



February 4, 2021

Dear Customer,

As you know, 2020 was a very strange year—a weak and sharply declining environment in first half of the year followed by a V-shaped recovery in second half of the year, especially in the last few months. In the first half of 2020 there was a significant reduction in demand as customers were cancelling and pushing out orders. Our customers generally pulled back very hard and there was no backlog visibility. In this environment, we had no choice but to draw down inventories and safety stock to protect ourselves from what looked like a severe economic contraction. We saw a similar behavior from our foundry and subcontracting partners. During that time, nobody in the industry was adding any capacity.

In July we wrote a letter to our customers requesting longer-term backlog visibility, and some customers provided it to us. Those that did not act are seeing even more severe shortages today, as you may have seen in the many news articles about severe semiconductor shortages.

Starting around September, we began to see very strong broad-based bookings and this acceleration has continued since. Our bookings are now coming in at a rate 70% above what would be considered normal bookings. Over 30% of what customers want from us is currently available later than when they would like to receive it, and there is no capacity to make up for it. As the near-term availability dries up on most products that are in high demand, we are continuing to schedule orders farther and farther out. We are estimating that these shortages will continue for much of 2021 and possibly into 2022.

Given the severely constrained environment, we have taken two actions: 1) We and our supply chain partners are adding capacity as fast as possible, but are facing equipment, materials and people shortages and delays; 2) We extended the cancellation and reschedule window to longer than normal to confirm that there is high confidence in the backlog placed on us. This way, when we build a product using constrained capacity, we know that it will ship out and the customer will not cancel before we deliver.

Many customers have asked us to provide a solution for prioritized capacity beyond the short term (next 5–6 months), where our capacity is over-subscribed. With that in mind we would like to introduce the Microchip Preferred Supply Program (PSP) and offer you the option to receive prioritized capacity in the second half of 2021 and the first half of 2022. The Preferred Supply Program has the following elements:

- 12 months of continuous, non-cancellable and non-reschedulable backlog
- Capacity priority will be for the second 6 months of the next 12-month period—not the first 6 months. While not a guarantee of supply we will most certainly place our highest priority on those that work with us within this program.
- Capacity priority allocation will be made on a first-come, first-served basis until the available capacity is allocated which we expect is likely to happen by the end of February.

To make PSP work we need your engagement now. We are committed to your success and we believe that this program will give you an advantage to build on during these times of very constrained capacity.

We ask all of our customers to immediately place their 12-month non-cancellable non-reschedulable backlog on Microchip. We also ask our worldwide distributors to do the same. Please feel free to contact your Microchip Client Engagement Manager to further discuss this program and answer your questions. We expect the bulk of our capacity to get booked up by the end of February and we will be accepting 12-month backlog on a first-come, first-served basis. We will of course reserve a portion of our capacity to ensure that new customers and new designs can be served as they launch early production, new products can be launched with available inventory and that smaller customers can continue to be served. We will be working tirelessly to continue to expand capacity further.

Thank you for your business and your understanding in these challenging times.

Steve Sanghi & Ganesh Moorthy