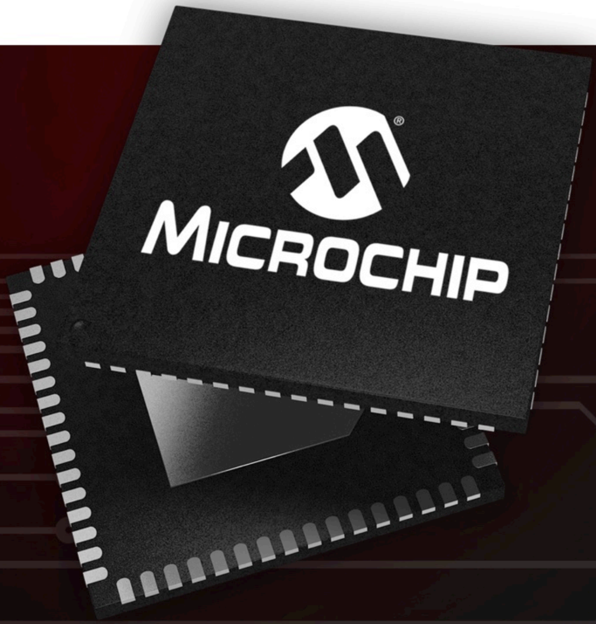
MICROCHIP

# Microchip 2.0




A Leading Provider of Microcontroller, Mixed-Signal, Analog & Flash-IP Solutions


***Steve Sanghi, CEO***
***Ganesh Moorthy, COO***
***Eric Bjornholt, CFO***

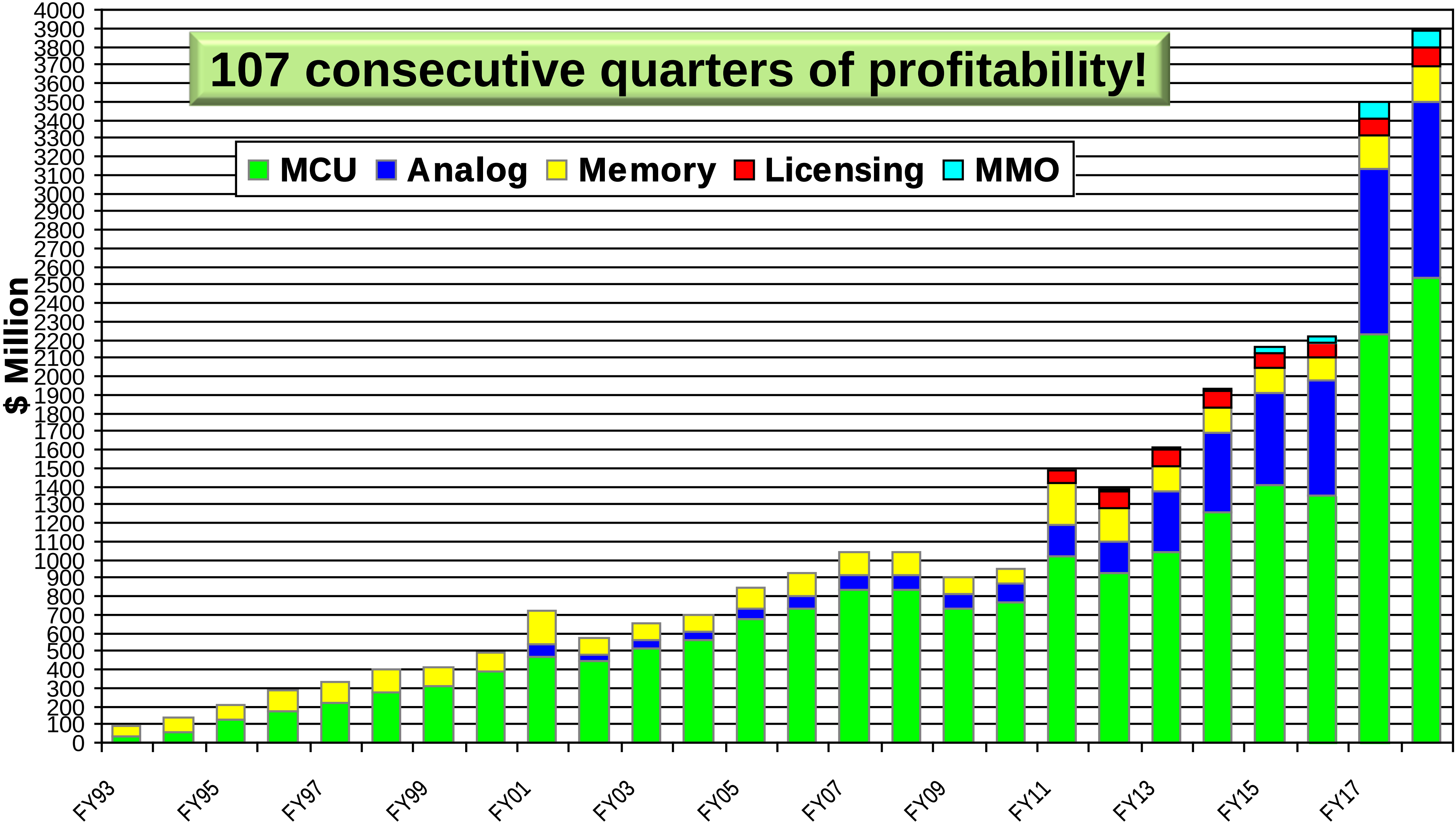
# Business Update

- Net sales for Q2FY18 expected to be up 3% sequentially which would drive Microchip's first one billion dollar net sales quarter.
- Operating profit for Q2FY18 expected to be between 37.5% and 38.25%
- Non GAAP EPS for Q2FY18 expected to be between $1.33 to $1.37 per share.
- Business conditions and backlog continue to be strong. Lead times are long but have stabilized at 4 to 20 weeks.
- We expect significant capacity challenges to persist until the middle of calendar year 2018 until lead times return to normal.
- Long-term non-GAAP financial model is now 62.5% gross margin, 22.5% operating expenses and 40% operating profit.
- Introducing Microchip 2.0- Total system solutions- Smart, connected and Secure.

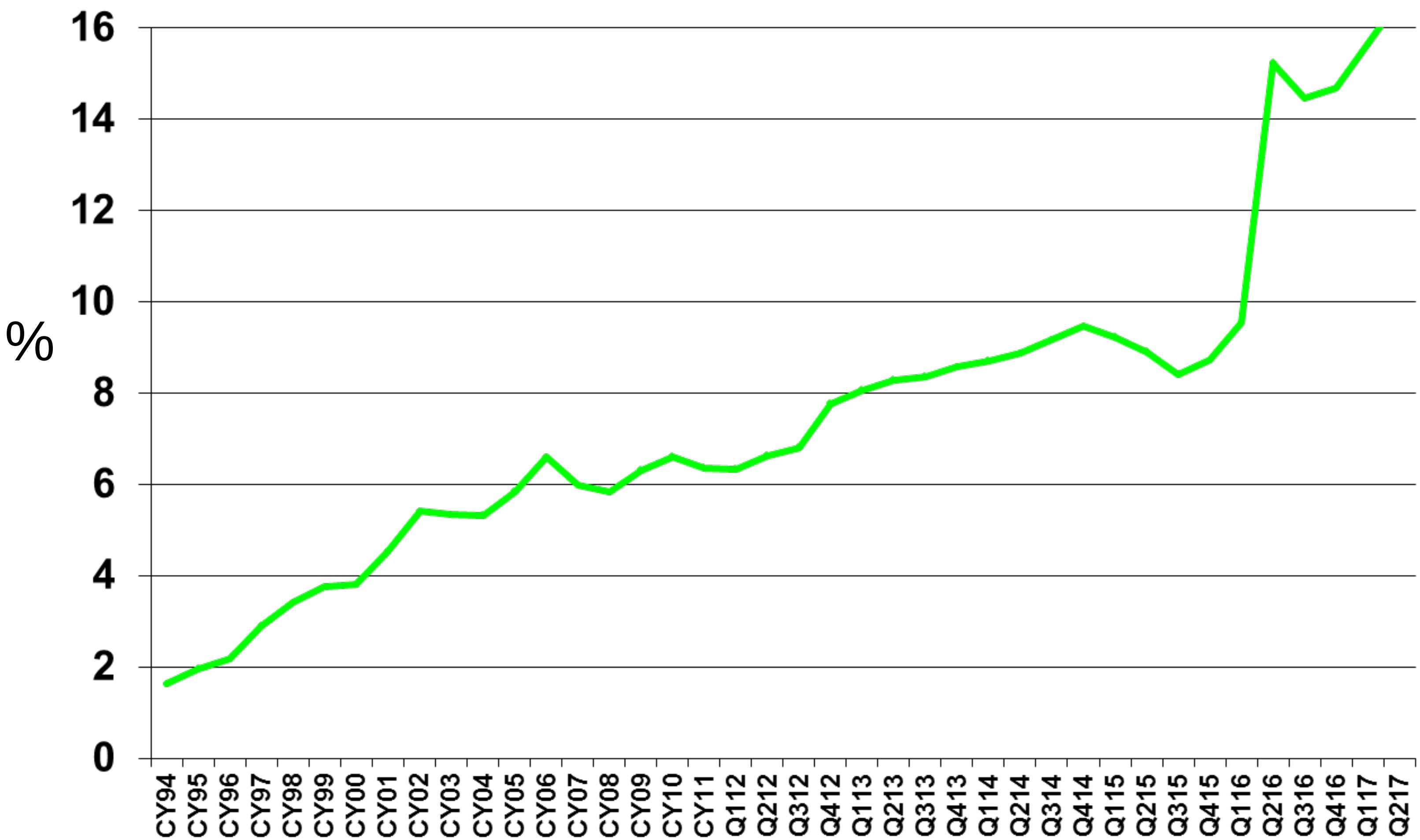
# MICROCHIP 1.0

1. **Consistent growth**
2. **Perennial market share gains**
3. **High margin business model**
4. **Shareholder friendly with consistently increasing dividends and free cash flow**
5. **Successful M&A strategy**

# Annual Net Sales Growth



# Total MCU (8/16/32) Market Share %

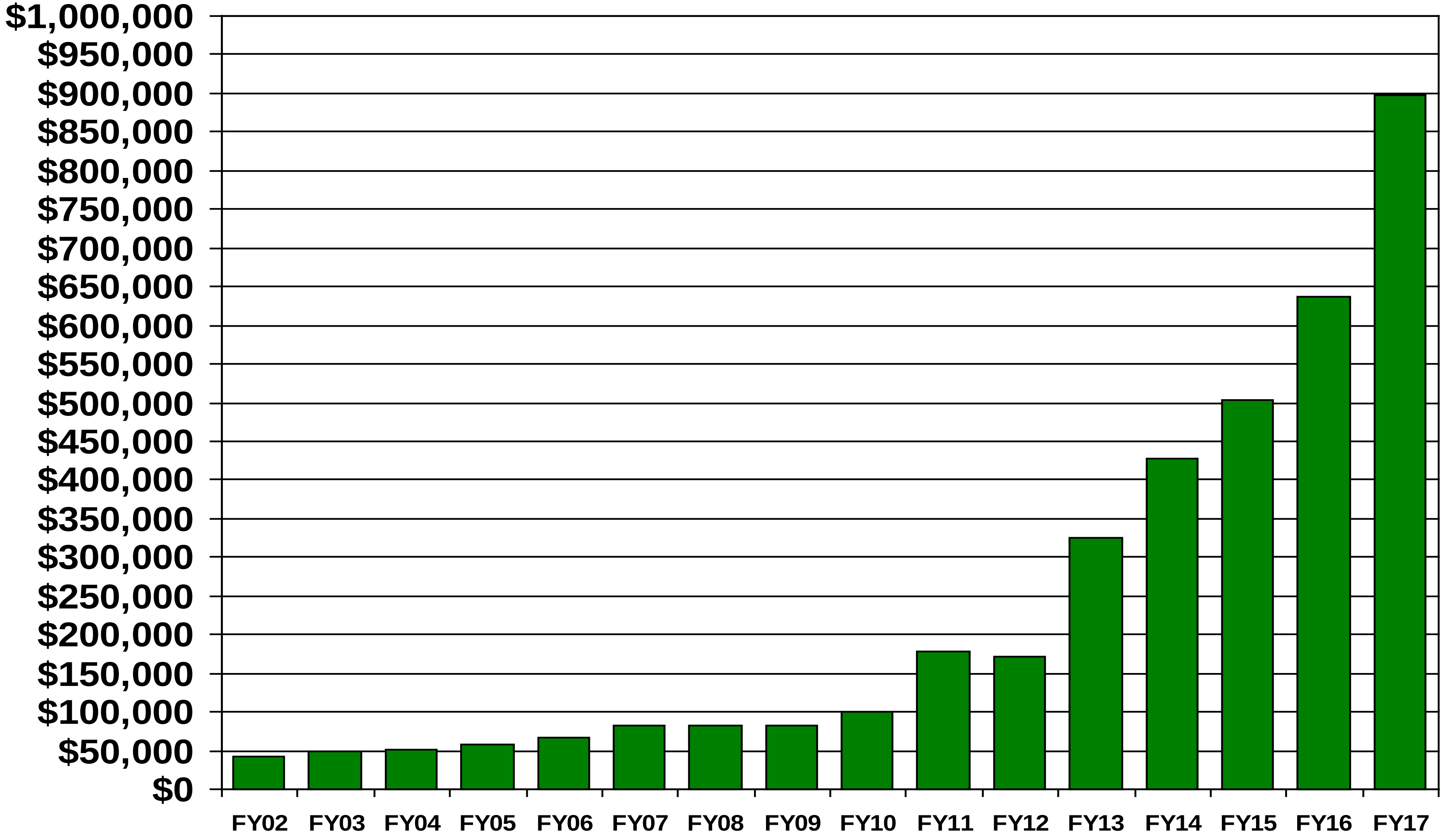


# Worldwide Microcontroller Market Share

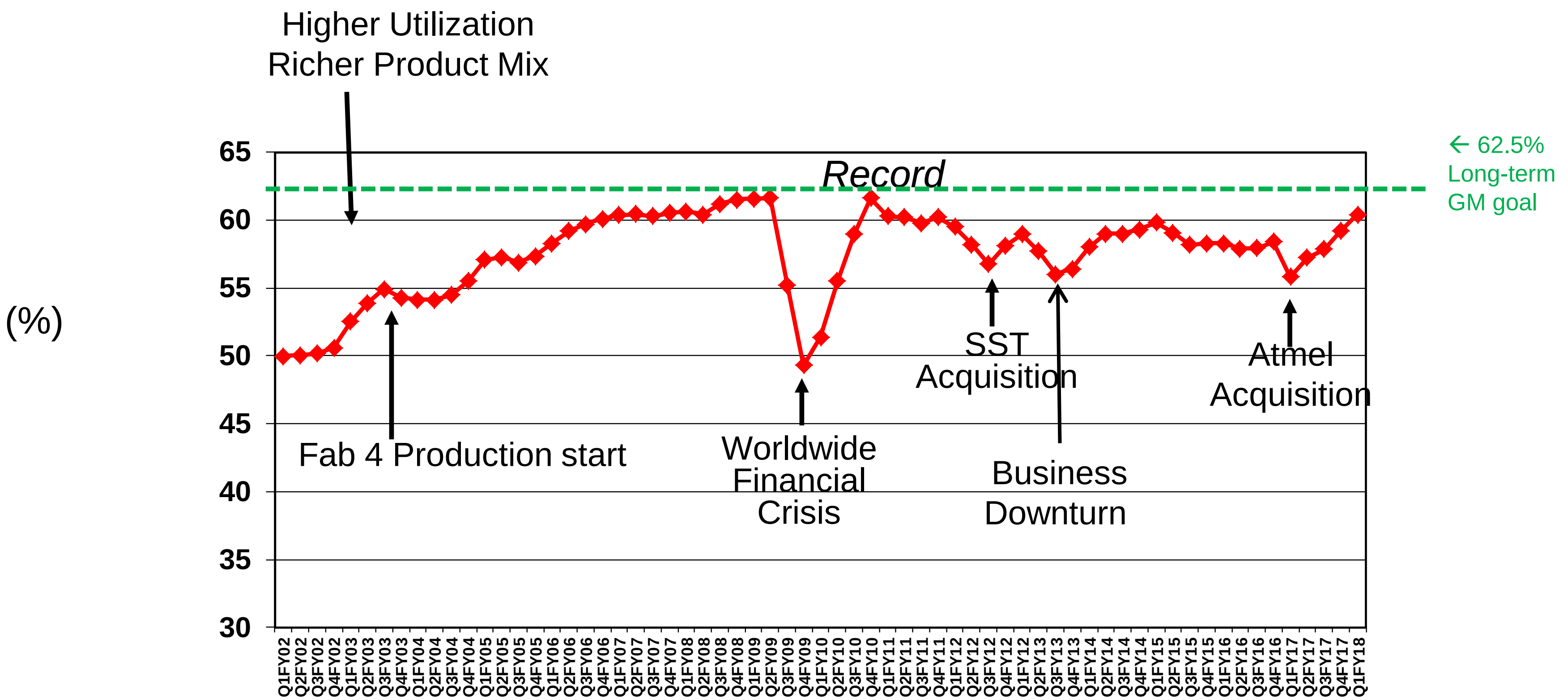
| No. | 2003 Rank | 2008 Rank | 2009 Rank | 2010 Rank | 2012 Rank | 2014 Rank | 2015 Rank | 2016 Rank |
|---|---|---|---|---|---|---|---|---|
| 1 | Renesas | Renesas | Renesas | Renesas | Renesas | Renesas | Renesas | Renesas |
| 2 | Motorola | NEC | NEC | Freescale | Freescale | Freescale | NXP | NXP |
| 3 | NEC | Freescale | Freescale | Samsung | Infineon | ST-Micro | ST-Micro | Microchip |
| 4 | Matsushita | Infineon | Samsung | Microchip | Microchip | Microchip | Microchip | ST-Micro |
| 5 | Infineon | Samsung | Microchip | Atmel | ST-Micro | NXP | Infineon | TI |
| 6 | Fujitsu | Microchip | TI | TI | TI | TI | TI | Infineon |
| 7 | Toshiba | ST-Micro | Infineon | Infineon | Atmel | Infineon | Atmel | Cypress |
| 8 | Microchip | TI | ST-Micro | ST-Micro | NXP | Atmel | Cypress | Samsung |
| 9 | Samsung | Fujitsu | Fujitsu | Fujitsu | Fujitsu | Spansion | Samsung | CEC Huada |
| 10 | ST-Micro | NXP | NXP | NXP | Samsung | Samsung | CEC Huada | Toshiba |
| 11 | Atmel | Toshina | Atmel | Toshiba | Toshiba | Cypress | Datang | Si Labs |
| 12 | TI | Atmel | Toshiba | Denso | Cypress | Toshiba | Toshiba | Denso |
| 13 | Sanyo | Panasonic | Panasonic | Cypress | Denso | Denso | Denso | Datang |
| 14 | Philips | Denso | Denso | Panasonic | Panasonic | Datang | Si Labs | SH Fudan |
| 15 | Intel | Sony | Cypress | Sony | Sony | Si Labs | SHIC | Panasonic |
| 16 | Sony | Cypress | Sony | Datang | Si Labs | CEU-Huada | Tongfang | Holtek |
| 17 | Micronas | Intel | Datang | JSC Sitronics | CEC Huada | Panasonic | Panasonic | Nuvoton |
| 18 | Oki | Micronas | Intel | Si-Labs | Melfas | SHIC | Holtek | Unigroup |
| 19 | Sunplus | Winbond | Si-Labs | Intel | JSC | Tongfang | Winbond | Maxim |
| 20 | Winbond | Si-Labs | Rohm | | INSIDE | Holtek | | Nationz |

*Based on dollar shipment volume 2003-2016, Source: Gartner and Microchip*

# Analog Yearly Revenue (k$)

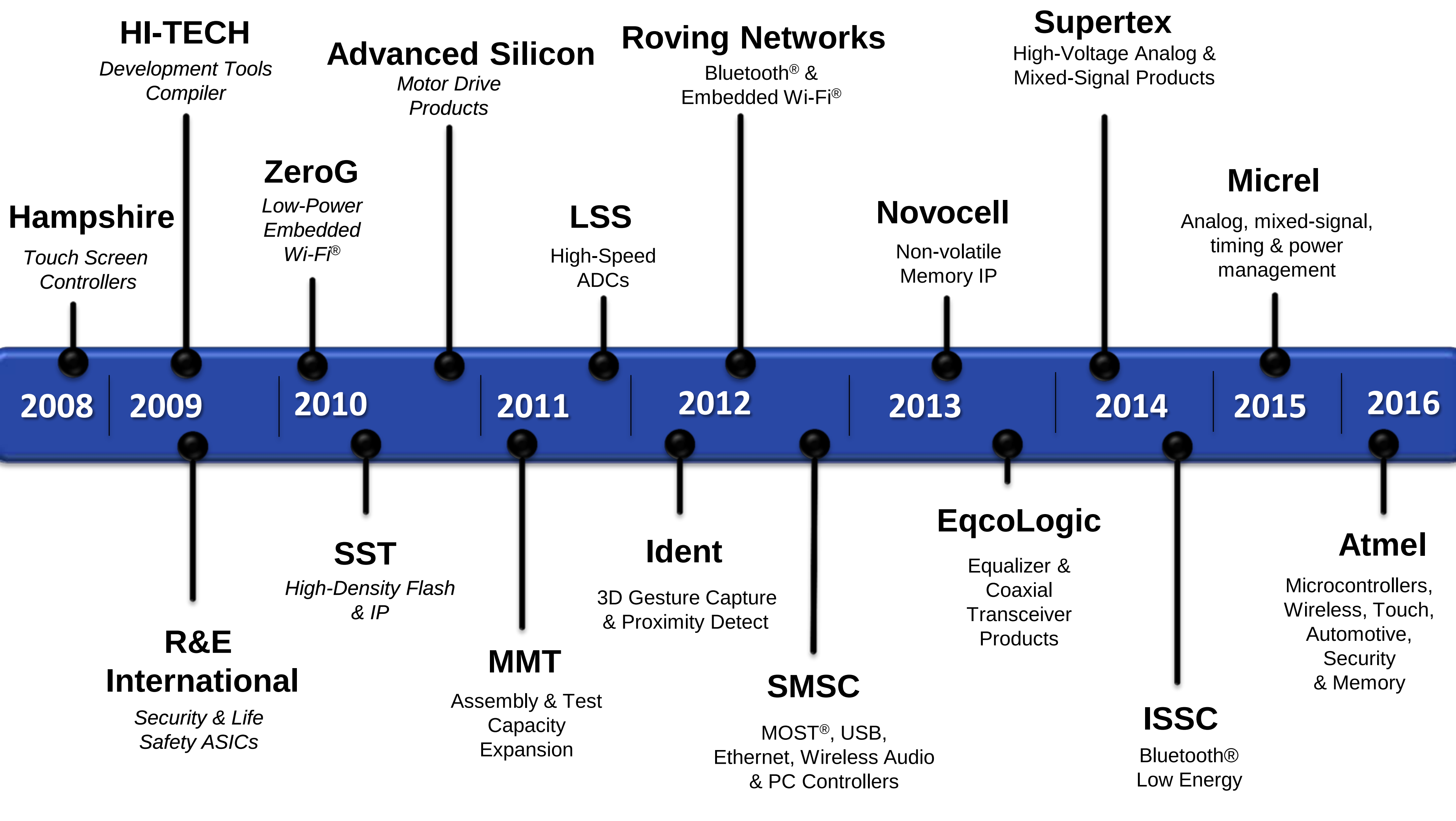


# Gross Margin % (Non-GAAP*)




*Excludes share-based compensation and acquisition-related expenses. A reconciliation of our GAAP to non-GAAAP results is available at www.microchip.com.

# Expanding Our Solutions Through Acquisitions



# Microchip 2.0

***Be The Very Best Embedded Control Solutions Company Ever***

# MICROCHIP 2.0

1. **Total System Solution in Embedded Control**
2. **Leading customer preference to design with our MCUs**
3. **Multiple growth drivers**
4. **Record gross margin target with multiple drivers**
5. **Record low opex target with multiple leverage drivers**
6. **End market mix skewed to Industrial and Automotive**
7. **New LT model with industry leading operating profits**

# MICROCHIP 2.0

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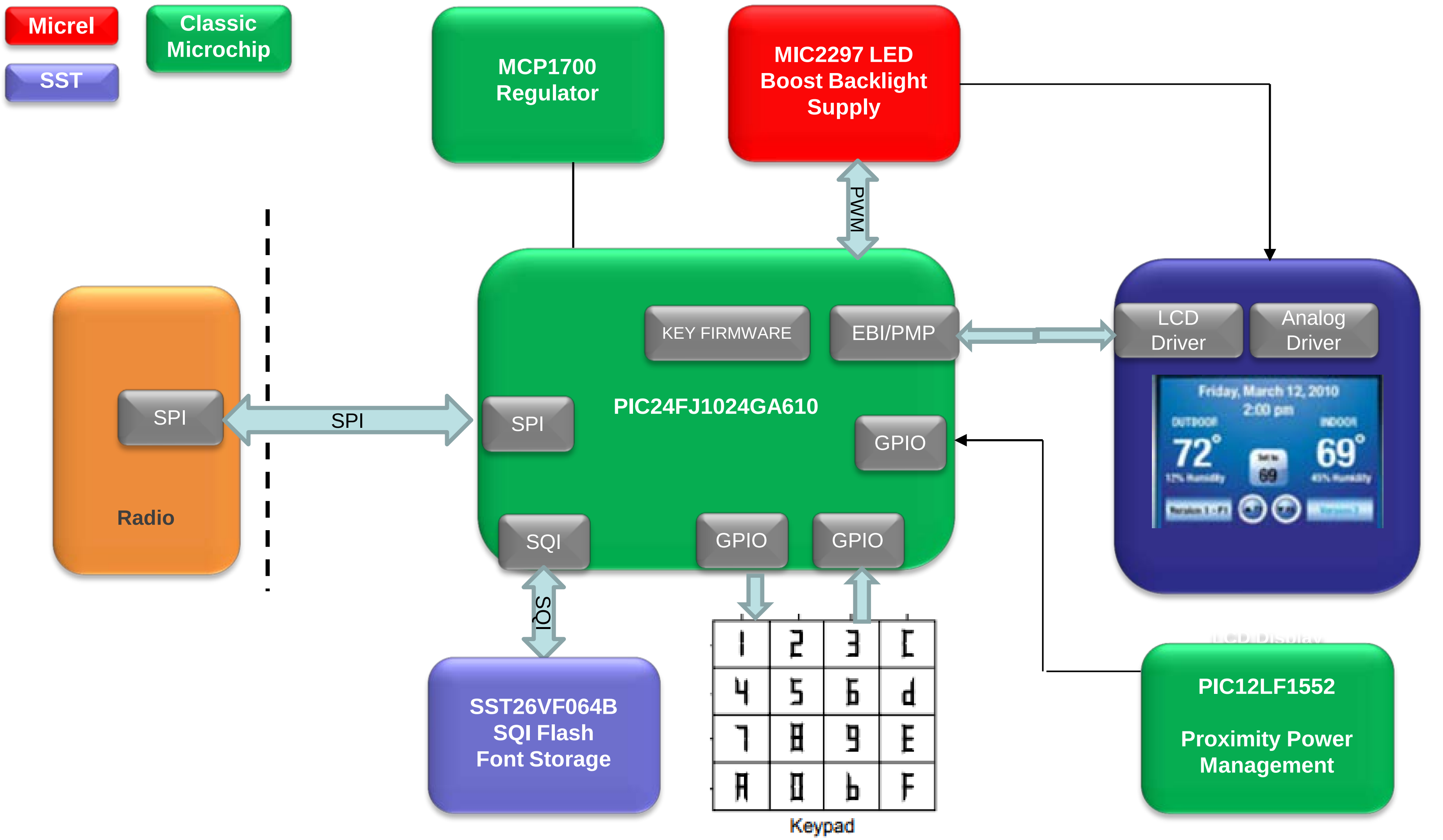
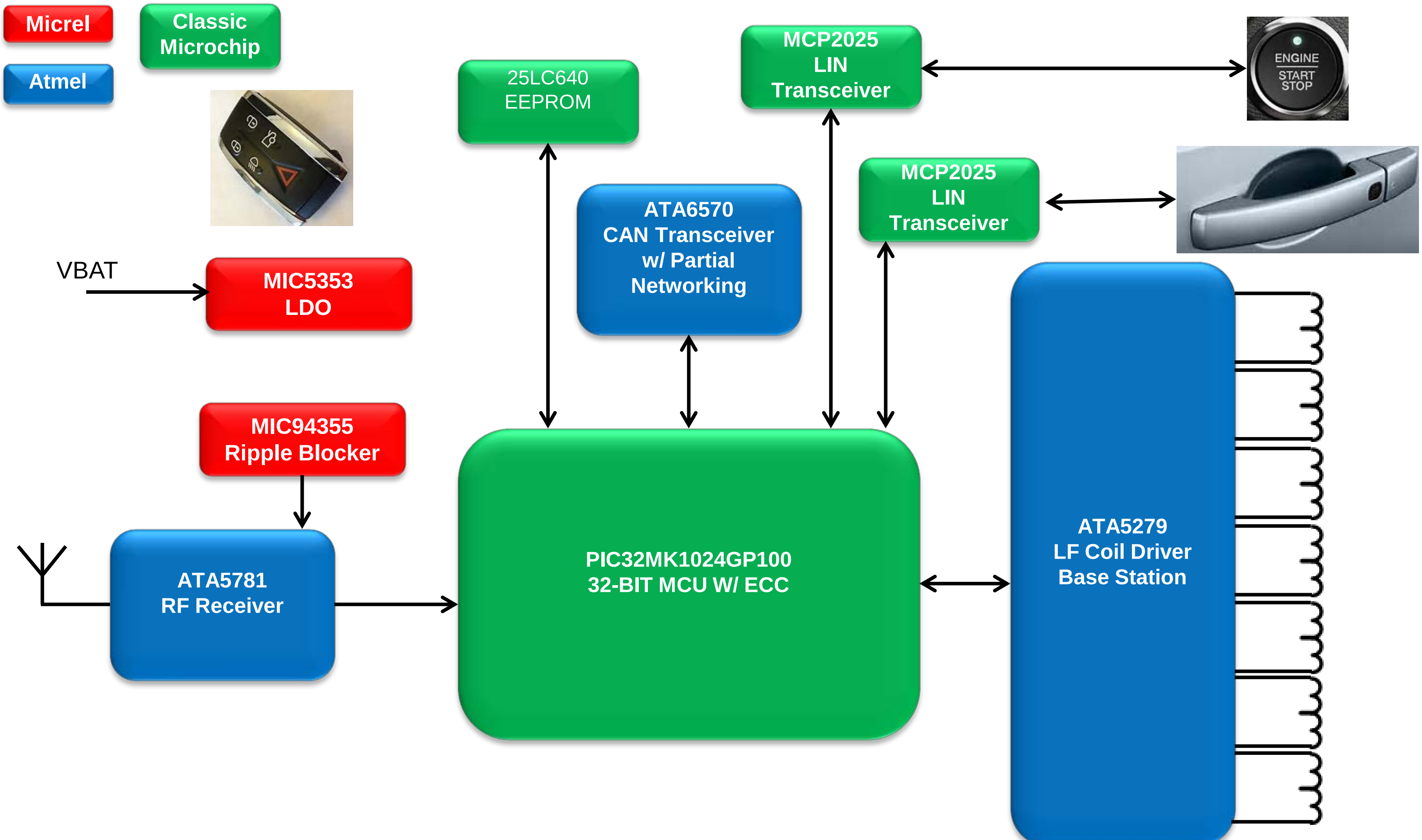
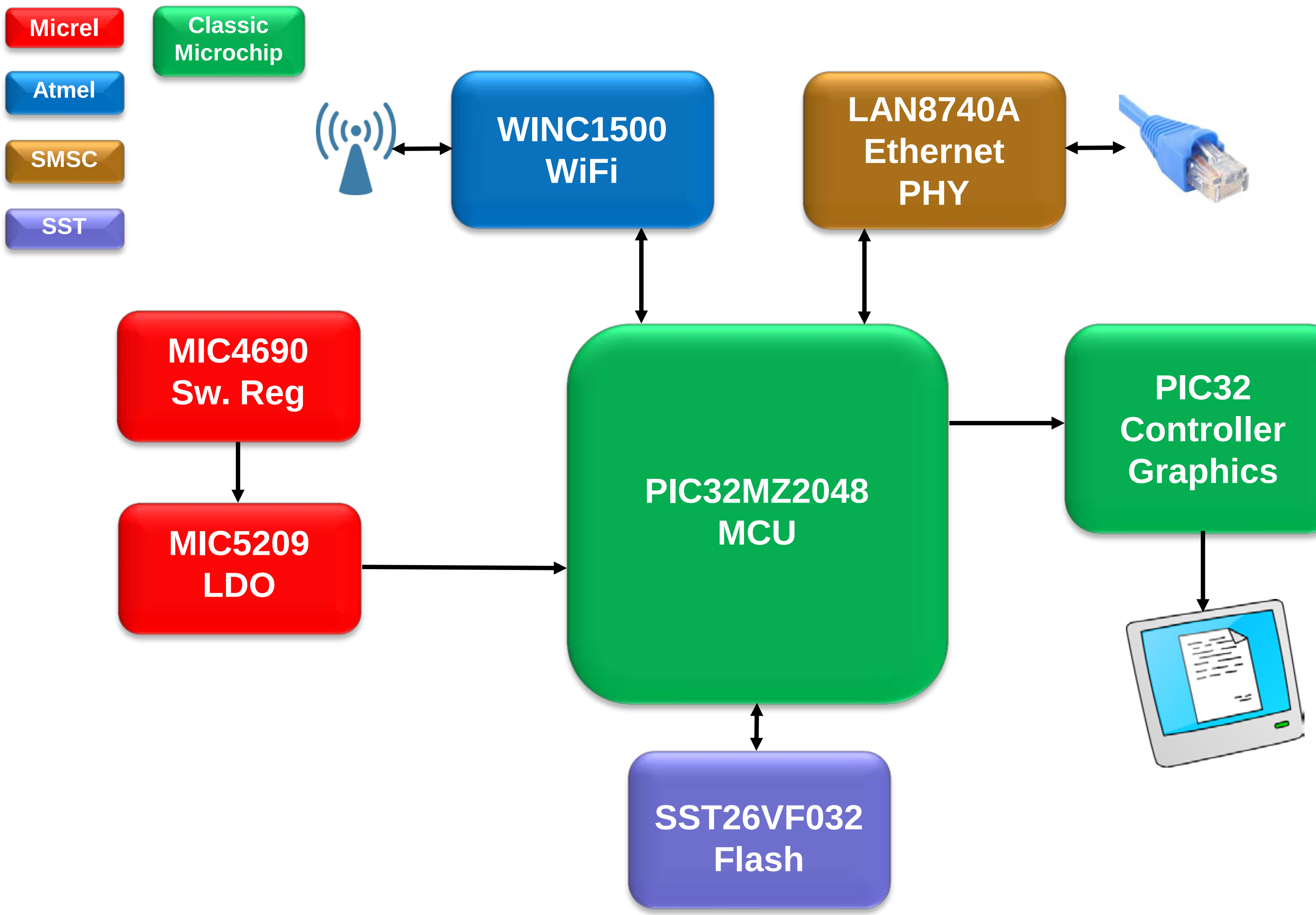
# Keypad


Micrel
Classic Microchip
SST
MCP1700 Regulator
MIC2297 LED Boost Backlight Supply
PWM
SPI
Radio
SPI
SPI
PIC24FJ1024GA610
KEY FIRMWARE
EBI/PMP
GPIO
SQI
GPIO
GPIO
LCD Driver
Analog Driver
72°
69°
SQI
SST26VF064B SQI Flash Font Storage
Keypad
PIC12LF1552
Proximity Power Management

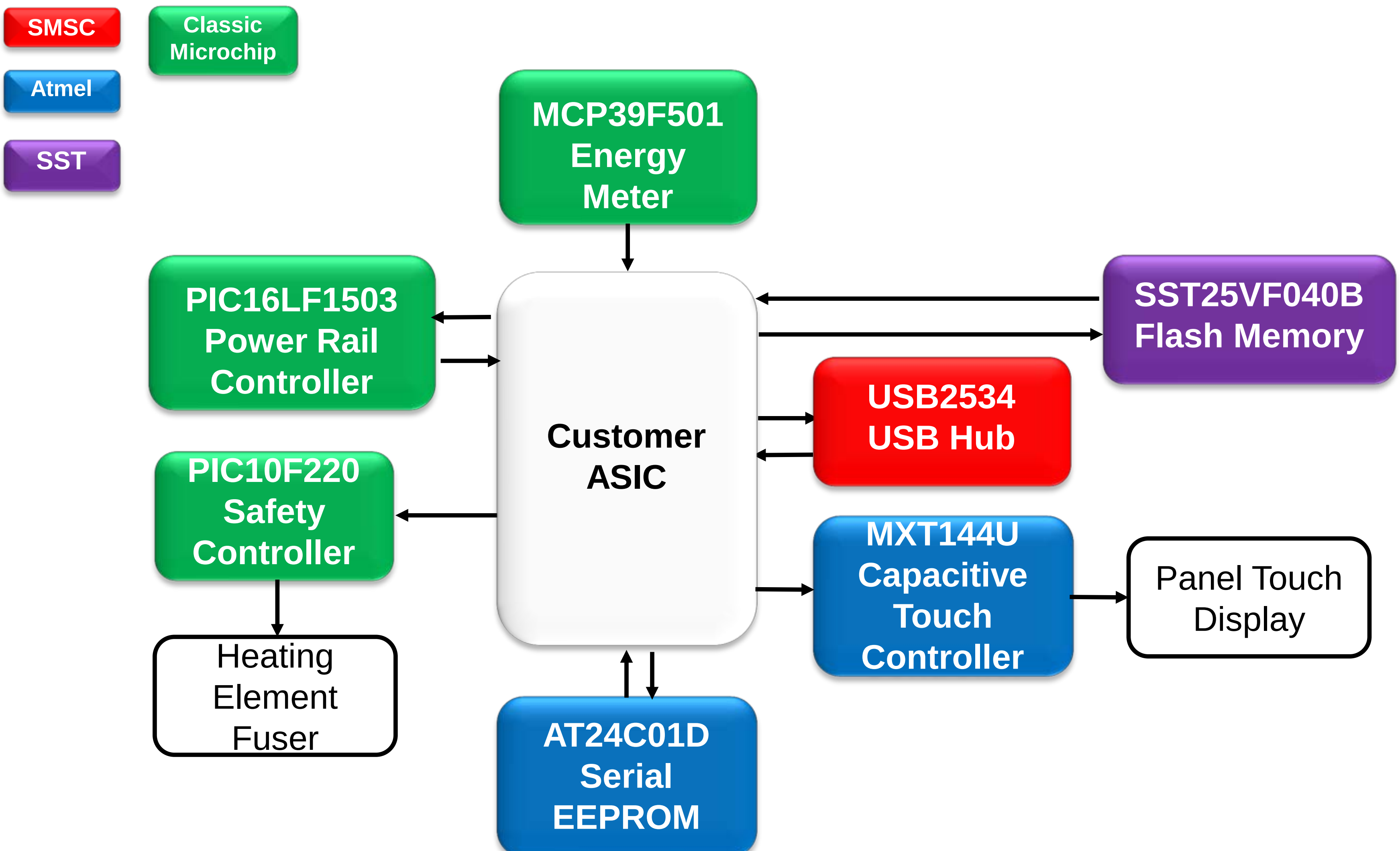
# Automotive PEPS System



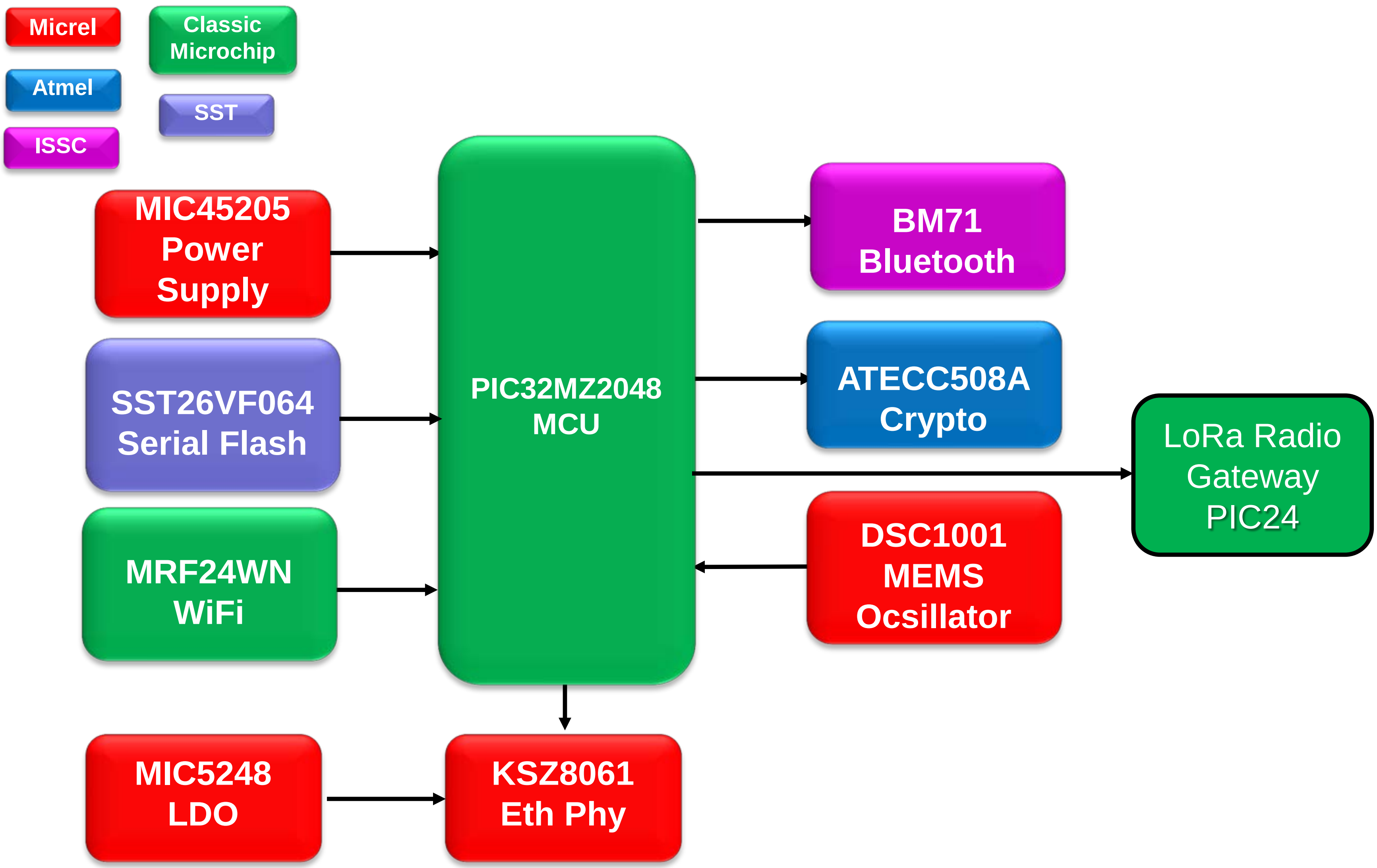
# Card Reader


Micrel
Classic Microchip
Atmel
SMSC
SST
WINC1500 WiFi
LAN8740A Ethernet PHY
MIC4690 Sw. Reg
MIC5209 LDO
PIC32MZ2048 MCU
PIC32 Controller Graphics
SST26VF032 Flash

# Laser Printer



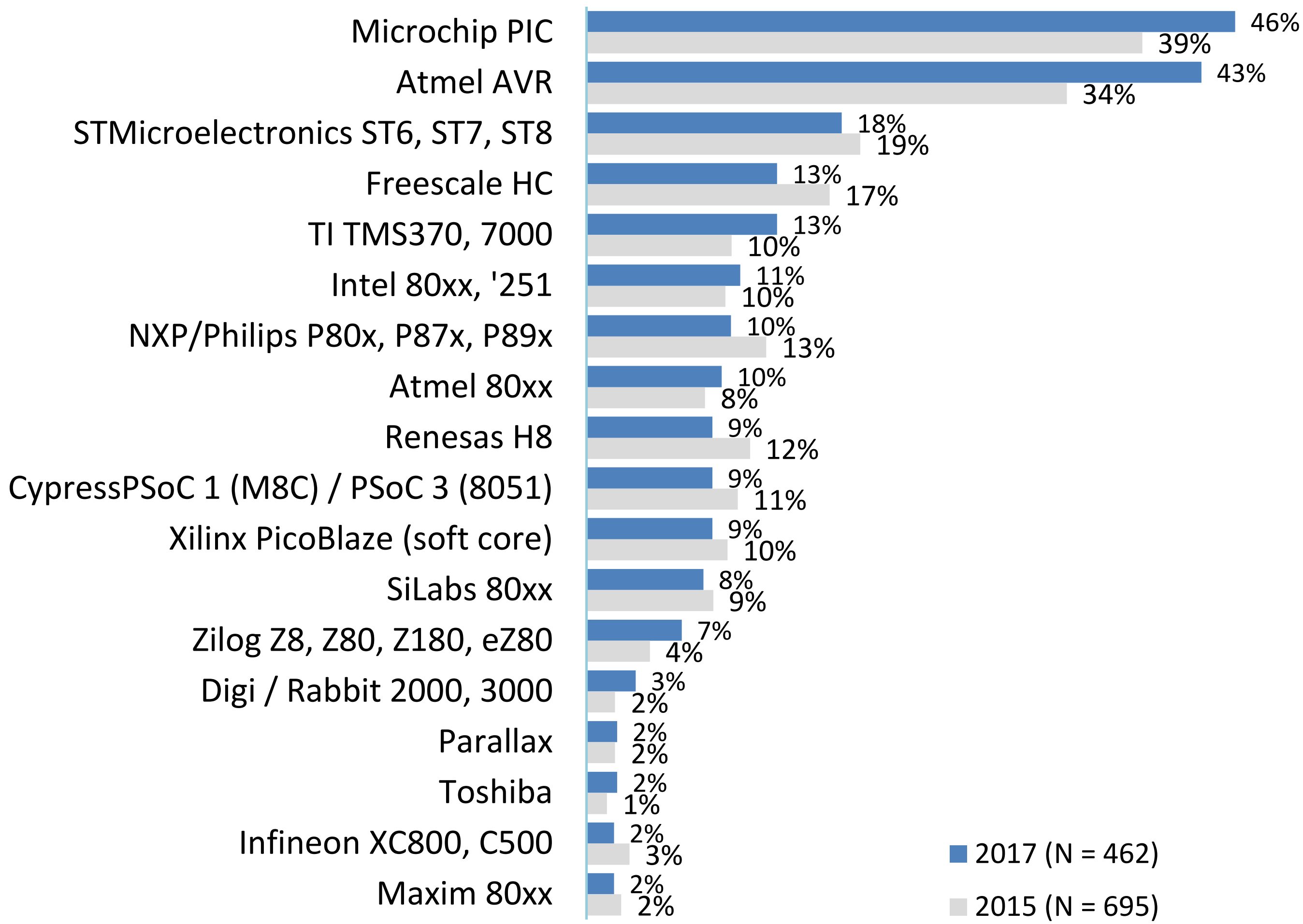
# LoRa Gateway



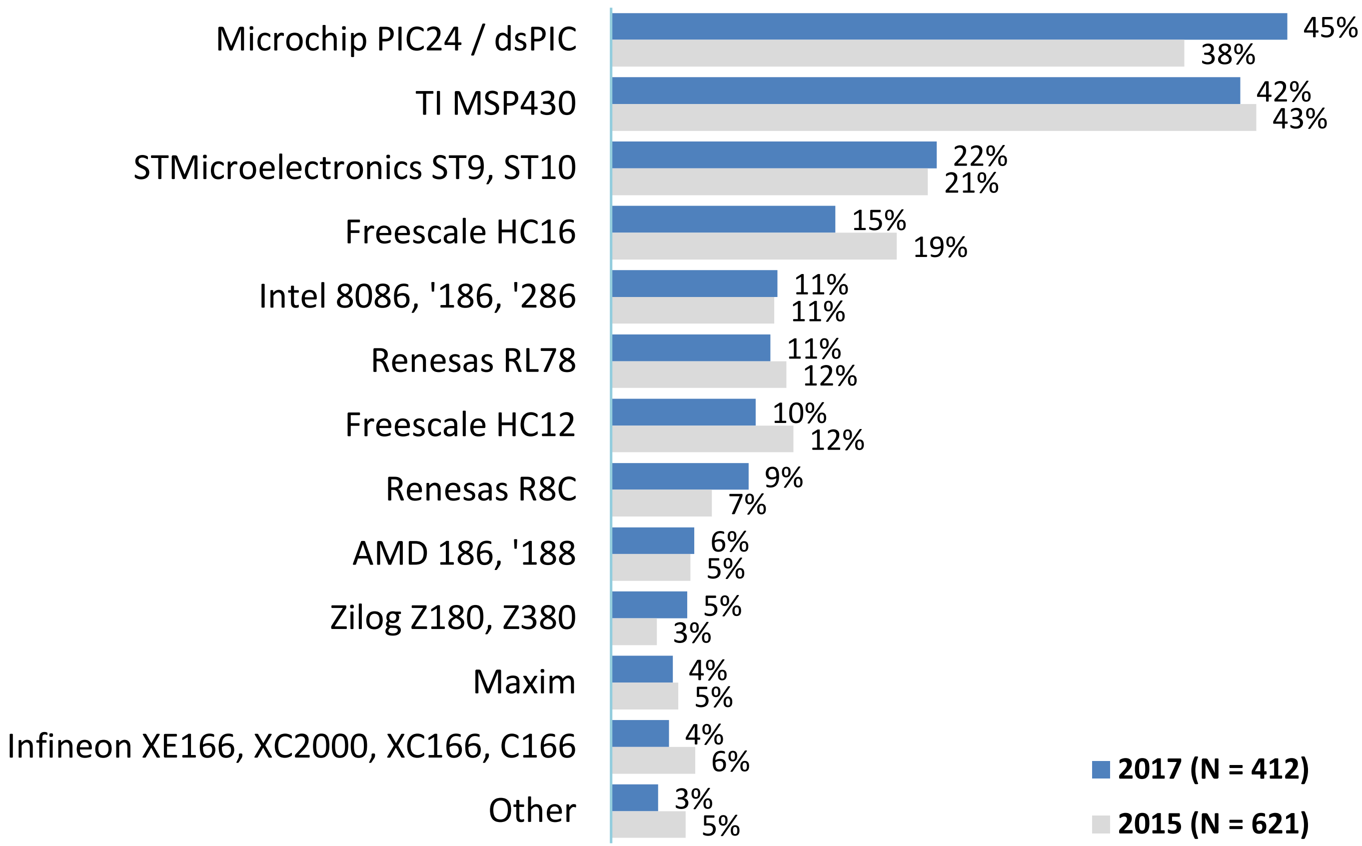
# MICROCHIP 2.0

1. Total System Solution in Embedded Control
2. Leading customer preference to design with our MCUs
3. Multiple growth drivers
4. Record gross margin target with multiple drivers
5. Record low opex target with multiple leverage drivers
6. End market mix skewed to Industrial and Automotive
7. New LT model with industry leading operating profits

# Which of the following 8-bit chip families would you consider for your next embedded project?

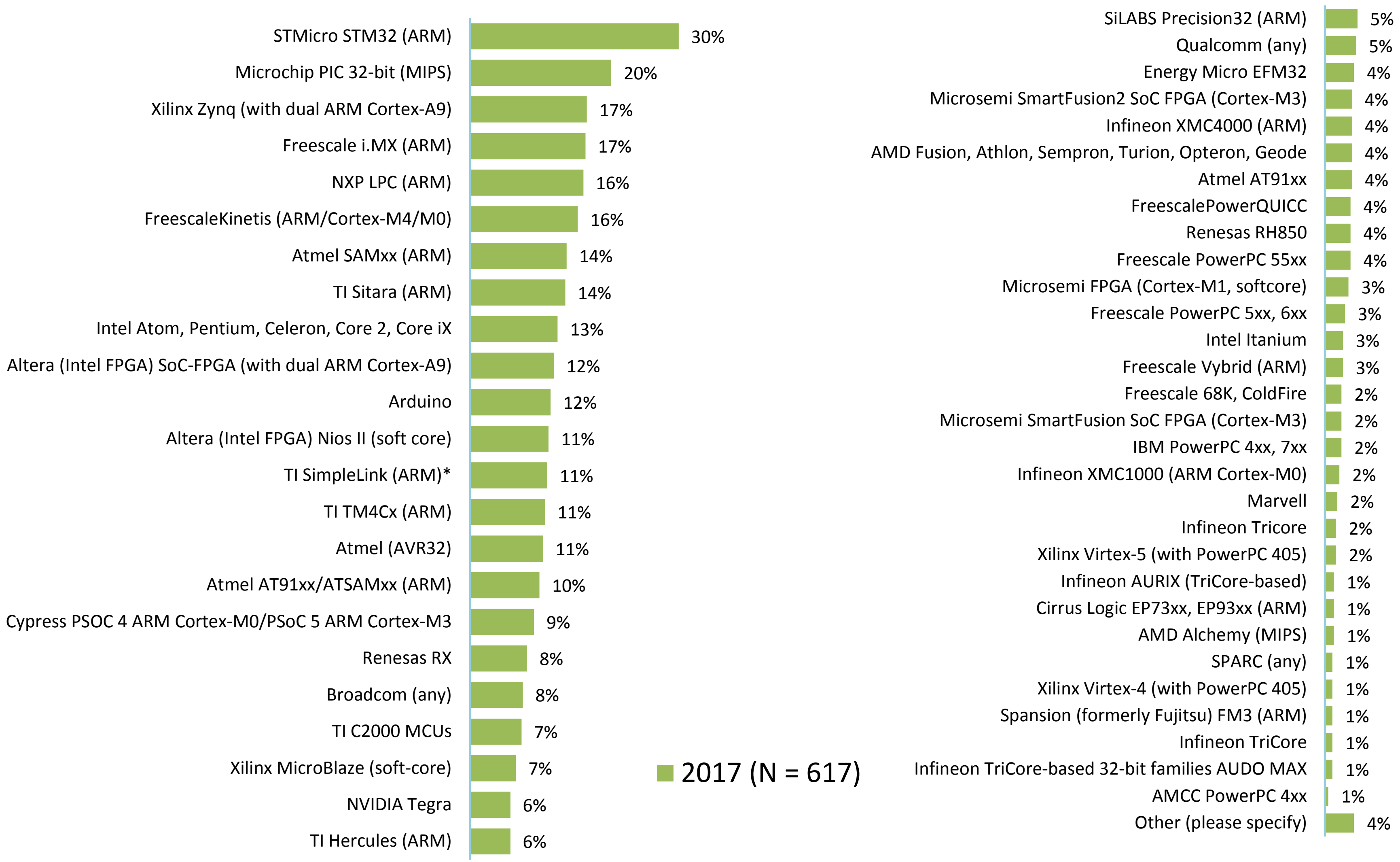


# Which of the following 16-bit chip families would you consider for your next embedded project?

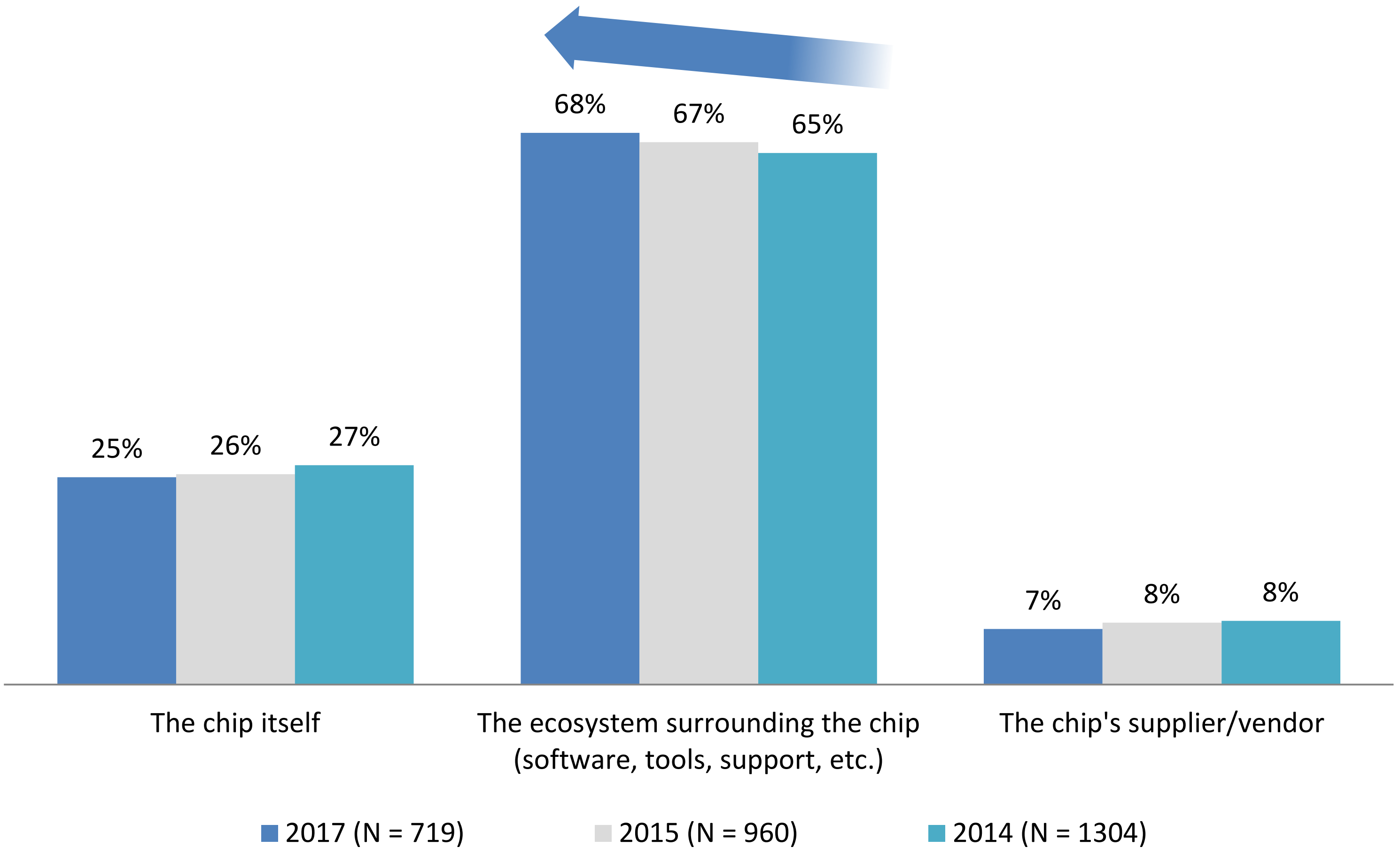


# Which of the following 32-bit chip families would you consider for your next embedded project?

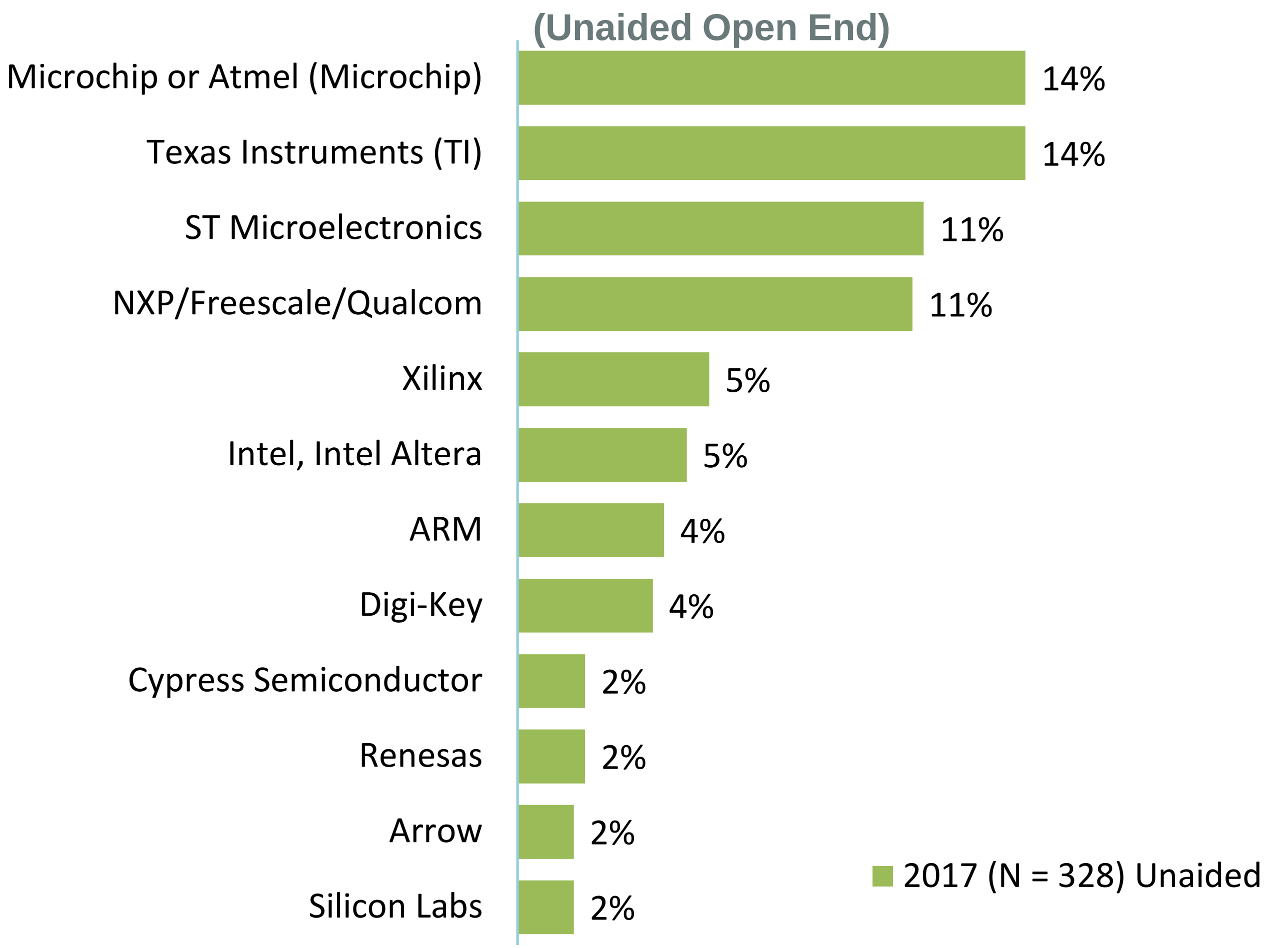
ASPENCORE



# What’s most important when choosing a microprocessor?



# Which vendor has the best ecosystem for your needs?



# Multiple Growth Drivers

1. Microcontroller market growth and share gains
2. Analog growth and attach opportunity
3. Wireless and Wired Connectivity – IoT
4. Security
5. Automotive Networking, HMI, Access Control, Lighting and Body Electronics
6. Technology licensing

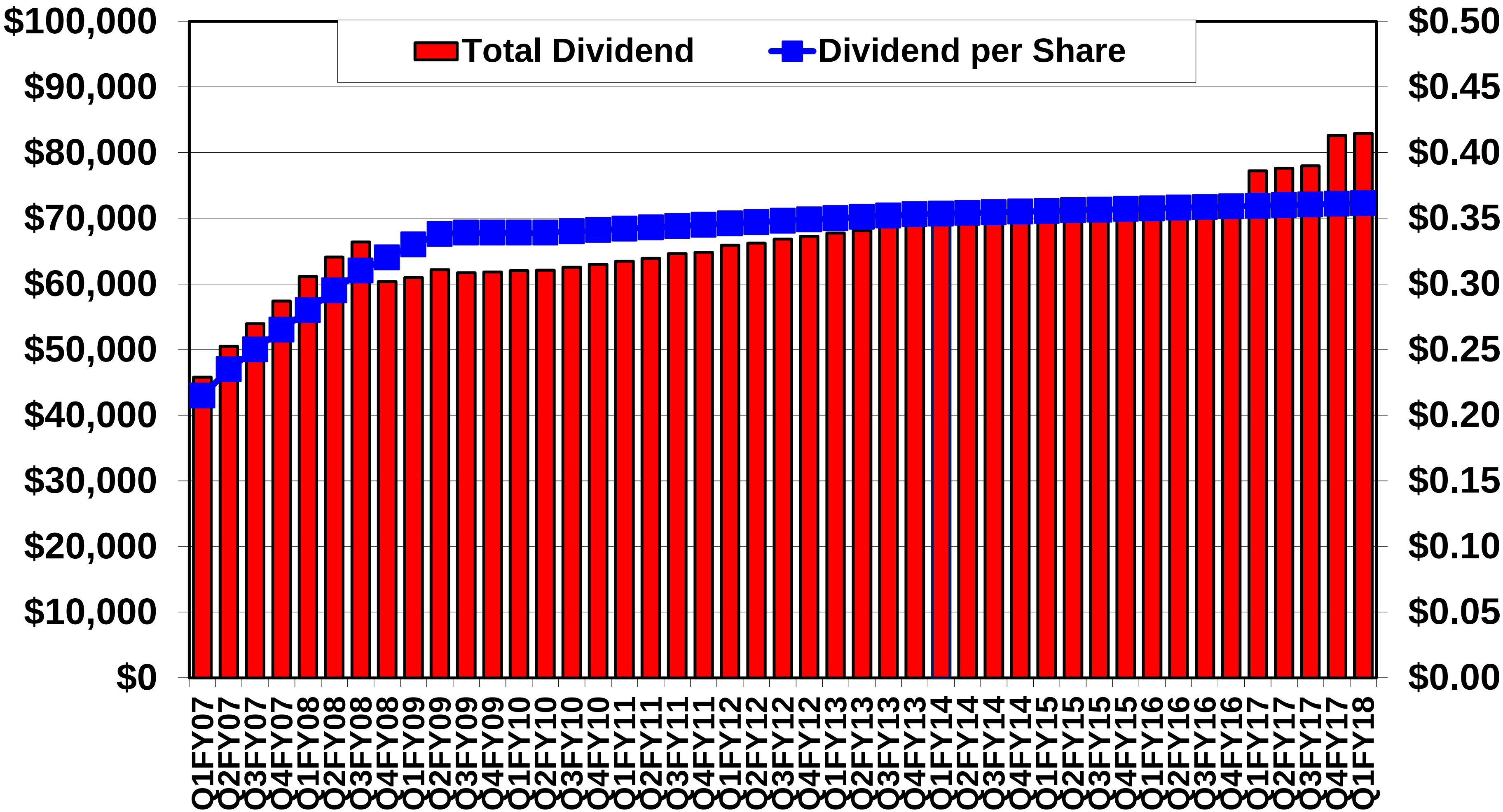
# Gross Margin Drivers

1. Increasing Fab utilization
2. Savings from Micrel Fab closure
3. Increasing back end plants utilization
4. Porting Atmel products to Microchip assembly/test technology
5. Transfer of Micrel and Atmel’s U.S. test areas to Thailand
6. Stable to rising pricing environment
7. Richening product mix

# Operating expense leverage drivers

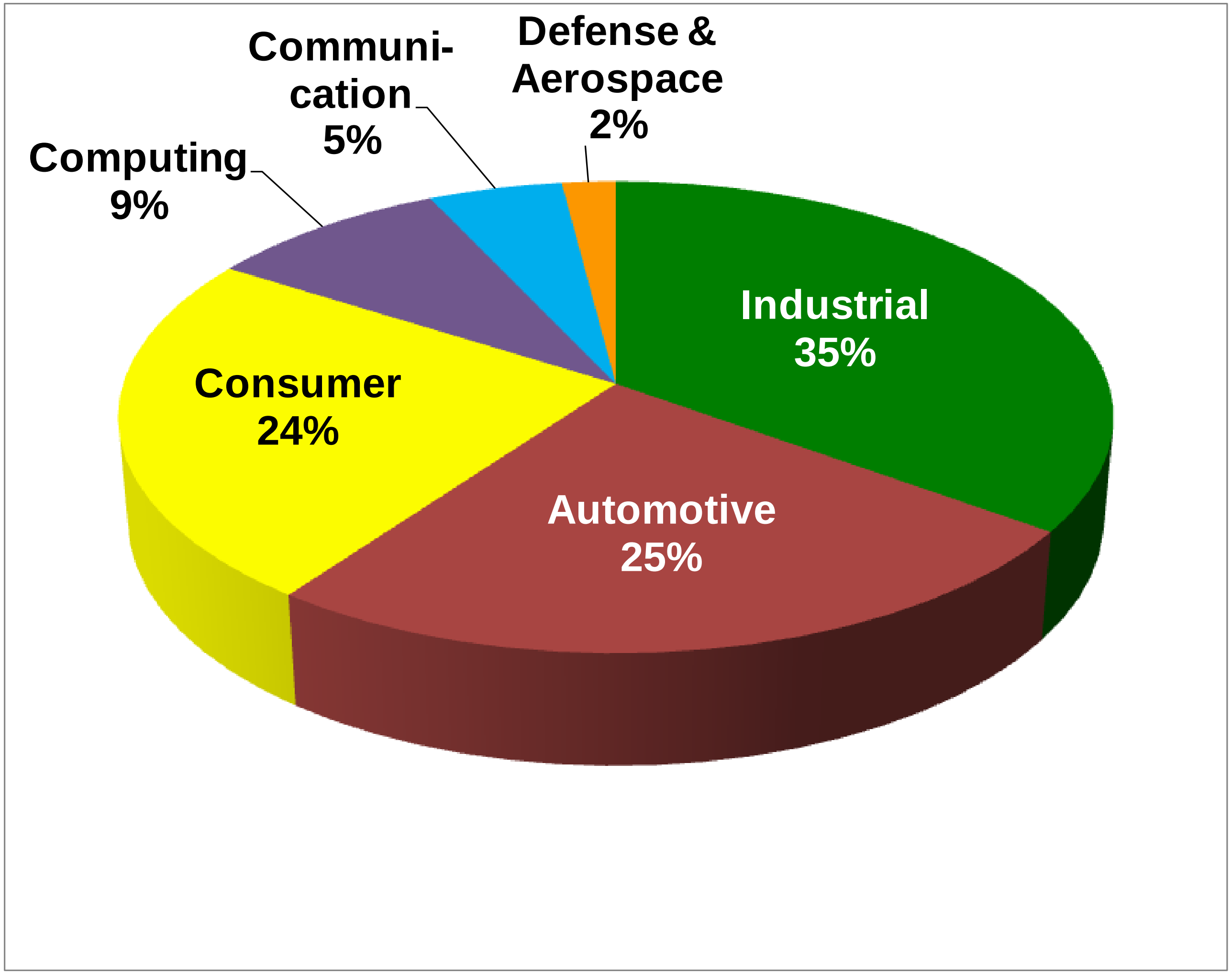
1. Synergy in roadmaps on MCU, analog, wireless and memory
2. Convergence of Microchip and Atmel to common process technology platforms
3. Synergy in common development of IP libraries
4. Synergy in development of tools ecosystem
5. Synergy in marketing - trade shows, technical conferences, website, training
6. Lower incremental opex for sales growth

# ~ *$4.6B* Returned To Shareholders

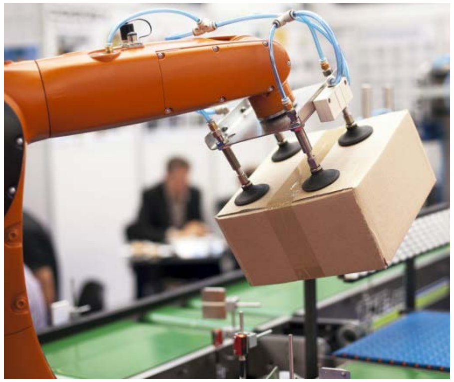


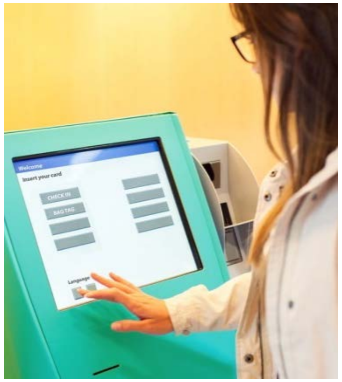

*~ $3.2B in dividends and ~$1.4B in share buy-backs!*

# Revenue by End Market



# Industrial
## (35% of Sales)



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# Automotive
## (25% of sales)

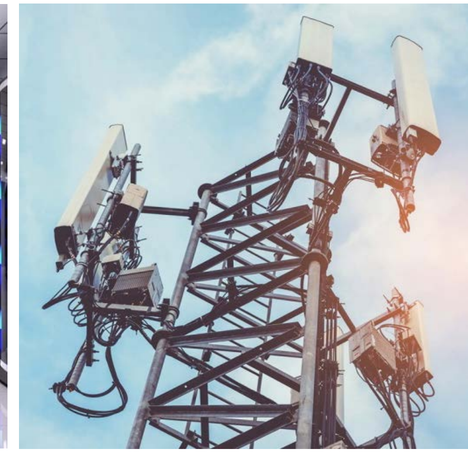
# Consumer
## (24% of sales)

MICROCHIP

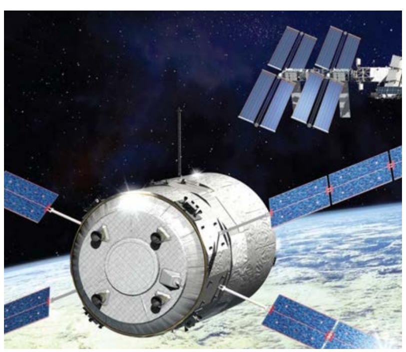
# Computing
## (9% of sales)

# Communications
## (5% of sales)






# Defense and Aerospace
## (2% of sales)



# Financial Results, Guidance and Long-Term Model

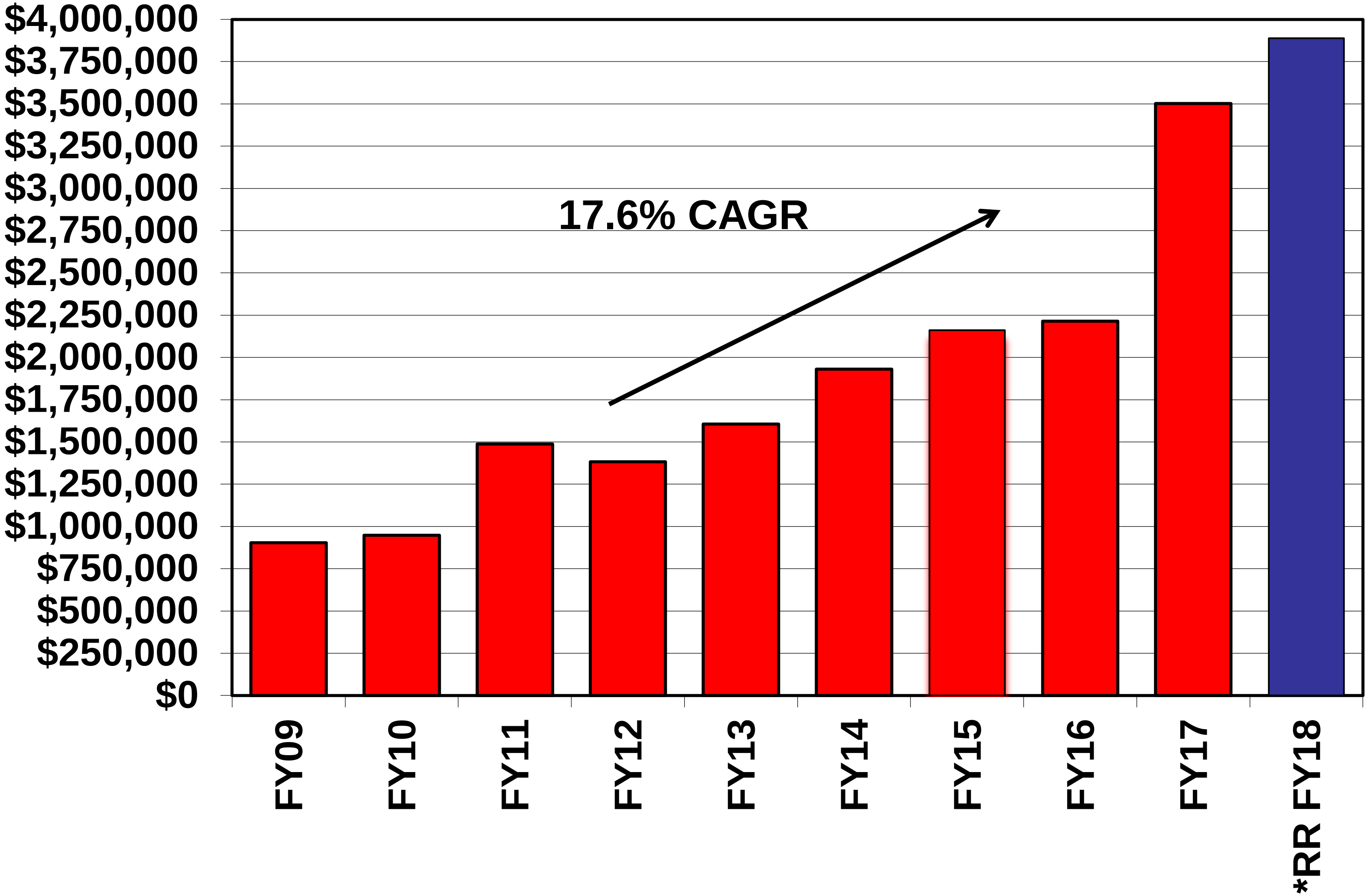
| | Actual Results | | | | |
|---|---|---|---|---|---|
| | Q1 FY17 | Q2 FY17 | Q3 FY17 | Q4 FY17 | Q1 FY18 |
| Net Sales | $844.0 | $873.8 | $881.2 | $902.7 | $972.1 |
| Gross Profit | $471.1 | $499.9 | $509.7 | $534.7 | $587.2 |
| Gross Margin | 55.8% | 57.2% | 57.8% | 59.2% | 60.4% |
| Operating Expense | $240.0 | $233.6 | $220.6 | $213.6 | $222.9 |
| Operating Income | $231.1 | $266.3 | $289.1 | $321.2 | $364.3 |
| Operating Margin | 27.4% | 30.5% | 32.8% | 35.6% | 37.5% |
| Net Income | $194.0 | $219.6 | $246.5 | $276.9 | $319.1 |
| Diluted EPS | $0.84 | $0.94 | $1.05 | $1.16 | $1.31 |
| EBITDA | $264.1 | $298.8 | $321.3 | $356.5 | $395.6 |

| Q2 FY18 Guidance | |
|---|---|
| Net Sales | $1,001.3 |
| Gross Margin % | 60.5% -60.75% |
| Operating Expense | 22.5% to 23% |
| Operating Margin | 37.5% to 38.25% |
| Diluted EPS | $1.33 - $1.37 |

| Long Term Model | |
|---|---|
| Revenue Growth | 7% - 9% |
| Gross Margin | 62.5% |
| Operating Expense | 22.5% |
| Operating Margin | 40.0% |

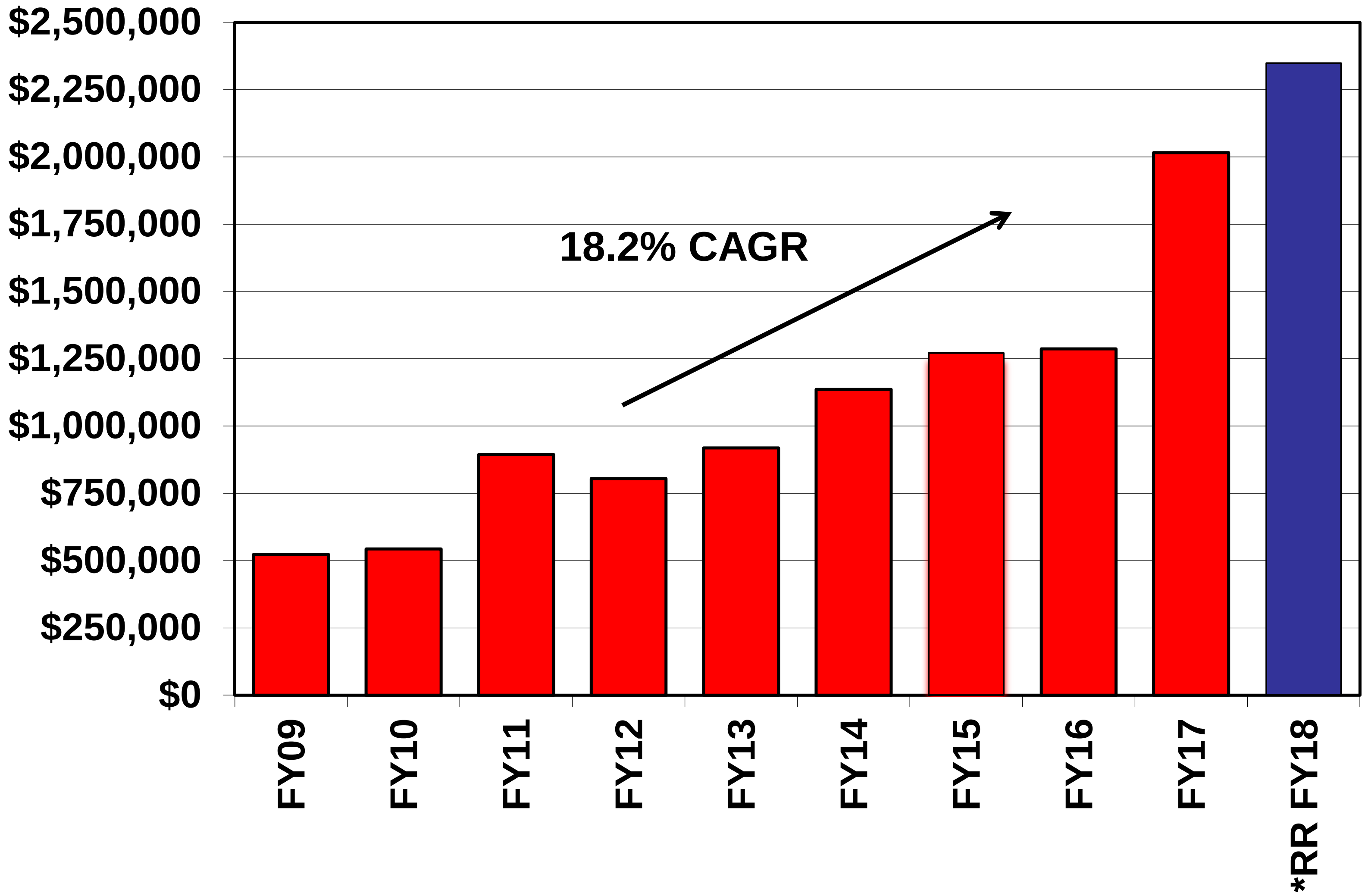
Microchip does not utilize a GAAP long-term model. All figures in long-term model are non-GAAP. Excludes share-based compensation, acquisition related charges, non-recurring items. A reconciliation of our GAAP to non-GAAAP results is available at www.microchip.com.

# Non-GAAP Net Sales



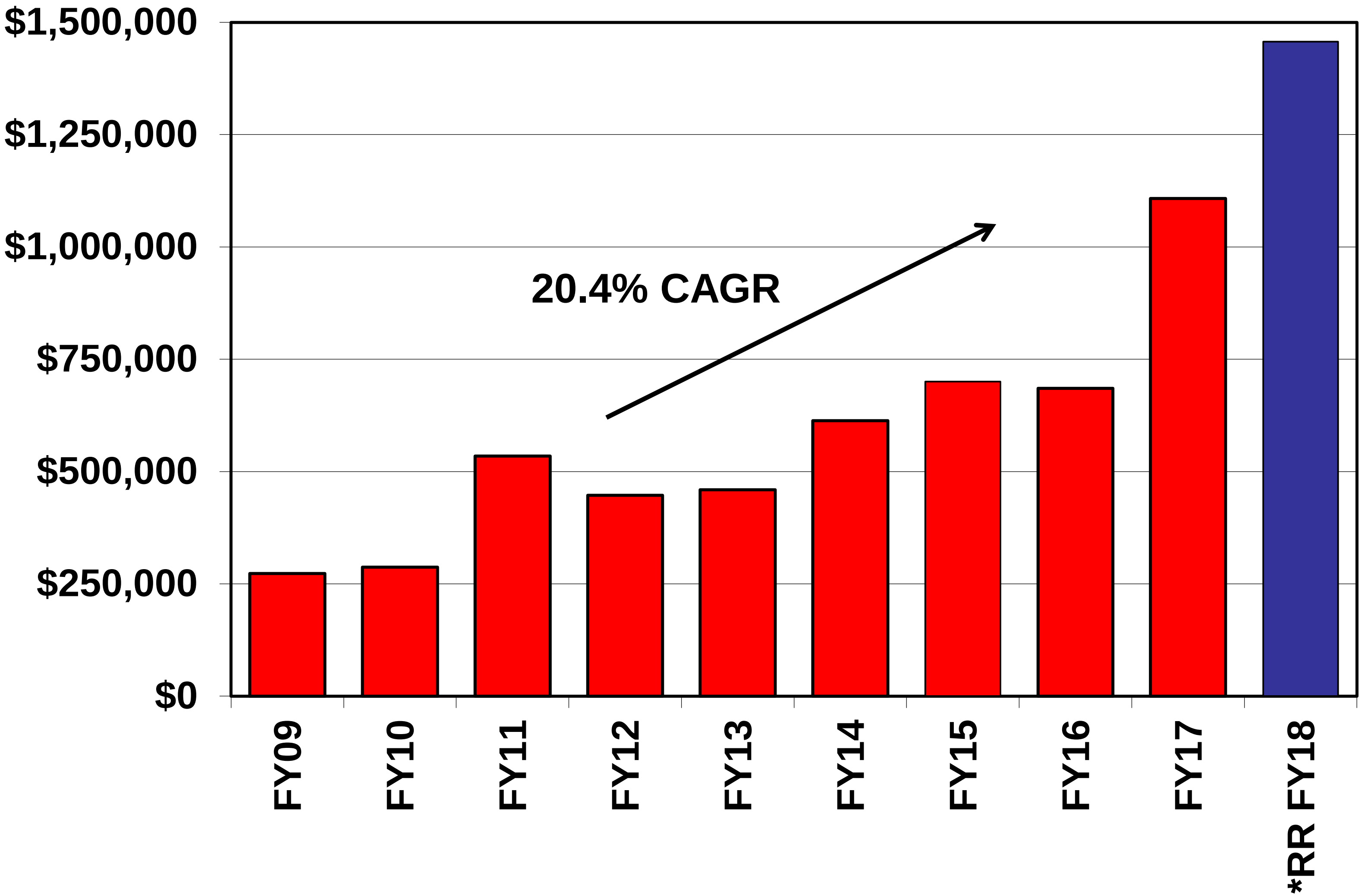

* Run rate for FY18 represent Q1 FY18 actual results multiplied by four

# Non-GAAP Gross Profit




* Run rate for FY18 represent Q1 FY18 actual results multiplied by four

# Non-GAAP Operating Income

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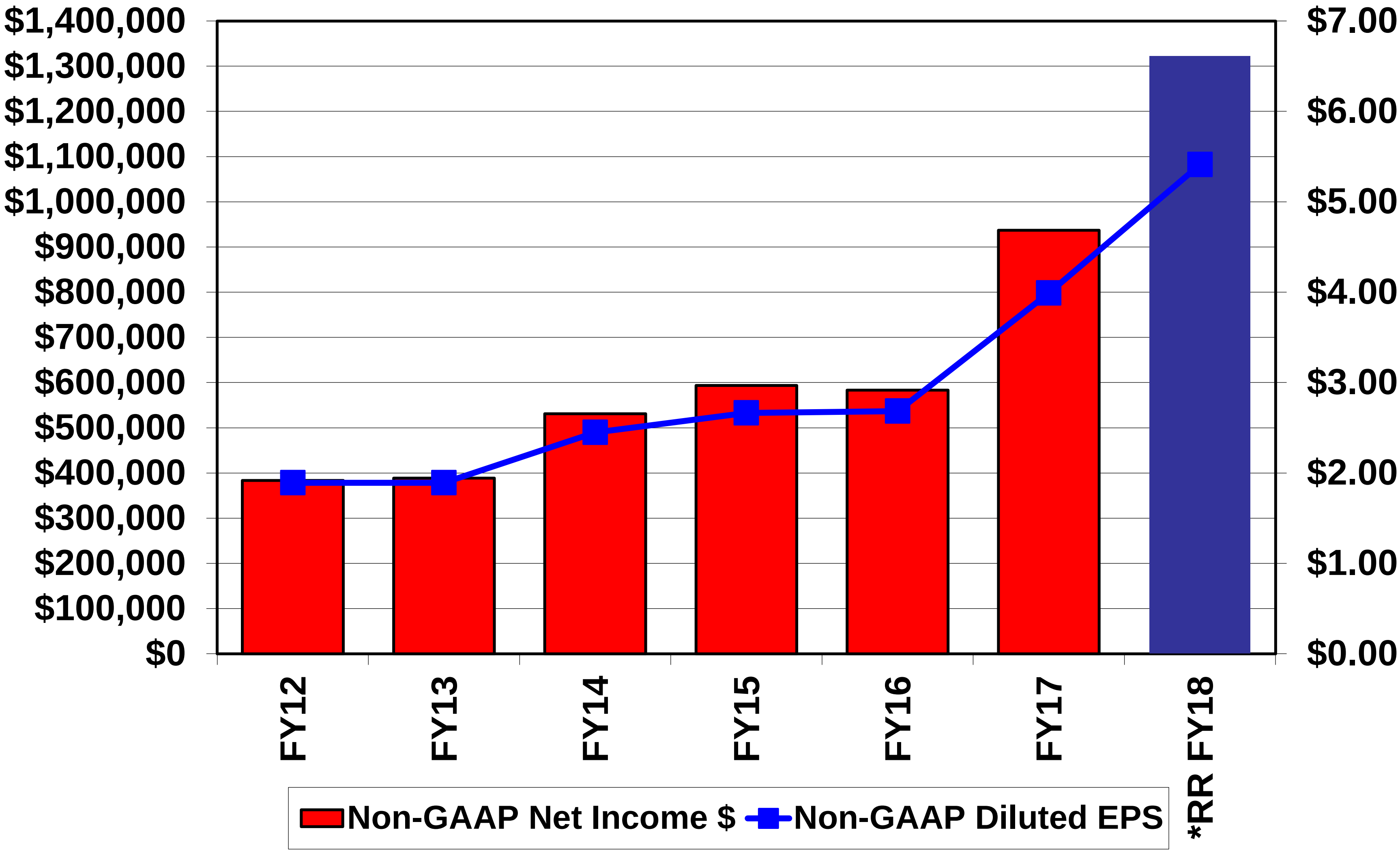
# Non-GAAP Net Income and Diluted EPS Growth

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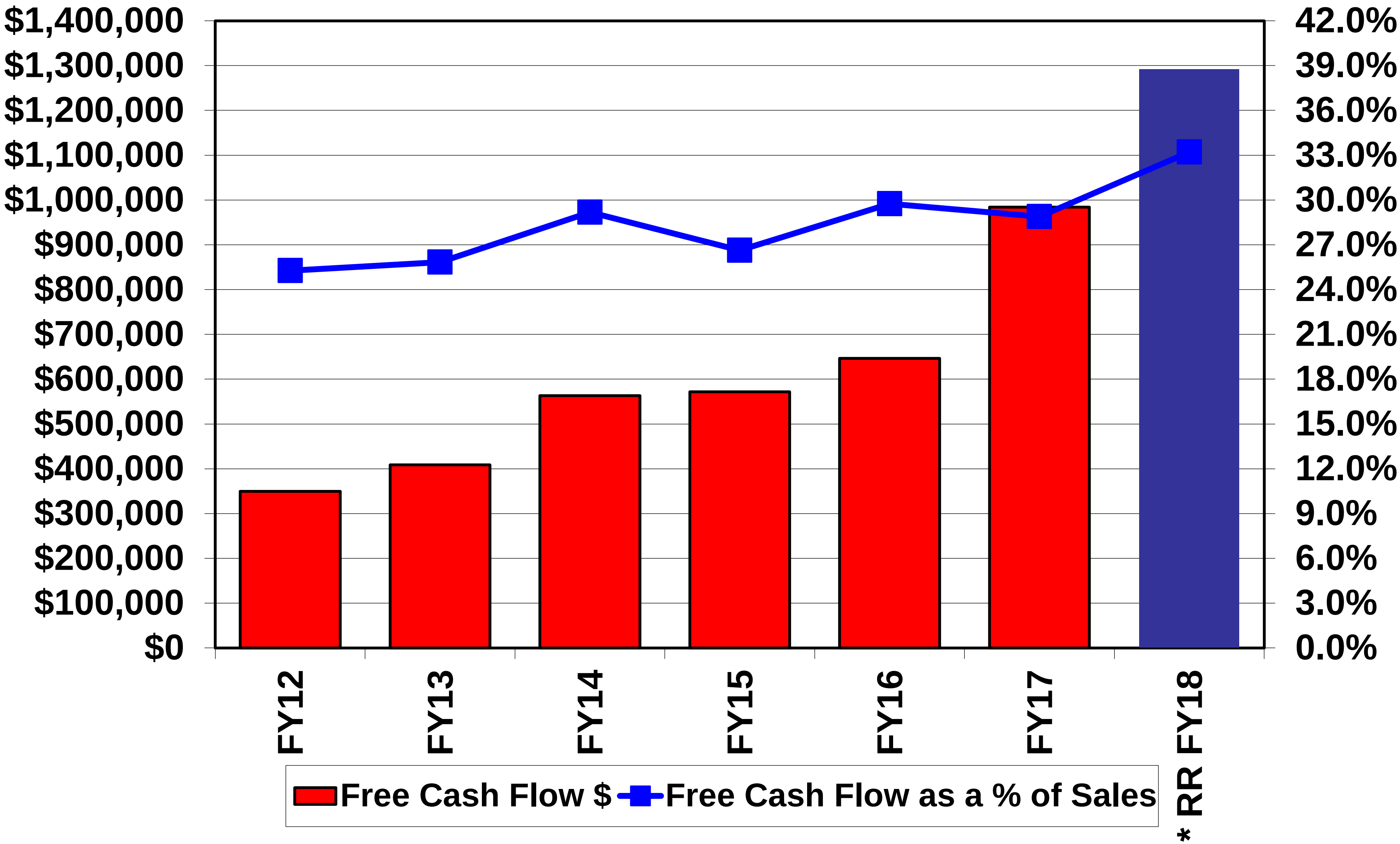
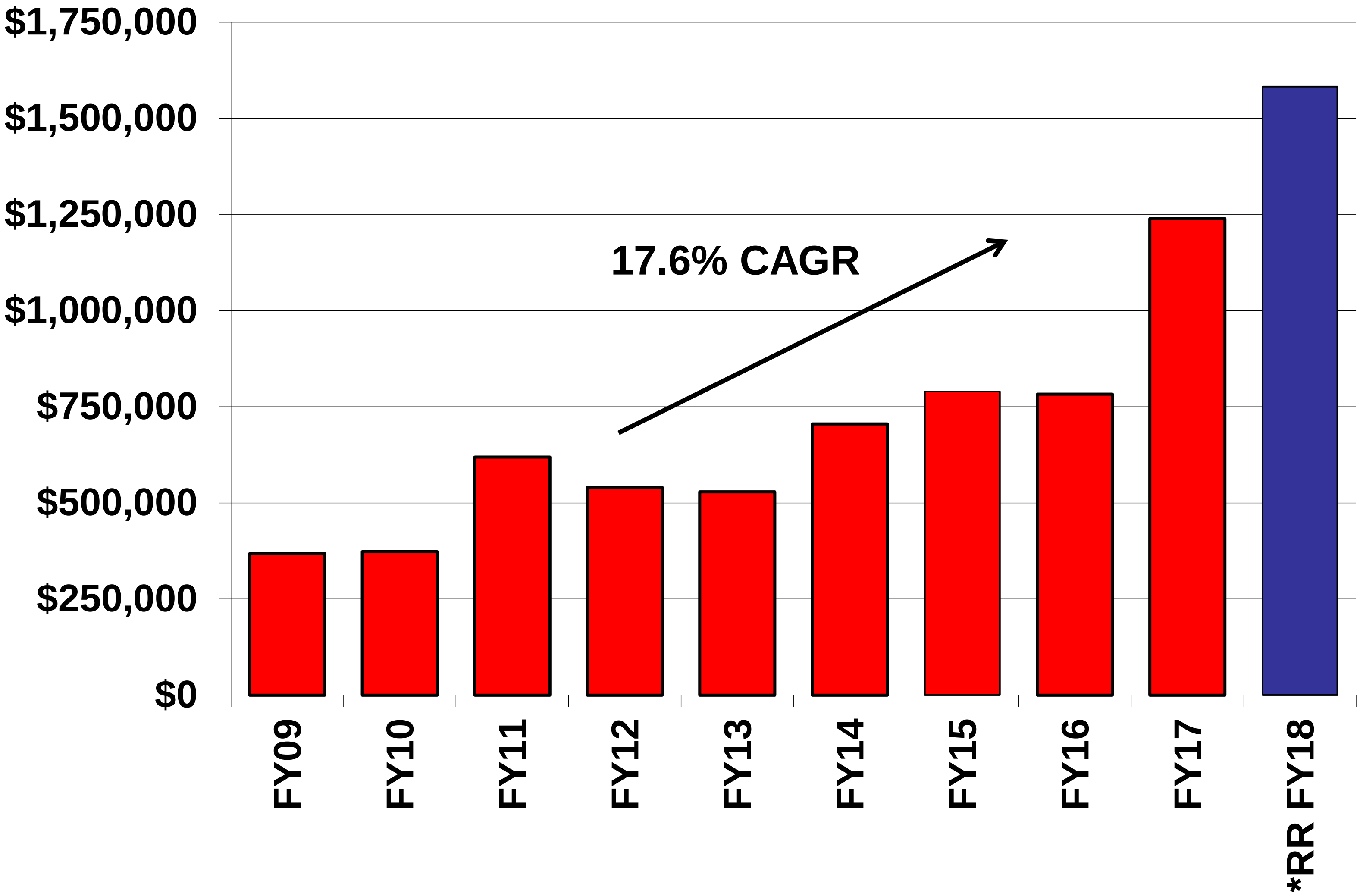
# Free Cash Flow as a % of Revenue



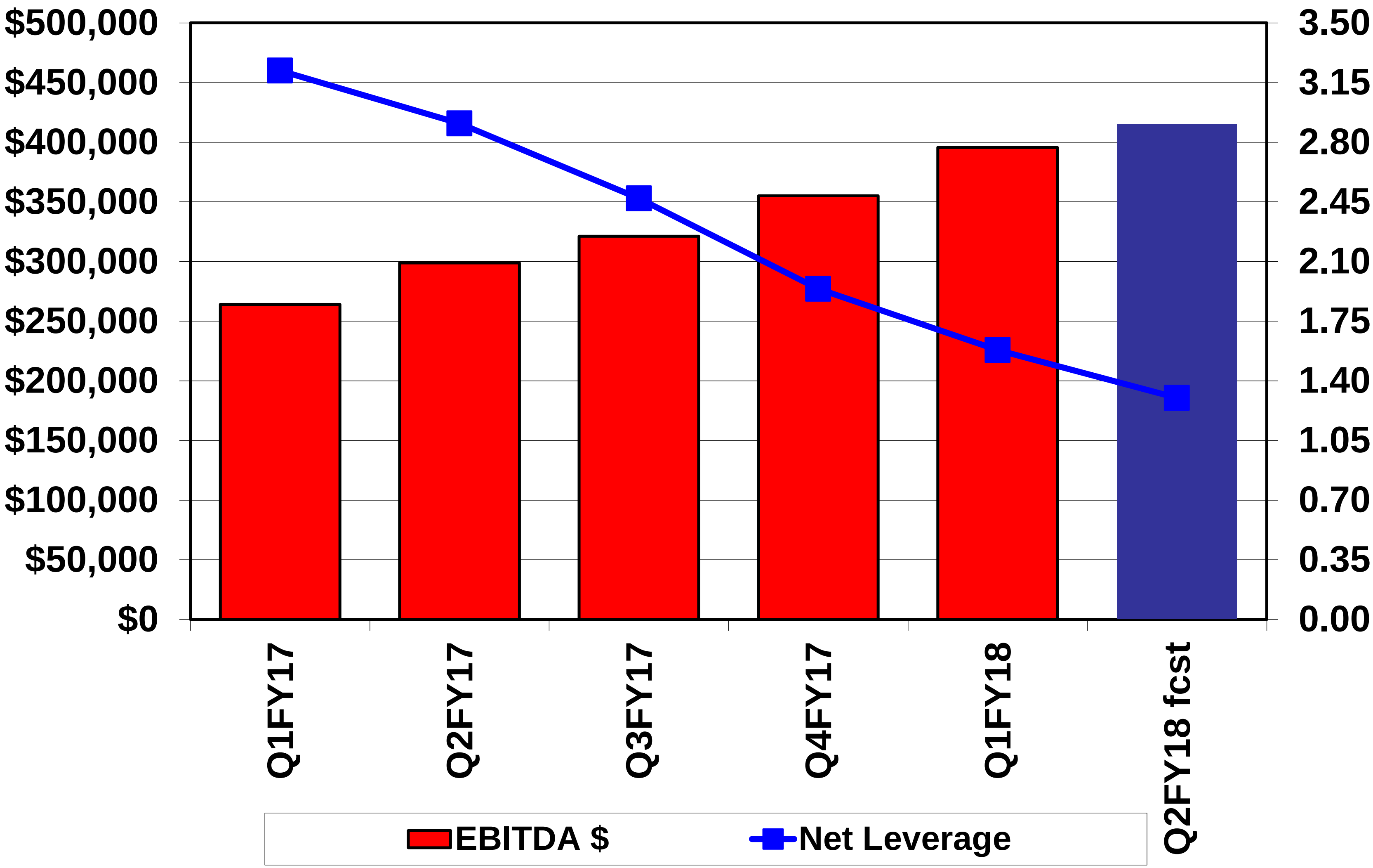

* Run rate for FY18 represent Q1 FY18 actual results multiplied by four. Free cash flow = operating cash flow minus capital expenditures.

# EBITDA




* Run rate for FY18 represent Q1 FY18 actual results multiplied by four

# EBITDA and Net Leverage




* EBITDA as calculated in accordance with Microchip’s Credit Facility. Net leverage excludes 2037 convertible debt, consistent with Credit Facility

# Summary

- A consistent revenue grower and market share gainer with multiple growth drivers
- High margin business model and shareholder friendly
- Currently strong business conditions with September quarter revenue guidance expected to be up approximately 3% sequentially and 14.6% year-over-year
- Significant capacity challenges to persist through the middle of calendar year 2018 before lead times are normal.
- Premium long-term non-GAAP financial model to 62.5% gross margin, 22.5% operating expenses and 40% operating income.
- Executing on Microchip 2.0- Total system solutions- Smart, connected and Secure.

Thank You!