

# Investor Presentation



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A Leading Provider of Smart, Connected and Secure Embedded Solutions



SMART | CONNECTED | SECURE

**Steve Sanghi/Ganesh Moorthy/Eric Bjornholt**

December 2020

# Safe Harbor

## **Forward Looking Statement Safe Harbor:**

During the course of this presentation, we will make projections or other forward-looking statements regarding the future financial performance of the company (including our guidance) or future events, including our strategy, growth drivers, industry outlook, industry trends, market size, and our financial model. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that could cause our actual results to differ materially, including, but not limited to: any continued economic uncertainty due to the impact of the COVID-19 pandemic, monetary policy, political, geopolitical, trade or other issues in the U.S. or internationally, any further unexpected fluctuations or weakness in the U.S. and global economies (including China), changes in demand or market acceptance of our products and the products of our customers; our ability to successfully integrate the operations and employees, retain key employees and customers and otherwise realize the expected synergies and benefits of our acquisitions; the impact of current and future changes in U.S. corporate tax laws (including the Tax Cuts and Jobs Act of 2017), foreign currency effects on our business; the mix of inventory we hold and our ability to satisfy short-term orders from our inventory; changes in utilization of our manufacturing capacity and our ability to effectively manage and expand our production levels; competitive developments including pricing pressures; the level of orders that are received and can be shipped in a quarter; changes or fluctuations in customer order patterns and seasonality; the impact of any future significant acquisitions that we may make; our ability to obtain a sufficient supply of wafers from third party wafer foundries and the cost of such wafers, the costs and outcome of any current or future litigation or other matters involving our Microsemi acquisition, the Microsemi business, intellectual property, customers, or other issues; the costs and outcome of any current or future tax audit or investigation regarding our business or the business of Microsemi, our actual average stock price in the December 2020 quarter and the impact such price will have on our share count; fluctuations in our stock price and trading volume which could impact the number of shares we acquire under our share repurchase program and the timing of such repurchases; disruptions in our business or the businesses of our customers or suppliers due to natural disasters (including any floods in Thailand), terrorist activity, armed conflict, war, worldwide oil prices and supply, public health concerns (including the COVID-19 pandemic) or disruptions in the transportation system; and general economic, industry or political conditions in the United States or internationally.

For a detailed discussion of these and other risk factors, please refer to Microchip's filings on Forms 10-K and 10-Q. You can obtain copies of Forms 10-K and 10-Q and other relevant documents for free at Microchip's website ([www.microchip.com](http://www.microchip.com)) or the SEC's website ([www.sec.gov](http://www.sec.gov)) or from commercial document retrieval services. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date such statements are made. Microchip does not undertake any obligation to publicly update any forward-looking statements to reflect events, circumstances or new information after the date of this presentation or to reflect the occurrence of unanticipated events.

**Use of Non-GAAP Financial Measures:** In this presentation, we have included certain non-GAAP financial information, including for example, adjusted EBITDA, non-GAAP gross profit and free cash flow. We also disclose information about our end-market demand metric. Our non-GAAP results, where applicable, exclude the effect of share-based compensation, COVID-19 shelter-in-place restrictions on manufacturing activities, expenses related to our acquisition activities (including intangible asset amortization, inventory valuation costs, excess capacity charges to normalize acquired inventory levels, severance and other restructuring costs, and legal and other general and administrative expenses associated with acquisitions including legal fees and expenses for litigation and investigations related to our Microsemi acquisition), professional services associated with certain legal matters, IT security remediation costs, non-cash interest expense on our convertible debentures, losses on the settlement of debt, and gains and losses related to available-for-sale investments. For the fourth quarters of fiscal 2020 and fiscal 2019, our non-GAAP income tax expense is presented based on projected cash taxes for the fiscal year, excluding transition tax payments under the Tax Cuts and Jobs Act. Following our required adoption of the new revenue recognition standard effective April 1, 2018, we disclose "end market demand" which is the net dollar amount of our products, licensing revenue and other services delivered to our direct (non-distributor) customers and by our distributors to their customers. Our determination of our non-GAAP measures might not be the same as similarly titled measures used by other companies, and it should not be construed as a substitute for amounts determined in accordance with GAAP. There are limitations associated with using non-GAAP measures, including that they exclude financial information that some may consider important in evaluating our performance. Management compensates for this by presenting information on both a GAAP and non-GAAP basis for investors and providing reconciliations of the GAAP and non-GAAP results. Non-GAAP measures should not be considered in isolation or as an alternative to net income, cash from operations or other measures of profitability, liquidity or performance under GAAP. These non-GAAP and GAAP results are included in the appendix to this presentation. Certain supplemental information and reconciliations are available on our website at [www.microchip.com/investors](http://www.microchip.com/investors) under the heading "Supplemental Financial Information".



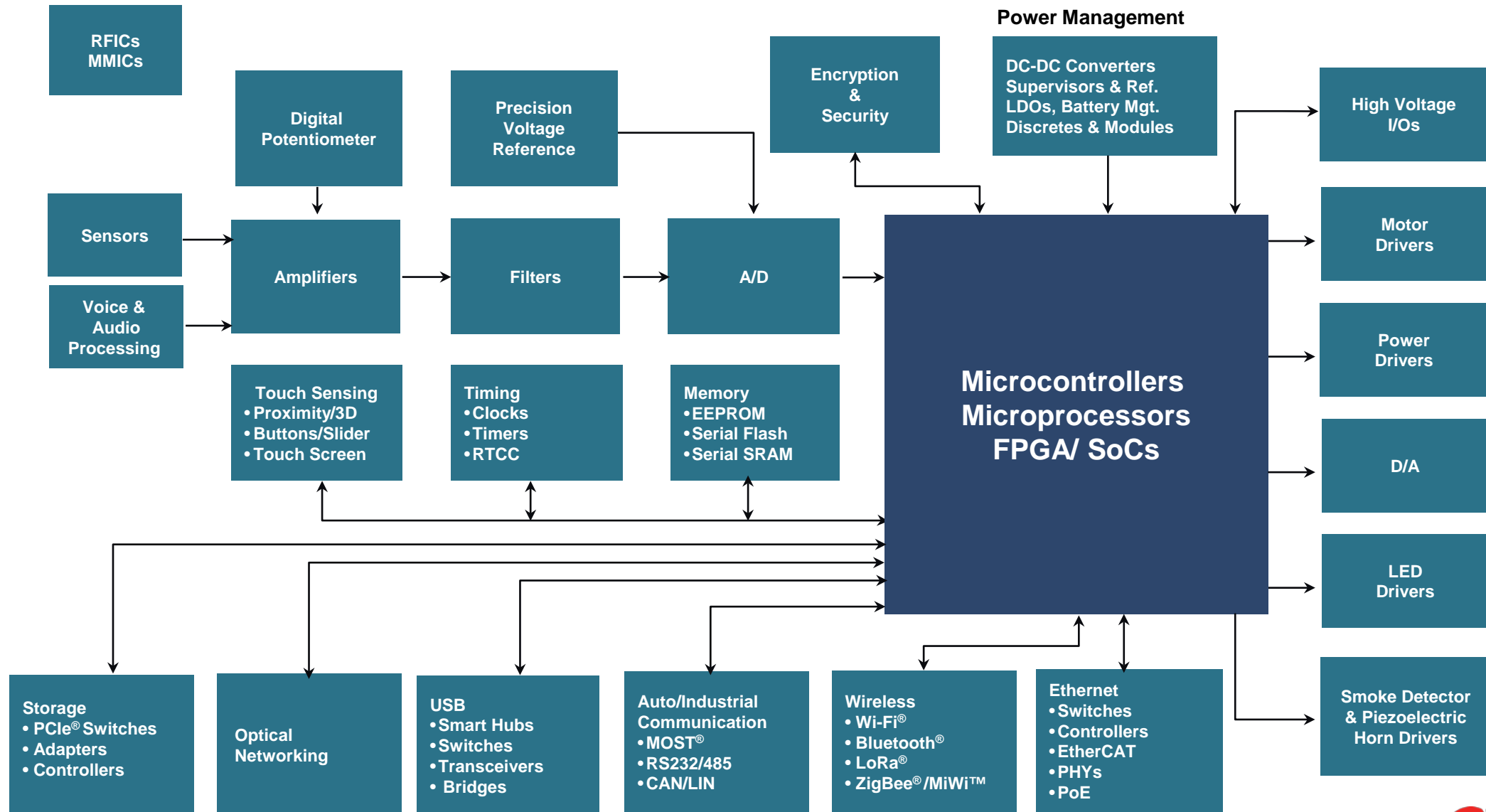
# Q3FY21 Guidance and Investor Update

- The strong bookings activity in the September 2020 quarter has continued in the December 2020 quarter
- Called FQ1/FQ2 FY21 as bottom of the business cycle for Microchip
- Q3FY21 net sales guidance on November 5, 2020 of flat to up 5% sequentially, with record non-GAAP gross margins of between 62.4% and 62.8%, as well as non-GAAP operating margins between 38.7% and 39.7%
- Q3FY21 guidance on November 5, 2020 for non-GAAP diluted EPS is to be between \$1.51 and \$1.63 per share
- Updating non-GAAP long-term business model today
- Paid down \$331.1 million of gross debt during Q2FY21 and \$2.95 billion of debt over the last nine quarters
- Q3FY21 convertible bond exchange for a portion of 2025, 2027 and 2037 bonds. Transaction closed today

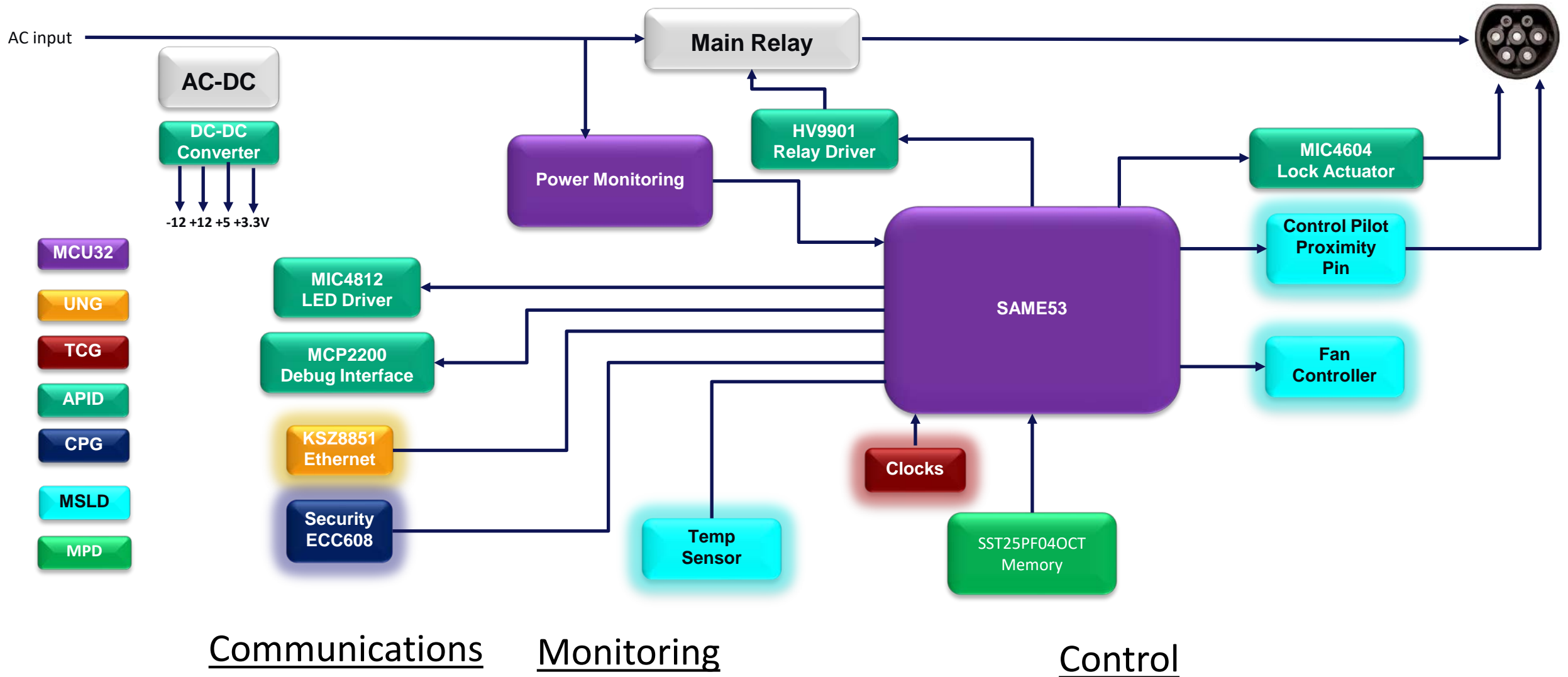
# Microchip 2.0

- **Total System Solutions in Embedded Control**
- **Leading customer preference to design with our MCUs and associated Analog components**
- **Multiple growth drivers across six Megatrends**
- **Diversified end market mix with Industrial, Data centers, Automotive and Communications, Consumer and Aerospace and Defense**
- **Long-term model with industry leading operating profits**

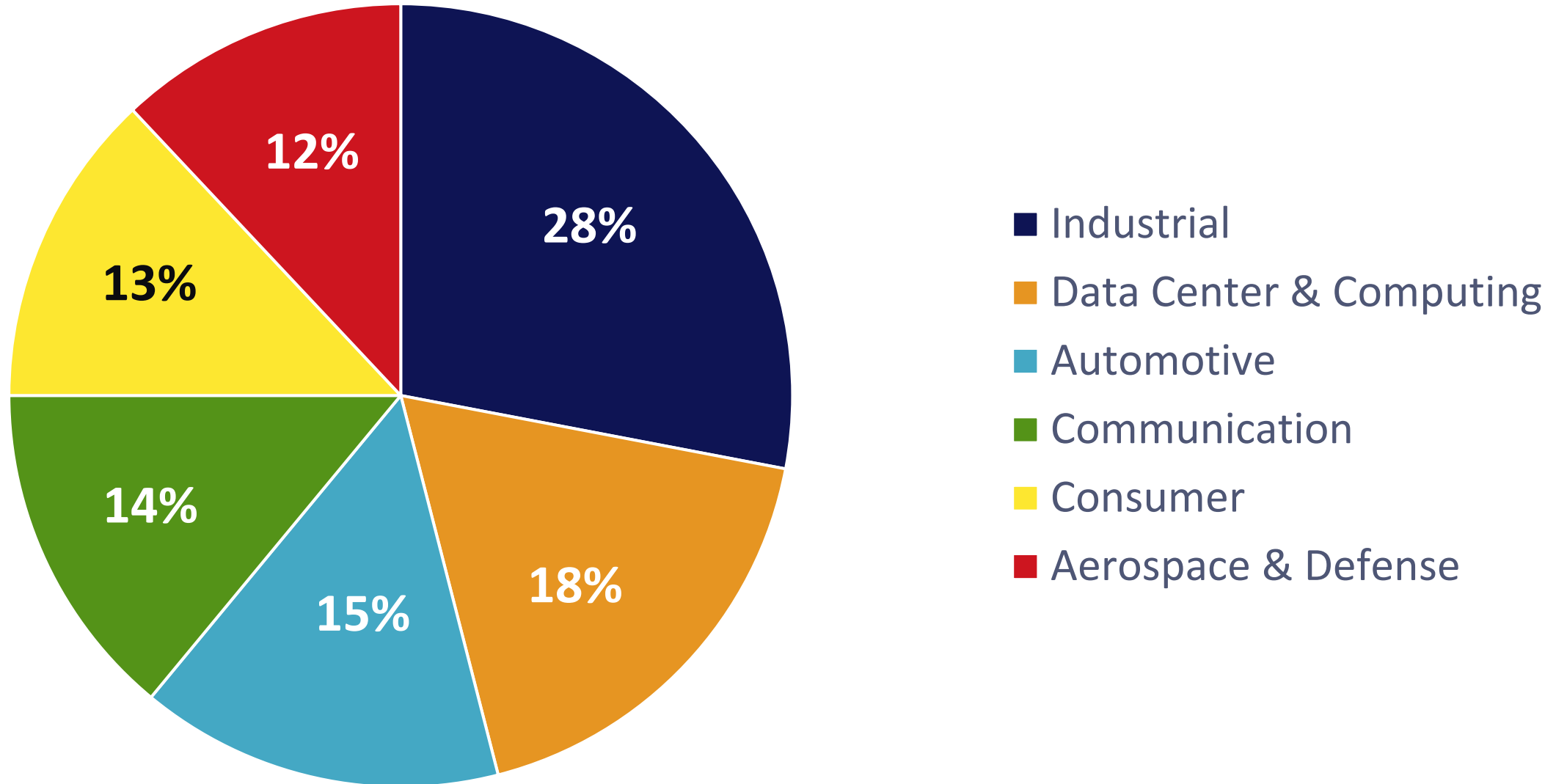
# Providing Total System Solutions



# Electric Vehicle Charger



# Revenue By End Market\*



\* End market classification is based on management estimates for the fiscal year ending March 31, 2020

Microchip Proprietary and Confidential



# Six Megatrends



5G



Internet of Things



Datacenter



Electric Vehicles



Artificial Intelligence/Machine Learning



ADAS/Autonomous Vehicles



# Financial Results and Guidance\*

Actual Results																		
	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Sales	\$844.0	\$873.8	\$881.2	\$902.7	\$972.1	\$1012.1	\$994.2	\$1002.3	\$1216.8	\$1513.3	\$1416.0	\$1329.8	\$1322.6	\$1337.8	\$1287.4	\$1326.4	\$1309.7	\$1309.5
Gross Profit	\$471.1	\$499.9	\$509.7	\$534.7	\$587.2	\$617.8	\$610.6	\$618.4	\$756.7	\$933.7	\$881.1	\$826.9	\$820.1	\$832.7	\$791.2	\$822.3	\$807.5	\$813.9
Gross Margin	55.8%	57.2%	57.8%	59.2%	60.4%	61.0%	61.4%	61.7%	62.2%	61.7%	62.2%	62.2%	62.0%	62.2%	61.5%	62.0%	61.7%	62.2%
Operating Expenses	\$240.0	\$233.6	\$220.6	\$213.6	\$222.9	\$227.3	\$218.9	\$222.8	\$283.2	\$354.5	\$351.1	\$342.8	\$341.6	\$341.9	\$339.1	\$336.6	\$302.3	\$300.1
Operating Income	\$231.1	\$266.3	\$289.1	\$321.2	\$364.3	\$390.5	\$391.7	\$395.6	\$473.5	\$579.3	\$530.0	\$484.1	\$478.5	\$490.8	\$452.1	\$485.7	\$505.2	\$513.8
Operating Margin	27.4%	30.5%	32.8%	35.6%	37.5%	38.6%	39.4%	39.5%	38.9%	38.3%	37.4%	36.4%	36.2%	36.7%	35.1%	36.6%	38.6%	39.2%
Net Income	\$194.0	\$219.6	\$246.5	\$276.9	\$319.1	\$344.1	\$341.2	\$351.3	\$405.8	\$454.6	\$405.6	\$370.4	\$357.6	\$365.7	\$340.8	\$375.5	\$401.9	\$416.4
Diluted EPS	\$0.84	\$0.94	\$1.05	\$1.16	\$1.31	\$1.41	\$1.36	\$1.40	\$1.61	\$1.81	\$1.66	\$1.48	\$1.41	\$1.43	\$1.32	\$1.46	\$1.56	\$1.56
EBITDA	\$264.1	\$298.8	\$321.3	\$356.5	\$395.6	\$422.5	\$425.9	\$429.6	\$537.5	\$574.0	\$556.3	\$544.4	\$537.1	\$540.2	\$503.4	\$548.1	\$562.6	\$566.7

## Q3 FY21 Guidance from 11/5/20

Net Sales	\$1.310 - \$1.375B
Gross Profit %	62.4% - 62.8%
Operating Expense %	23.1% to 23.7%
Operating Income	38.7% to 39.7%
Diluted EPS	\$1.51 - \$1.63

\* Amounts above are reflected in millions of dollars except for diluted EPS and percentages. All figures are Non-GAAP except for net sales. Figures prior to Q4 FY19 and are measured off of end market demand (instead of GAAP net sales). In Q4 FY19, based on discussions with the SEC, Microchip changed to providing Non-GAAP guidance based on GAAP revenue. Non-GAAP results exclude share-based compensation, acquisition related charges, and other items. A reconciliation of our GAAP to non-GAAP results is available at [www.microchip.com](http://www.microchip.com).

# Revising Long term Non-GAAP Operating Model\*

	<b>Current Model</b>	<b>New Model</b>
<b>Gross Margin %</b>	<b>63.0%</b>	<b>65.0%</b>
<b>Operating Expense %</b>	<b>22.5%</b>	<b>23.0%</b>
<b>Operating Profit %</b>	<b>40.5%</b>	<b>42.0%</b>

\* Microchip does not utilize a GAAP long-term model. Non-GAAP results exclude share-based compensation, acquisition related charges, and other items. A reconciliation of our GAAP to non-GAAP results is available at [www.microchip.com](http://www.microchip.com).

# Drivers of Gross Margin Expansion

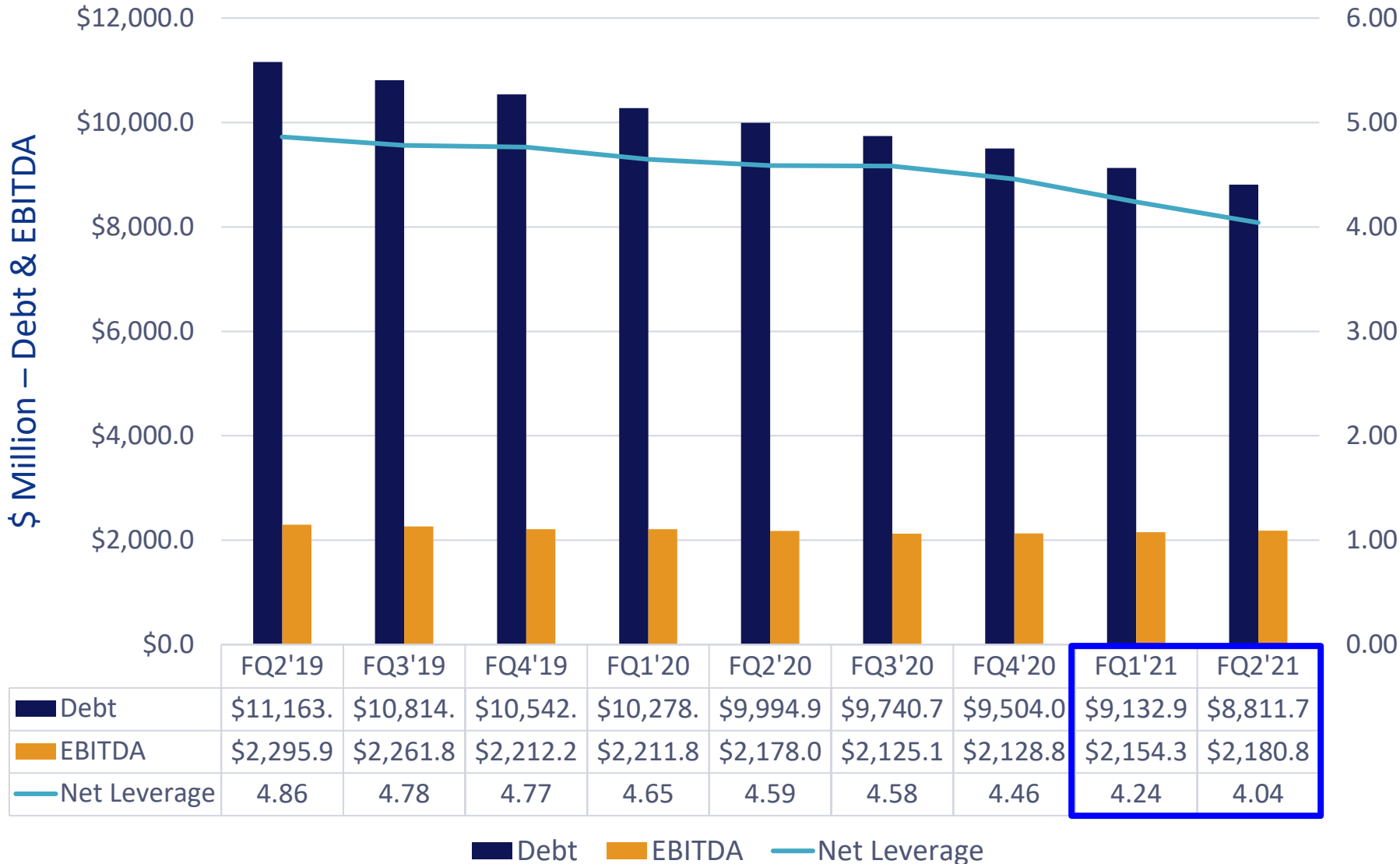
- **Eliminating factory underutilization charges as our manufacturing activities ramp up**
- **Cost effectively expanding into our existing clean room space**
- **Insourcing of Assembly activities**
  - **Currently 45% of volume – target to get to > 60% of volume**
- **Insourcing of Final Test Activities**
  - **Currently 54% of volume – target to get to > 70% over time**
- **Moving activities at older fabs/labs to our larger/more efficient fabrication facilities**
- **Disciplined product pricing strategy**

# Operating Expense Drivers

- Investments in R&D across our strategic product lines to drive high margin revenue growth
- Investments in technical support activities to drive a high-level of design wins focused on Total System Solutions and the six Megatrends in the semiconductor industry
- Investment in various support functions



# Net Debt\*, Adjusted EBITDA\*\* & Net Leverage



- Paid down \$331.1M of debt in FQ2
- Cumulative Debt paydown of \$2.95B over last 9 quarters
- EBITDA increased due to tight expense control and high operating margins
- Net leverage (Debt/ EBITDA) reduced to 4.04

\* Net debt is total debt less cash/investment less 2037 convertible debentures

\*\*Adjusted EBITDA is as defined in the Company's Amended and Restated Credit Agreement dated as of March 21, 2020.



# Long-term Cash Return Strategy

- **High profit business model and low capital intensity generates significant free cash flow**
- **Using substantially all free cash flow beyond dividends to de-lever and achieve investment grade rating**
- **Plan to use a combination of dividend growth and stock buyback to return cash to shareholders**

# Summary

- **A consistent revenue grower with multiple growth drivers across six Megatrends of the industry**
- **Q3FY21 guidance for net sales to be flat to up 5% sequentially**
- **Paid down \$2.95 billion of debt over the last nine quarters and substantially all cash generation beyond dividend payments will be used to reduce leverage**
- **Retired and refinanced ~ \$2.9 billion of convertible debt in CY20 to help prevent future earnings dilution**
- **High margin business model and shareholder friendly**
- **Updated Microchip's premium long-term non-GAAP financial model to 65% gross margin, 23% operating expenses and 42% operating income**



# Thank You

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# Appendix

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# Q3FY21 debt transaction

- **We recently announced a debt transaction that is closing on December 1<sup>st</sup>**
- **\$1.086 billion of 2025, 2027 and 2037 bonds were exchanged for:**
  - New 2024 convertible bond of \$665.5 million – low coupon (0.125%), capped call (up 75%)
  - Cash - \$434.9 million including accrued interest plus \$35.8 million for capped call plus fees
  - Stock – 8,469,644 MCHP shares
- **As of 12/1/20, the following convertible bonds are outstanding:**
  - 2024 (new) - \$665.514 million
  - 2025 - \$222.412 million
  - 2027 - \$455.548 million
  - 2037 - \$278.604 million
  - Total Convertible Debt - \$1,622.078 million
- **Prior to March 2020, Microchip had \$4,481.1 million of convertible bonds outstanding**
- **By retiring and refinancing the convertible bonds, Microchip expects for these transactions to be accretive in the future if Microchip's stock price appreciates**
- **The Q3FY21 transactions are modestly dilutive to Q3FY21 earnings due to the share issuance offsetting savings from lower interest costs**