$32.5 million). We therefore purchased 2,036,705 shares in total under the tranche at a cost of €70.0 million (US$80.1 million), representing an average cost of €34.37 per share.

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.

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 9M 2020, the Company held 4,716,603 shares in treasury at a cost of US$170.4 million.

Financial review continued

Balance sheet

Non-current assets totalled US$1,280.7 million at the end of 9M 2020 compared with US$871.1 million at the end of 2019, an increase of US$409.6 million that was principally due to the addition of the identifiable intangible assets and provisional goodwill recognised on the acquisition of Adesto.

Current assets totalled US$781.8 million at the end of 9M 2020 compared with US$1,305.9 million at the end of 2019, a decrease of US$524.1 million.

Cash and cash equivalents decreased by US$585.4 million to US$439.1 million. Other current assets increased by US$61.3 million to US$342.7 million, principally reflecting the addition of receivables and inventories of Adesto.

Current liabilities were broadly unchanged at US$369.1 million at the end of 9M 2020 compared with US$373.4 million at the end of 2019.

Trade and other payables increased by US$28.9 million to US$133.5 million, principally reflecting the addition of payables of Adesto. Current financial liabilities decreased by US$17.4 million to US$115.9 million, reflecting the reduction in the current portion of the prepayment from Apple that was largely offset by the inclusion of the remaining liability of US$55.4 million for the ongoing tranche of the share buyback programme at the end of 9M 2020.

Income taxes payable decreased by US$16.4 million to US$2.1 million, reflecting lower forecast taxable profits and the timing of tax payments.

Other current liabilities were broadly unchanged at US$117.6 million at the end of 9M 2020 compared with US$117.0 million at the end of 2019.

Non-current liabilities totalled US$150.0 million at the end of 9M 2020 compared with US$231.0 million at the end of 2019, a decrease of US$81.0 million.

Non-current financial liabilities decreased by US$45.3 million to US$69.7 million, principally due to the reduction in the non-current portion of the prepayment from Apple.

Deferred tax liabilities decreased by US$7.1 million to US$16.0 million.

Other non-current liabilities decreased by US$28.6 million to US$64.3 million, principally reflecting the reduction in the non-current portion of the deferred revenue on the effective IP licence granted to Apple.

Total equity was US$1,543.5 million at the end of 9M 2020 compared with US$1,572.6 million at the end of 2019, a decrease of US$29.1 million. During 9M 2020, the effect of the share buyback programme was to reduce equity by US$101.4 million.

Consequences of Brexit

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

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

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

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

Wissam Jabre
Chief Financial Officer
Senior Vice President, Finance

Other information

Directors and Management Team

Board of Directors

Rich Beyer, Chairman

Dr Jalal Bagherli

Alan Campbell

Mike Cannon

Mary Chan

Joanne Curin

Nick Jeffery

Eamonn O'Hare

Management Team

Dr Jalal Bagherli, *Chief Executive Officer*

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

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

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

Alex McCann, *Senior Vice President, Global Operations*

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

Julie Pope, *Senior Vice President, Human Resources*

Tom Sandoval, *Senior Vice President, Automotive*

Colin Sturt, *Senior Vice President, General Counsel*

John Teegen, *Senior Vice President, Worldwide Sales*

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

Principal risks and uncertainties

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

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

Going concern

We took into account the uncertainty surrounding the impact of the COVID-19 pandemic in assessing going concern by modelling various scenarios. Given the Group's still considerable cash resources, having completed the acquisition of Adesto, and the Group's undrawn committed US$150 million revolving credit facility, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future even in the most severe scenario that we considered in relation to the COVID-19 pandemic. Accordingly, the Directors have adopted the going concern basis in preparing the interim financial statements for the three- and nine-month periods ended 25 September 2020.

Responsibility statement

We confirm that, to the best of our knowledge, the interim financial statements for the three- and nine- month periods ended 25 September 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the interim management report includes a fair review of the development and performance of the Group during the period, a fair review of material transactions with related parties and changes during the period, and fairly describes the principal risks and uncertainties affecting the Group for the remainder of the year ending 31 December 2020.

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President, Finance

5 November 2020

Independent review report to Dialog Semiconductor Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the three- and nine-month periods ended 25 September 2020 which comprises the condensed consolidated statement of income, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements for the three- and nine- month periods ended 25 September 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Deloitte LLP
Statutory Auditor

Reading, UK

5 November 2020

Condensed consolidated statement of income

For the three- and nine-month periods ended 25 September 2020

		Third quarter		First nine months	
	Note	**Three months ended 25 September 2020 US$000 (Unaudited)**	Three months ended 27 September 2019 US$000 (Unaudited)	**Nine months ended 25 September 2020 US$000 (Unaudited)**	Nine months ended 27 September 2019 US$000 (Unaudited)
Revenue	2, 14	**386,415**	408,803	**937,195**	1,185,657
Cost of sales		**(199,954)**	(207,645)	**(475,132)**	(527,263)
Gross profit		**186,461**	201,158	**462,063**	658,394
Selling and marketing expenses		**(31,218)**	(23,835)	**(76,496)**	(67,328)
General and administrative expenses		**(36,197)**	(19,776)	**(76,313)**	(68,678)
Research and development expenses		**(85,068)**	(78,846)	**(234,730)**	(235,035)
Other operating (expense)/income	3	**(40,935)**	5,156	**(23,511)**	38,807
Operating (loss)/profit	14	**(6,957)**	83,857	**51,013**	326,160
Interest income		**365**	6,428	**5,854**	16,889
Interest expense		**(1,629)**	(3,510)	**(6,509)**	(8,087)
Other finance (expense)/income		**(802)**	(140)	**551**	(3,989)
(Loss)/profit before income taxes		**(9,023)**	86,635	**50,909**	330,973
Income tax expense		**(10,337)**	(18,439)	**(24,223)**	(74,315)
Net (loss)/income		**(19,360)**	68,196	**26,686**	256,658
(Loss)/earnings per share (US$)	4				
Basic		**(0.29)**	0.96	**0.39**	3.53
Diluted		**(0.27)**	0.91	**0.37**	3.33
Weighted average number of ordinary shares (in thousands)	4				
Basic		**67,817**	70,780	**68,290**	72,605
Diluted		**72,043**	74,777	**72,335**	77,043

Condensed consolidated statement of comprehensive income

For the three- and nine-month periods ended 25 September 2020

	Third quarter		First nine months	
	Three months ended 25 September 2020 US$000 (Unaudited)	Three months ended 27 September 2019 US$000 (Unaudited)	**Nine months ended 25 September 2020 US$000 (Unaudited)**	Nine months ended 27 September 2019 US$000 (Unaudited)
Net (loss)/income	**(19,360)**	68,196	**26,686**	256,658
Other comprehensive income/(loss) **Items that may be reclassified to profit or loss in subsequent periods**				
Currency translation differences on foreign operations:				
– Gain/(loss) recognised in the period	**97**	(1,771)	**(1,755)**	(287)
– Loss transferred to profit or loss on disposal of a subsidiary	**–**	–	**–**	309
– Related income tax credit/(expense)	**84**	(86)	**42**	(123)
Cash flow hedges:				
– Fair value gain/(loss) recognised on effective hedges in the period	**3,953**	(5,490)	**1,449**	(8,096)
– Fair value (gain)/loss transferred to profit or loss in the period	**(1,167)**	2,196	**1,743**	8,635
– Related income tax (expense)/credit	**(530)**	626	**(607)**	(102)
	2,437	(4,525)	**872**	336
Items that will not be reclassified to profit or loss				
Equity investments:				
– Fair value gain/(loss) in the period	**69**	(1,827)	**1,931**	(4,297)
Other comprehensive income/(loss) for the period	**2,506**	(6,352)	**2,803**	(3,961)
Total comprehensive (loss)/income for the period	**(16,854)**	61,844	**29,489**	252,697

Condensed consolidated balance sheet

As at 25 September 2020

	Note	**As at 25 September 2020 US$000 (Unaudited)**	As at 31 December 2019* US$000 (Audited)
Assets			
Cash and cash equivalents	6	**439,086**	1,024,544
Trade and other receivables		**143,948**	134,079
Other current financial assets		**5,513**	1,056
Inventories	7	**160,711**	122,624
Income tax receivables		**5,396**	1,052
Other current assets		**27,150**	22,532
Total current assets		**781,804**	1,305,887
Goodwill	8	**756,407**	482,134
Other intangible assets	8	**398,313**	272,068
Property, plant and equipment – owned	9	**62,250**	61,138
Property, plant and equipment – leased	9	**40,146**	41,423
Investments		**5,861**	3,110
Other non-current financial assets		**2,176**	2,202
Other non-current assets		**2,819**	780
Deferred tax assets		**12,768**	8,242
Total non-current assets		**1,280,740**	871,097
Total assets		**2,062,544**	2,176,984
Liabilities and equity			
Trade and other payables		**133,473**	104,620
Lease liabilities		**10,725**	8,972
Other current financial liabilities		**105,183**	124,373
Provisions		**9,156**	4,162
Income taxes payable		**2,115**	18,491
Other current liabilities		**108,459**	112,804
Total current liabilities		**369,111**	373,422
Lease liabilities		**31,753**	34,072
Other non-current financial liabilities		**37,934**	80,963
Provisions		**3,364**	3,102
Net defined benefit liability		**2,066**	1,727
Deferred tax liabilities		**15,971**	23,070
Other non-current liabilities		**58,874**	88,044
Total non-current liabilities		**149,962**	230,978
Ordinary shares		**14,253**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**1,322,513**	1,451,582
Other reserves	12	**(190,059)**	(274,729)
Dialog shares held by employee benefit trusts		**(6,896)**	(22,133)
Total equity		**1,543,471**	1,572,584
Total liabilities and equity		**2,062,544**	2,176,984

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

Condensed consolidated statement of cash flows

For the three- and nine-month periods ended 25 September 2020

	Note	Third quarter		First nine months	
		Three months ended 25 September 2020 US$000 (Unaudited)	Three months ended 27 September 2019 US$000 (Unaudited)	**Nine months ended 25 September 2020 US$000 (Unaudited)**	Nine months ended 27 September 2019 US$000 (Unaudited)
Cash flow from operating activities					
Net (loss)/ income		**(19,360)**	68,196	**26,686**	256,658
Non-cash items within net (loss)/income:					
– Depreciation of property, plant and equipment		**9,650**	10,189	**26,249**	30,672
– Amortisation of intangible assets		**17,363**	13,774	**43,638**	38,127
– Impairment of goodwill		**44,900**	–	**44,900**	–
– (Decrease)/increase in inventory reserve, net		**(991)**	2,073	**2,232**	9,523
– Share-based compensation expense		**15,790**	9,435	**39,031**	30,938
– Deferred licence revenue		**(8,927)**	(6,252)	**(26,780)**	(12,232)
– Other non-cash items		**422**	3,766	**(8,795)**	202
Effective IP licence fee received		**–**	–	**–**	136,400
Gain on transfer of design centre businesses		**–**	–	**–**	(15,898)
Interest expense/(income), net		**1,264**	(2,918)	**655**	(8,802)
Income tax expense		**10,337**	18,439	**24,223**	74,315
Cash generated from operations before changes in working capital		**70,448**	116,702	**172,039**	539,903
Changes in working capital:					
– Increase in trade and other receivables		**(43,894)**	(58,157)	**(86,633)**	(66,666)
– Decrease/(increase) in inventories		**4,623**	28,748	**(3,461)**	18,902
– Increase in prepaid expenses		**(110)**	(444)	**(5,381)**	(1,950)
– (Decrease)/increase in trade and other payables		**(9,891)**	19,913	**(14,697)**	(9,814)
– Increase/(decrease) in provisions		**4,323**	123	**4,157**	(1,034)
– Change in other assets and liabilities		**8,509**	5,307	**(8,407)**	(6,303)
Cash generated from operations		**34,008**	112,192	**57,617**	473,038
Interest paid		**(876)**	(1,082)	**(3,217)**	(3,078)
Interest received		**577**	6,831	**7,551**	16,105
Income taxes paid		**(6,375)**	(20,625)	**(50,555)**	(47,048)
Cash inflow from operating activities		**27,334**	97,316	**11,396**	439,017
Cash flows from investing activities					
Purchase of property, plant and equipment		**(8,994)**	(3,157)	**(14,820)**	(10,142)
Purchase of intangible assets		**(2,038)**	(1,770)	**(5,140)**	(3,957)
Payments for capitalised development costs		**(1,850)**	(2,618)	**(7,704)**	(11,189)
Purchase of businesses, net of acquired cash	5	**(406,807)**	(684)	**(407,585)**	(63,038)
Proceeds from transfer of design centres, net of cash disposed		**–**	–	**–**	27,814
Cash outflow from investing activities		**(419,689)**	(8,229)	**(435,249)**	(60,512)
Cash flows from financing activities					
Receipt of prepayment from Apple		**–**	–	**–**	288,583
Cash settlement of prepayment from Apple		**–**	(20,345)	**(12,917)**	(20,345)
Purchase of own shares into treasury		**(29,527)**	(36,838)	**(47,852)**	(148,933)
Settlement of currency hedges on share buyback obligation		**(184)**	–	**(267)**	–
Settlement of Adesto convertible notes	5	**(98,207)**	–	**(98,207)**	–
Proceeds from Adesto capped calls	5	**6,093**	–	**6,093**	–
Capital element of lease payments		**(2,699)**	(2,981)	**(6,966)**	(8,662)
Repayment of bank loans		**(196)**	–	**(527)**	–
Sale of shares by employee benefit trusts		**45**	719	**101**	3,201
Cash (outflow)/inflow from financing activities		**(124,675)**	(59,445)	**(160,542)**	113,844
Net cash (outflow)/inflow during the period		**(517,030)**	29,642	**(584,395)**	492,349
Cash and cash equivalents at beginning of period		**957,064**	1,141,185	**1,024,544**	677,848
Currency translation differences		**(948)**	61	**(1,063)**	691
Cash and cash equivalents at end of period	6	**439,086**	1,170,888	**439,086**	1,170,888

Condensed consolidated statement of changes in equity

For the nine-month period ended 25 September 2020

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 12) US$000	Dialog shares held by employee benefit trusts US$000	Total US$000
Nine months ended 25 September 2020 (Unaudited)						
As at 31 December 2019	**14,204**	**403,660**	**1,451,582**	**(274,729)**	**(22,133)**	**1,572,584**
Net income	**–**	**–**	**26,686**	**–**	**–**	**26,686**
Other comprehensive income	**–**	**–**	**–**	**2,803**	**–**	**2,803**
Total comprehensive income	**–**	**–**	**26,686**	**2,803**	**–**	**29,489**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**(47,852)**	**–**	**(47,852)**
– Share buyback obligation	**–**	**–**	**(53,582)**	**–**	**–**	**(53,582)**
– Cancellation of treasury shares	**(449)**	**–**	**(129,270)**	**129,719**	**–**	**–**
– Shares issued to employee benefit trust	**498**	**–**	**–**	**–**	**(498)**	**–**
– Sale of shares by employee benefit trusts	**–**	**–**	**(15,634)**	**–**	**15,735**	**101**
– Share-based consideration	**–**	**–**	**5,096**	**–**	**–**	**5,096**
– Share-based compensation, net of tax expense of US$(1,396)	**–**	**–**	**37,635**	**–**	**–**	**37,635**
As at 25 September 2020	**14,253**	**403,660**	**1,322,513**	**(190,059)**	**(6,896)**	**1,543,471**
Nine months ended 27 September 2019 (Unaudited)						
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
Net income	–	–	256,658	–	–	256,658
Other comprehensive loss	–	–	–	(3,961)	–	(3,961)
Total comprehensive income/(loss)	–	–	256,658	(3,961)	–	252,697
Other changes in equity:						
– Purchase of own shares into treasury	–	–	(3,290)	(148,948)	–	(152,238)
– Share buyback obligation	–	–	38,357	–	–	38,357
– Sale of shares by employee benefit trusts	–	–	3,040	–	161	3,201
– Share-based compensation, including tax credit of US$3,781	–	–	34,719	–	–	34,719
As at 27 September 2019	14,204	403,660	1,260,100	(176,328)	(22,353)	1,479,283

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. On cancellation, the total cost of the treasury shares was transferred from treasury shares and set against retained earnings and the nominal value of the shares cancelled of US$449 was transferred from share capital to the non-distributable capital redemption reserve.

Issue of ordinary shares

On 23 June 2020, the principal employee benefit trust subscribed for 4,000,000 new ordinary shares in the Company at nominal value for total consideration of US$498 in cash.

Notes to the condensed consolidated financial statements

1. Background

Description of business

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

Dialog creates and markets highly integrated, mixed signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid-state lighting, industrial and automotive applications. Following the acquisition of Adesto at the beginning of Q3 2020, Dialog currently has four reportable segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and the Adesto businesses. Segment information is presented in note 14.

Registered office

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

Statement of compliance

The interim financial statements of the Company and its subsidiaries (together, "Dialog" or the "Group") on pages 15 to 33 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and adopted for use in the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Basis of preparation

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

Presentation currency

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

Accounting period

We prepare interim financial statements for the first three, six and nine months of each year that are drawn up to a Friday on or around the end of March, June and September.

These interim financial statements:

- cover the period from 1 January 2020 to 25 September 2020 ("nine months ended 25 September 2020" or "9M 2020") with comparative information for the period from 1 January 2019 to 27 September 2019 ("nine months ended 27 September 2019" or "9M 2019"); and
- include information for the period from 27 June 2020 to 25 September 2020 ("three months ended 25 September 2020" or "Q3 2020") with comparative information for the period from 29 June to 27 September 2019 ("three months ended 27 September 2019" or "Q3 2019").

Significant accounting policies

The interim financial statements have been prepared on a going concern basis, for the reasons set out on page 13, and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value.

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

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. Following endorsement of the amendment for use in the European Union in October 2020, we made use of the amendment retrospectively from 1 January 2020, resulting in a credit of US$212 for rent concessions being recognised in profit or loss during 9M 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* (Amendments to IFRS 9 and IFRS 7)

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, IAS 39, IFRS 7, IFRS 4 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)

1. Background continued

Use of estimates

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

Seasonality of operations

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

Review and approval of the interim financial statements

The interim financial statements are unaudited, but have been reviewed by the Company's auditor, Deloitte LLP, whose report can be found on page 14. The interim financial statements do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The Company's audited statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies in England and Wales. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements were approved by the Board of Directors on 5 November 2020.

2. Revenue

Revenue may be analysed as follows:

	Third quarter		First nine months	
	Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
Sale of products:				
– Sales direct to end-customers	**245,179**	308,819	**611,355**	786,587
– Sales to distributors	**130,244**	93,556	**296,664**	240,390
Total sale of products	**375,423**	402,375	**908,019**	1,026,977
Licensing agreements with Apple:				
– Perpetual licence fee	**–**	–	**–**	145,750
– Effective licence fee	**8,927**	6,252	**26,780**	12,232
Other license fees and royalties	**2,065**	176	**2,396**	698
Total revenue	**386,415**	408,803	**937,195**	1,185,657

Notes to the condensed consolidated financial statements continued

3. Other operating (expense)/income

Other operating (expense)/income comprised:

	Third quarter		First nine months	
	Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
Contributions to product development costs	**3,521**	4,851	**13,192**	21,742
Impairment of goodwill (note 8)	**(44,900)**	–	**(44,900)**	–
Change in estimate of contingent consideration (note 5)	**–**	–	**6,938**	–
Gain on transfer of design centre businesses	**–**	–	**–**	15,898
Rental and other income	**444**	305	**1,259**	1,167
Total	**(40,935)**	5,156	**(23,511)**	38,807

4. Earnings/(loss) per share

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

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

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

		Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
(Loss)/profit attributable to shareholders in the Company					
For calculating basic and diluted (loss)/earnings per share	a	**(19,360)**	68,196	**26,686**	256,658
Weighted average number of ordinary shares					
Shares in issue at the beginning of the period		**76,382,139**	76,382,139	**76,382,139**	76,382,139
Effect on average number of shares during the period:					
– Shares issued to employee benefit trust		**4,000,000**	–	**1,402,985**	–
– Cancellation of treasury shares		**(3,700,000)**	–	**(1,794,776)**	–
Average number of shares in issue during the period		**76,682,139**	76,382,139	**75,990,348**	76,382,139
Deduct:					
Average number of shares held by employee benefit trusts		**(4,328,058)**	(1,562,836)	**(1,930,987)**	(1,992,762)
Average number of treasury shares		**(4,537,417)**	(4,039,630)	**(5,769,445)**	(1,784,169)
For calculating basic (loss)/earnings per share	b	**67,816,664**	70,779,673	**68,289,916**	72,605,208
Add:					
Average number of dilutive share options and awards		**4,226,392**	3,997,598	**4,045,280**	4,438,158
For calculating diluted (loss)/earnings per share	c	**72,043,056**	74,777,271	**72,335,196**	77,043,366
(Loss)/earnings per share (US$)					
Basic	a/b	**(0.29)**	0.96	**0.39**	3.53
Diluted	a/c	**(0.27)**	0.91	**0.37**	3.33

5. 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, 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$397,215 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 will recognise 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 Q3 2020, we paid deferred consideration of US$5,681 that was principally due to the accelerated vesting of deferred cash rights in accordance with employee change of control arrangements. At the end of Q3 2020, the remaining liability for deferred consideration was US$414.

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 Q3 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.

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	4,980
Other assets	15,445
Total assets acquired	**254,258**
Liabilities assumed	
Trade and other payables	43,567
Convertible notes	98,207
Lease liabilities	6,557
Other liabilities	8,284
Total liabilities	**156,615**
Net identifiable assets acquired	**97,643**
Goodwill arising on acquisition	319,245
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 condensed consolidated financial statements continued

5. Business combinations continued

We have not yet completed the purchase price allocation for Adesto, with the following matters being among those outstanding: the measurement of acquired customer relationships; the recoverability of certain trade receivables; the assessment of certain contractual and 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 net of an allowance of US$1,035 for contractual cash flows 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$319,245 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 9M 2020, Adesto contributed US$19,712 to the Group's revenue and a loss after tax of US$6,313. Since we have not completed the purchase price allocation, we are not yet able to determine what the Group's revenue and net income would have been if Adesto had been acquired on 1 January 2020.

During 9M 2020, we incurred transaction costs of US$9,132 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.

During 9M 2020, we incurred integration costs amounting to US$4,628 in relation to Adesto, which principally comprised employee severance costs.

Consideration payable for Creative Chips

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

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

Additional consideration of up to US$23,000 in cash 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 Q1 2020, we remeasured the fair value based on Creative Chips' latest forecast revenue for 2020 and recognised a resulting credit of US$5,347 in profit or loss. During Q2 2020, it became apparent that one of the product development targets will not be met. At the end of Q2 2020, we therefore reduced the contingent consideration liability to US$nil and recognised a corresponding credit of US$1,591 in profit or loss. During 9M 2020, we therefore recognised a total credit of US$6,938 in profit or loss on the reduction of the contingent consideration liability for Creative Chips (within other operating income).

Consideration payable for FCI

We completed the acquisition of Silicon Motion Technology Corporation's Mobile Communications products group, branded as FCI, on 31 May 2019. On completion, we paid consideration of US$53,884 in cash, including US$8,884 in respect of FCI's estimated cash and working capital levels on completion. We have not yet agreed FCI's actual working capital on completion with the vendor. During Q2 2020, we reduced our estimate of the purchase price adjustment receivable by US$75 and recognised a corresponding increase in the goodwill recognised on the acquisition. Should the actual amount of the purchase price adjustment agreed with vendor differ from our current estimate there will be a corresponding debit or credit to profit or loss.

Consideration payable for Silego

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

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 9M 2020, we paid US$907 (9M 2019: US$1,716) in settlement of vested deferred consideration and recognised a credit of US$31 (9M 2019: US$148) to profit or loss in respect of forfeitures. As at 25 September 2020, we held a liability of US$36 in relation to the remaining deferred consideration that is payable over the period to March 2021.

Contingent consideration of up to US$30,400 was payable for the acquisition of Silego in two instalments based on Silego's revenue for 2017 and 2018. Silego's revenue for 2018 was such that US$17,874 of the second instalment of up to US$20,400 was payable. In February 2019, we paid US$16,729 in settlement of the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to the deferred cash rights.

5. Business combinations continued

Cash flow in relation to business combinations

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

	Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
Initial consideration for Adesto	**405,662**	–	**405,662**	–
Deferred consideration for Adesto	**5,681**	–	**5,681**	–
Purchase price adjustment for Creative Chips	**–**	–	**84**	–
Initial consideration for FCI	**–**	271	**–**	54,155
Deferred consideration for Silego	**213**	413	**907**	1,716
Contingent consideration for Silego	–	–	**–**	16,729
Consideration paid	**411,556**	684	**412,334**	72,600
Cash and cash equivalents acquired	**(4,749)**	–	**(4,749)**	(9,562)
Cash outflow on purchase of businesses, net of cash acquired	**406,807**	684	**407,585**	63,038

6. Cash and cash equivalents

Cash and cash equivalents may be analysed as follows:

	As at 25 September 2020 US$000	As at 31 December 2019 US$000
Cash at bank	**22,639**	21,056
Cash held by employee benefit trusts	**1,161**	6,049
Cash available from receivables financing facilities	**65,786**	65,439
Bank deposits	**145,000**	350,000
Money market funds	**204,500**	582,000
Total	**439,086**	1,024,544

As at 25 September 2020 and 31 December 2019, no amounts had been drawn from the cash available from receivables financing facilities.

7. Inventories

Inventories were as follows:

	As at 25 September 2020 US$000	As at 31 December 2019 US$000
Raw materials	**26,673**	31,938
Work in progress	**76,599**	44,097
Finished goods	**57,439**	46,589
Total	**160,711**	122,624

Notes to the condensed consolidated financial statements continued

8. Goodwill and other intangible assets

Movements on goodwill and other intangible assets during 9M 2020 may be summarised as follows:

	Goodwill US$000	Other intangible assets US$000
Net book value		
As at 31 December 2019	**482,134**	**272,068**
Acquisition of Adesto (note 5)	**319,245**	**157,943**
Additions	**76**	**13,237**
Amortisation charge for the period	**–**	**(43,638)**
Impairment of goodwill	**(44,900)**	**–**
Disposals	**–**	**(661)**
Currency translation differences	**(148)**	**(636)**
As at 25 September 2020	**756,407**	**398,313**

Provisional goodwill relating to Adesto

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.

During Q3 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 at the end of Q3 2020. We measured the recoverable amount of Adesto on a value in use basis. 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.

At the end of Q3 2020, therefore, the carrying amount of Adesto was equal to its recoverable amount. We have assessed the sensitivity of the value in use of Adesto to changes in the key assumptions to be as follows: a one percentage point increase in the pre-tax discount rate of 12.7% would reduce the recoverable amount by US$49.1 million; a one percentage point reduction in the compound annual growth of revenue ('revenue CAGR') of 13.1% over the ten-year forecast period would reduce the recoverable amount by US$42.8 million; and a one percentage point reduction in the perpetuity growth rate of 2% per annum beyond the forecast period would reduce the recoverable amount by US$29.4 million.

Goodwill relating to Industrial Mixed Signal

Our annual goodwill impairment tests performed during 2019 showed that, with the exception of Industrial Mixed Signal, which represents the Creative Chips business that we acquired in November 2019, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount. We estimate that the excess of Industrial Mixed Signal recoverable amount over its carrying amount increased from US$16.6 million at the end of 2019 to US$25.0 million at the end of Q3 2020, principally due to the overall decrease in the applicable discount rate during the period. While the discount rate increased during Q1 2020 reflecting the initial reaction of the financial markets to the COVID-19 pandemic, it subsequently fell back sharply in response to the measures taken by governments and central banks in an effort to mitigate the economic impact of the virus.

9. Property, plant and equipment

Movements on property, plant and equipment during 9M 2020 may be summarised as follows:

	Owned US$000	Leased US$000
Net book value		
As at 31 December 2019	**61,138**	**41,423**
Acquisition of Adesto (note 5)	**4,864**	**6,557**
Additions	**14,820**	**100**
Modifications of existing leases	**–**	**(87)**
Depreciation charge for the period	**(18,453)**	**(7,796)**
Disposals	**(70)**	**(244)**
Currency translation differences	**(49)**	**193**
As at 25 September 2020	**62,250**	**40,146**

10. Additional disclosures on financial instruments

Analysis by class and category

In the following table, the carrying amounts of the financial assets and financial liabilities held by the Group as at 25 September 2020 are analysed by class and category:

	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and cash equivalents	439,086	–	–	–	439,086	439,086
Trade and other receivables	143,948	–	–	–	143,948	143,948
Energous shares	–	–	–	5,011	5,011	5,011
Semitech shares	–	–	–	850	850	850
Investments	–	–	–	5,861	5,861	5,861
Currency derivatives	–	1,305	3,402	–	4,707	4,707
Restricted cash	806	–	–	–	806	806
Rental and other deposits	2,176	–	–	–	2,176	2,176
Other financial assets	2,982	1,305	3,402	–	7,689	7,689
Total financial assets	586,016	1,305	3,402	5,861	596,584	596,584
Financial liabilities						
Trade and other payables	(133,473)	–	–	–	(133,473)	(133,473)
Lease liabilities	(42,478)	–	–	–	(42,478)	(44,248)
Prepayment from Apple	(85,061)	–	–	–	(85,061)	(85,936)
Share buyback obligation	(55,440)	–	–	–	(55,440)	(55,440)
Bank loans	(1,328)	–	–	–	(1,328)	(1,328)
Currency derivatives	–	(368)	(478)	–	(846)	(846)
Deferred consideration	(442)	–	–	–	(442)	(442)
Other financial liabilities	(142,271)	(368)	(478)	–	(143,117)	(143,992)
Total financial liabilities	(318,222)	(368)	(478)	–	(319,068)	(321,713)

We acquired an equity interest of approximately 11.8% in Semitech Semiconductor Pty Ltd ("Semitech") with the acquisition of Adesto. Semitech is headquartered in Melbourne, Australia and provides semiconductor devices that transform homes into energy-aware 'smart homes'.

Notes to the condensed consolidated financial statements continued

10. Additional disclosures on financial instruments continued

Fair value measurement

a) Financial instruments carried at fair value

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

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

- Common shares in Energous (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date.
- Common shares in Semitech (unlisted) – measured at the carrying amount of the investment in Adesto's balance sheet at the acquisition date pending completion of the purchase price allocation.

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

Contingent consideration payable in respect of the acquisition Creative Chips is dependent on its performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. When the product development targets were expected to be met, we measured the fair value of the contingent consideration based on the expected value of a range of possible outcomes for Creative Chips' revenues for 2020 and 2021.

In the following table, the financial instruments that were carried at fair value as at 25 September 2020 are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

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

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value				
Investments:				
– Energous shares	**5,011**	**–**	**–**	**5,011**
– Semitech shares	**–**	**–**	**850**	**850**
Derivative financial instruments:				
– Currency derivatives	**–**	**4,707**	**–**	**4,707**
Total financial assets carried at fair value	**5,011**	**4,707**	**850**	**10,568**
Financial liabilities carried at fair value				
Derivative financial instruments:				
– Currency derivatives	**–**	**(846)**	**–**	**(846)**
Total financial liabilities carried at fair value	**–**	**(846)**	**–**	**(846)**

During 9M 2020, there were no transfers between Level 1 and Level 2.

Changes in the Level 3 fair values during 9M 2020 may be reconciled as follows:

Financial assets carried at fair value

	Semitech shares US$000	Energous warrants US$000	Total US$000
As at 31 December 2019	**–**	**31**	**31**
Acquisition of Adesto	**850**	**–**	**850**
Fair value loss (other finance expense)	**–**	**(31)**	**(31)**
As at 25 September 2020	**850**	**–**	**850**

Our remaining warrants over shares in Energous Corporation expired on 5 July 2020.

10. Additional disclosures on financial instruments continued

Financial liabilities carried at fair value

	Contingent consideration US$000
As at 31 December 2019	(6,666)
Change in estimate (other operating income)	6,938
Unwinding of discount (interest expense)	(272)
As at 25 September 2020	–

As explained in note 5, the fair value of the contingent consideration payable for Creative Chips was reduced to US$nil at the end of Q2 2020.

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

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

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

11. Share-based compensation

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

Development of plans

Movements in the total number of share options and restricted share units outstanding during 9M 2020 were as follows:

	Options and RSUs	Weighted average exercise price €
Outstanding at the beginning of the period	4,342,689	0.13
Granted	1,188,757	0.04
Exercised	(603,282)	0.25
Forfeited	(259,313)	0.13
Outstanding at the end of the period	4,668,851	0.10
Options exercisable at the end of the period	449,629	0.25

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 25 September 2020, the trusts held 4,201,430 ordinary shares (as at 31 December 2019: 804,712 ordinary shares).

Movements in the number of shares held by the trusts during 9M 2020 were as follows:

	Number of shares	Cost US$000
At the beginning of the period	804,712	22,133
Subscription for newly-issued shares	4,000,000	498
Sale or transfer of shares	(603,282)	(15,735)
At the end of the period	4,201,430	6,896

Notes to the condensed consolidated financial statements continued

12. Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
Nine months ended 25 September 2020						
As at 31 December 2019	**571**	**(1,376)**	**(21,921)**	**(216)**	**(251,787)**	**(274,729)**
Other comprehensive (loss)/income:						
– Currency translation differences on foreign operations	**–**	**(1,755)**	**–**	**–**	**–**	**(1,755)**
– Fair value gain on equity investments	**–**	**–**	**1,931**	**–**	**–**	**1,931**
– Cash flow hedges:						
Fair value gain recognised on effective hedges	**–**	**–**	**–**	**1,449**	**–**	**1,449**
Fair value loss transferred to profit or loss	**–**	**–**	**–**	**1,743**	**–**	**1,743**
– Income tax credit/(expense)	**–**	**42**	**–**	**(607)**	**–**	**(565)**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**–**	**(47,852)**	**(47,852)**
– Cancellation of treasury shares	**449**	**–**	**–**	**–**	**129,270**	**129,719**
As at 25 September 2020	**1,020**	**(3,089)**	**(19,990)**	**2,369**	**(170,369)**	**(190,059)**
Nine months ended 27 September 2019						
As at 31 December 2018	571	(4,304)	(14,927)	(4,759)	–	(23,419)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	–	22	–	–	–	22
– Fair value loss on equity investments	–	–	(4,297)	–	–	(4,297)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(8,096)	–	(8,096)
Fair value loss transferred to profit or loss	–	–	–	8,635	–	8,635
– Income tax expense	–	(123)	–	(102)	–	(225)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(148,948)	(148,948)
As at 27 September 2019	571	(4,405)	(19,224)	(4,322)	(148,948)	(176,328)

13. Share buyback programme

By the end of Q3 2020, the Company had purchased 12,900,419 of its own ordinary shares under the share buyback programme at a total cost of US$486,160 (including transaction costs of US$3,510), of which 8,183,816 shares had been cancelled and 4,716,603 shares continued to be held in treasury at a total cost of US$170,369.

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

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

We made intermediate settlements of this tranche on 18 May 2020, 30 June 2020 and 10 August 2020, purchasing 1,339,856 shares at an initial cost of €42.4 million (US$47,566) and incurred transaction costs amounting to US$286. As at 25 September 2020, the carrying amount of the liability for the maximum remaining obligation to purchase shares under this tranche was €47.6 million (US$55,440).

We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US$819 in profit or loss in relation to the liability to purchase shares outstanding during 9M 2020.

14. Segment information

Background

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

The Group's reportable segments are determined based on the nature of the products that they provide to our customers. Pending a segment reorganisation, the results of the recently-acquired Adesto businesses are reported separately to the Management Team. The Group therefore currently has four reportable segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and the Adesto businesses.

- Custom Mixed Signal provides custom ICs designed to meet the needs of our customers in the mobile, industrial, automotive, computing and storage markets.
- Advanced Mixed Signal provides standard products including CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for backlighting and solid-state lighting products.
- Connectivity & Audio provides standard products incorporating short-range wireless, digital cordless, Bluetooth® low energy, VoIP and low-power Wi-Fi technologies.
- Adesto provides innovative non-volatile memory, custom ICs, embedded systems for the IIoT market and smart building automation solutions with its products being sold across the industrial, consumer, medical, and communications markets.

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, each of which meets the definition of an operating segment but have been aggregated because they have similar economic characteristics and both provide custom products to similar types of customers through similar distribution channels. Otherwise, we have not aggregated any operating segments in determining our reportable 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 Section 3 of this Interim Report.

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

Third quarter

	Underlying revenue[1]		Underlying operating profit	
	Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Three months ended 25 September 2020 US$000**	Three months ended 27 September 2019 US$000
Custom Mixed Signal	**223,574**	278,200	**69,224**	88,709
Advanced Mixed Signal	**78,184**	70,033	**11,399**	6,184
Connectivity & Audio	**56,023**	54,318	**6,802**	5,443
Adesto	**19,712**	–	**(2,438)**	–
Total segments	**377,493**	402,551	**84,987**	100,336
Corporate and other unallocated items	**8,922**	6,252	**6,499**	3,483
Total Group	**386,415**	408,803	**91,486**	103,819

Notes to the condensed consolidated financial statements continued

14. Segment information continued

First nine months

	Underlying revenue[1]		Underlying operating profit/(loss)	
	Nine months ended 25 September 2020 US$000	Nine months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
Custom Mixed Signal	**563,245**	709,069	**147,588**	200,216
Advanced Mixed Signal	**192,824**	184,972	**16,915**	12,489
Connectivity & Audio	**134,638**	133,627	**5,362**	17,258
Adesto	**19,712**	–	**(2,438)**	–
Total segments	**910,419**	1,027,668	**167,427**	229,963
Corporate and other unallocated items	**26,776**	12,239	**19,458**	3,118
Total Group	**937,195**	1,039,907	**186,885**	233,081

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

Reconciliation of underlying revenue to revenue reported under IFRS

	Third quarter		First nine months	
	Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
Underlying revenue	**386,415**	408,803	**937,195**	1,039,907
Perpetual licence fee	**–**	–	**–**	145,750
Revenue reported under IFRS	**386,415**	408,803	**937,195**	1,185,657

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

	Third quarter		First nine months	
	Three months ended 25 September 2020 US$000	Three months ended 27 September 2019 US$000	**Nine months ended 25 September 2020 US$000**	Nine months ended 27 September 2019 US$000
Underlying operating profit	**91,486**	103,819	**186,885**	233,081
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	**(15,864)**	(10,718)	**(40,097)**	(34,105)
Accounting for business combinations:				
– Acquisition-related costs	**(5,553)**	(1,021)	**(9,250)**	(2,696)
– Amortisation of acquired intangible assets	**(10,930)**	(6,964)	**(25,412)**	(18,724)
– Consumption of the fair value uplift of acquired inventory	**(7,790)**	(483)	**(8,763)**	(886)
– Consideration accounted for as compensation expense	**(6,536)**	(285)	**(6,969)**	(910)
– Forfeiture of deferred consideration	**25**	50	**56**	148
– Remeasurement of contingent consideration	**–**	–	**6,938**	–
Integration costs	**(4,648)**	(306)	**(5,228)**	(502)
Impairment of goodwill	**(44,900)**	–	**(44,900)**	–
Cost-reduction initiatives	**(2,247)**	–	**(2,247)**	–
Corporate transaction costs	**–**	(235)	**–**	(10,894)
Operating (loss)/profit reported under IFRS	**(6,957)**	83,857	**51,013**	326,160
Interest income	**365**	6,428	**5,854**	16,889
Interest expense	**(1,629)**	(3,510)	**(6,509)**	(8,087)
Other finance (expense)/income	**(802)**	(140)	**551**	(3,989)
(Loss)/profit before income taxes	**(9,023)**	86,635	**50,909**	330,973

15. Subsequent event

Share buyback programme

On 8 October 2020, the Company made the fourth and final settlement of the second tranche of the 2019 Buyback Programme, purchasing a further 696,849 shares and making a final payment of €27.6 million (US$32,481).

We purchased 2,036,705 shares in total under this tranche at a cost of €70.0 million (US$80,031). On conclusion of this tranche, we credited back to equity the remaining €20.0 million (US$21,102) of the obligation to purchase shares initially recognised.

As at 5 November 2020, the Company held 5,413,452 shares in treasury at a total cost of US$203,011.

Financial performance measures

Use of non-IFRS measures

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

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

Underlying measures of performance

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

- the share-based compensation expense and related payroll taxes;
- in 9M 2019, the following items relating to the licensing and asset transfer agreement with Apple:
  - the non-recurring fee for the perpetual licence over our existing Power Management IP; and
  - the gain on the transfer of design centre businesses;
- the following items relating to the accounting for business combinations:
  - acquisition-related costs;
  - the amortisation of identifiable intangible assets recognised in business combinations;
  - the recognition in cost of sales of the consumption of the fair value uplift to inventory held by acquired businesses;
  - the element of deferred consideration payable for acquired businesses that is recognised as a compensation expense;
  - credits recognised on the forfeiture of deferred consideration payable for acquired businesses;
  - in 9M 2020, the credit arising from the remeasurement of the liability for the contingent consideration payable for Creative Chips; and
  - the interest expense recognised on the unwinding of the discount on contingent consideration liabilities;
- integration costs incurred in relation acquired businesses;
- in Q3 2020, the impairment loss incurred in relation to the provisional goodwill recognised on the acquisition of Adesto;
- in Q3 2020, expenses relating to cost-reduction initiatives in response to the COVID-19 pandemic (principally employee termination benefits);
- in 9M 2019, corporate transaction costs incurred in relation to the licensing and asset transfer agreement with Apple;
- the effect on profit or loss of the remeasurement of the warrants that we held in Energous; and
- the income tax effect of the above items, which is calculated by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the three- and nine- month periods ended 25 September 2020 and 27 September 2019 are presented in the following tables:

Three months ended 25 September 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	386,415	–	–	–	–	–	–	386,415
Cost of sales	(199,954)	1,206	8,357	–	–	–	–	(190,391)
Gross profit	186,461	1,206	8,357	–	–	–	–	196,024
Gross margin %	*48.3%*							*50.7%*
SG&A expenses	(67,415)	7,270	18,233	4,648	–	2,247	–	(35,017)
R&D expenses	(85,068)	7,388	4,194	–	–	–	–	(73,486)
Other operating (expense)/income	(40,935)	–	–	–	44,900	–	–	3,965
Operating (loss)/profit	(6,957)	15,864	30,784	4,648	44,900	2,247	–	91,486
Operating margin %	*(1.8)%*							*23.7%*
Net finance expense	(2,066)	–	–	–	–	–	(37)	(2,103)
(Loss)/profit before income taxes	(9,023)	15,864	30,784	4,648	44,900	2,247	(37)	89,383
Income tax expense	(10,337)	(2,399)	(3,549)	(941)	–	(389)	7	(17,608)
Net (loss)/income	(19,360)	13,465	27,235	3,707	44,900	1,858	(30)	71,775
EBITDA	n/a							107,569
EBITDA margin %	*n/a*							*27.8%*

Three months ended 27 September 2019

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	408,803	–	–	–	–	–	408,803
Cost of sales	(207,645)	696	483	–	–	–	(206,466)
Gross profit	201,158	696	483	–	–	–	202,337
Gross margin %	*49.2%*						*49.5%*
SG&A expenses	(43,611)	6,141	5,343	306	235	–	(31,586)
R&D expenses	(78,846)	3,881	2,877	–	–	–	(72,088)
Other operating income	5,156	–	–	–	–	–	5,156
Operating profit	83,857	10,718	8,703	306	235	–	103,819
Operating margin %	*20.5%*						*25.4%*
Net finance income	2,778	–	–	–	–	(121)	2,657
Profit before income taxes	86,635	10,718	8,703	306	235	(121)	106,476
Income tax expense	(18,439)	(2,204)	(1,127)	(58)	(3)	24	(21,807)
Net income	68,196	8,514	7,576	248	232	(97)	84,669
EBITDA	n/a						120,818
EBITDA margin %	*n/a*						*29.6%*

Nine months ended 25 September 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	**937,195**	**–**	**–**	**–**	**–**	**–**	**–**	**937,195**
Cost of sales	**(475,132)**	**2,594**	**9,332**	**–**	**–**	**–**	**–**	**(463,206)**
Gross profit	**462,063**	**2,594**	**9,332**	**–**	**–**	**–**	**–**	**473,989**
Gross margin %	***49.3%***							***50.6%***
SG&A expenses	**(152,809)**	**18,612**	**31,838**	**5,228**	**–**	**2,247**	**–**	**(94,884)**
R&D expenses	**(234,730)**	**18,891**	**9,168**	**–**	**–**	**–**	**–**	**(206,671)**
Other operating (expense)/income	**(23,511)**	**–**	**(6,938)**	**–**	**44,900**	**–**	**–**	**14,451**
Operating profit	**51,013**	**40,097**	**43,400**	**5,228**	**44,900**	**2,247**	**–**	**186,885**
Operating margin %	***5.4%***							***19.9%***
Net finance expense	**(104)**	**–**	**272**	**–**	**–**	**–**	**(777)**	**(609)**
Profit before income taxes	**50,909**	**40,097**	**43,672**	**5,228**	**44,900**	**2,247**	**(777)**	**186,276**
Income tax expense	**(24,223)**	**(4,918)**	**(6,256)**	**(1,049)**	**–**	**(389)**	**148**	**(36,687)**
Net income	**26,686**	**35,179**	**37,416**	**4,179**	**44,900**	**1,858**	**(629)**	**149,589**
EBITDA	**n/a**							**231,360**
EBITDA margin %	***n/a***							***24.7%***

Financial performance measures continued

Nine months ended 27 September 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	1,185,657	(145,750)	–	–	–	–	–	1,039,907
Cost of sales	(527,263)	–	2,036	886	–	–	–	(524,341)
Gross profit	658,394	(145,750)	2,036	886	–	–	–	515,566
Gross margin %	*55.5%*							*49.6%*
SG&A expenses	(136,006)	–	16,573	14,577	502	10,894	–	(93,460)
R&D expenses	(235,035)	–	15,496	7,605	–	–	–	(211,934)
Other operating income	38,807	(15,898)	–	–	–	–	–	22,909
Operating profit	326,160	(161,648)	34,105	23,068	502	10,894	–	233,081
Operating margin %	*27.5%*							*22.4%*
Net finance income	4,813	–	–	315	–	–	245	5,373
Profit before income taxes	330,973	(161,648)	34,105	23,383	502	10,894	245	238,454
Income tax expense	(74,315)	33,907	(5,228)	(2,795)	(95)	(259)	(46)	(48,831)
Net income	256,658	(127,741)	28,877	20,588	407	10,635	199	189,623
EBITDA	n/a							283,156
EBITDA margin %	*n/a*							*27.2%*

Notes

(i) Accounting for business combinations

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

US$000	**Q3 2020**	Q3 2019	**9M 2020**	9M 2019
Acquisition-related costs	**5,553**	1,021	**9,250**	2,696
Amortisation of acquired intangible assets	**10,930**	6,964	**25,412**	18,724
Consumption of the fair value uplift of acquired inventory	**7,790**	483	**8,763**	886
Consideration accounted for as compensation expense	**6,536**	285	**6,969**	910
Forfeiture of deferred consideration	**(25)**	(50)	**(56)**	(148)
Remeasurement of contingent consideration	**–**	–	**(6,938)**	–
Increase in operating profit	**30,784**	8,703	**43,400**	23,068
Unwinding of discount on contingent consideration	**–**	–	**272**	315
Increase in profit before income taxes	**30,784**	8,703	**43,672**	23,383
Income tax credit	**(3,549)**	(1,127)	**(6,256)**	(2,795)
Increase in net income	**27,235**	7,576	**37,416**	20,588

(ii) Underlying earnings per share

Net income/(loss) for calculating underlying basic and diluted EPS measures were as follows:

US$000	**Q3 2020**	Q3 2019	**9M 2020**	9M 2019
Net (loss)/income for calculating basic and diluted EPS	**(19,360)**	68,196	**26,686**	256,658
Underlying net income	**71,775**	84,669	**149,589**	189,623

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

Number	**Q3 2020**	Q3 2019	**9M 2020**	9M 2019
Weighted average number of ordinary shares				
Basic	**67,816,664**	70,779,673	**68,289,916**	72,605,208
Diluted	**72,043,056**	74,777,271	**72,335,196**	77,043,366

Underlying earnings per share measures were therefore as follows:

US$000	**Q3 2020**	Q3 2019	9M 2020	**9M 2019**
Underlying earnings per share				
Basic	**1.06**	1.20	**2.19**	2.61
Diluted	**1.00**	1.13	**2.07**	2.46

(iii) Underlying EBITDA

Net income/(loss) determined in accordance with IFRS may be reconciled to underlying EBITDA as follows:

US$000	**Q3 2020**	Q3 2019	**9M 2020**	9M 2019
Net (loss)/income	**(19,360)**	68,196	**26,686**	256,658
Net finance expense/(income)	**2,066**	(2,778)	**104**	(4,813)
Income tax expense	**10,337**	18,439	**24,223**	74,315
Depreciation expense	**9,650**	10,189	**26,249**	30,672
Amortisation expense	**17,363**	13,774	**43,638**	38,127
EBITDA	**20,056**	107,820	**120,900**	394,959
Licence and asset transfers to Apple	**–**	–	**–**	(161,648)
Share-based compensation and related expenses	**15,864**	10,718	**40,097**	34,105
Acquisition-related costs	**5,553**	1,021	**9,250**	2,696
Consumption of the fair value uplift of acquired inventory	**7,790**	483	**8,763**	886
Consideration accounted for as compensation expense	**6,536**	285	**6,969**	910
Forfeiture of deferred consideration	**(25)**	(50)	**(56)**	(148)
Remeasurement of contingent consideration	**–**	–	**(6,938)**	–
Integration costs	**4,648**	306	**5,228**	502
Impairment of goodwill	**44,900**	–	**44,900**	–
Cost-reduction initiatives	**2,247**	–	**2,247**	–
Corporate transaction costs	**–**	235	**–**	10,894
Underlying EBITDA	**107,569**	120,818	**231,360**	283,156

Free cash flow

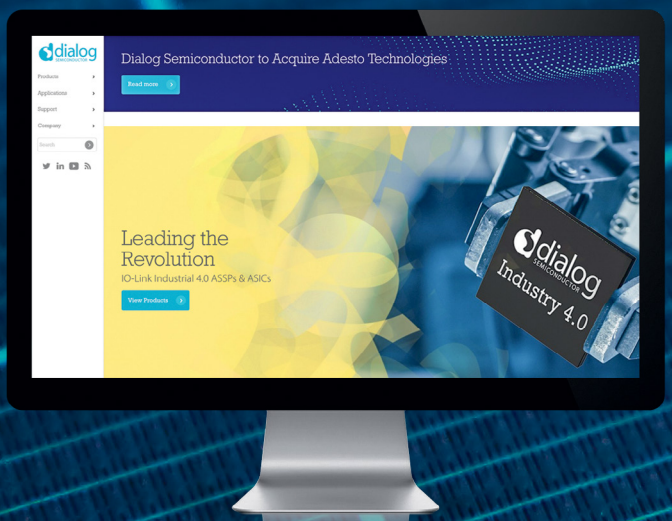
Free cash flow was calculated as follows:

US$000	**Q3 2020**	Q3 2019	**9M 2020**	9M 2019
Cash flow from operating activities	**27,334**	97,316	**11,396**	439,017
Purchase of property, plant and equipment	**(8,994)**	(3,157)	**(14,820)**	(10,142)
Purchase of intangible assets	**(2,038)**	(1,770)	**(5,140)**	(3,957)
Payments for capitalised development costs	**(1,850)**	(2,618)	**(7,704)**	(11,189)
Capital element of lease payments	**(2,699)**	(2,981)	**(6,966)**	(8,662)
Free cash flow	**11,753**	86,790	**(23,234)**	405,067

Registered office

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK
www.dialog-semiconductor.com

dialog SEMICONDUCTOR



Learn more about how we're building a power-efficient world at www.dialog-semiconductor.com