

Obsolescence Practice and Pricing on Older Products

Microchip has a long-standing practice of not obsoleting older products. In fact, we still manufacture many microcontrollers that were first introduced 20 – 25 years ago. We have this practice because many of our customers have very long product life cycles, and the cost to redesign and requalify their systems is quite high. So even when we have lower cost alternatives for our microcontrollers from within our portfolio, some of our customers like the convenience and efficiency of having supply from us on products first introduced to production a long time back.

As time goes on, our cost to continue to manufacture long lived products goes up due to inflation, opportunity cost of capacity etc., so on a select number of very old products we may raise the prices modestly so that we can cover our cost and continue to provide our customers with the convenience of not obsoleting our products. We have done this in the past and we will continue to do this in the future. The price increases are very modest and our customers choose this over lower cost product alternatives we have in our portfolio. The revenue gained in this process is not material in the grand scheme of Microchip's \$5.3 billion in annual revenue in fiscal year 2020, but it does help absorb some of the cost increases we face after many years of manufacturing a product during which time the pricing has been unchanged.