

November 5, 2019



Microchip Technology Announces Financial Results for Second Quarter of Fiscal Year 2020

- Net sales of \$1.338 billion, up 1.1% sequentially and down 6.6% from the year ago quarter. The midpoint of our guidance initially provided on August 6, 2019 was net sales of \$1.349 billion.
- On a GAAP basis: gross margin of 61.9%; operating income of \$183.6 million; net income of \$108.9 million; and EPS of \$0.43 per diluted share. Our guidance initially provided on August 6, 2019 was GAAP EPS of \$0.13 to \$0.23 per diluted share.
- On a Non-GAAP basis: gross margin of 62.2%; operating income of \$490.8 million and 36.7% of net sales; net income of \$365.7 million and EPS of \$1.43 per diluted share. Our guidance initially provided on August 6, 2019 was Non-GAAP EPS of \$1.37 to \$1.49 per diluted share.
- End-market demand of \$1.346 billion was \$8.6 million higher than net sales.
- Cash flow from operations of \$396.0 million.
- Paid down \$315.5 million of debt in the September 2019 quarter. Cumulatively paid down \$1.729 billion of debt over the last five quarters.
- Record quarterly dividend declared of 36.65 cents per share.

CHANDLER, Ariz., Nov. 05, 2019 (GLOBE NEWSWIRE) -- **(NASDAQ: MCHP)** - Microchip Technology Incorporated, a leading provider of smart, connected and secure embedded control solutions, today reported results for the three months ended September 30, 2019 as summarized in the following table:

(in millions, except per share amounts and percentages)	Three Months Ended September 30, 2019			
	GAAP	% of Net Sales	Non-GAAP ¹	% of Net Sales
Net sales	\$ 1,337.8			
Gross margin	\$ 827.5	61.9%	\$ 832.7	62.2%
Operating income	\$ 183.6	13.7%	\$ 490.8	36.7%
Other expense	\$ (130.1)		\$ (99.7)	
Income tax (benefit) provision	\$ (55.4)		\$ 25.4	
Net income	\$ 108.9	8.1%	\$ 365.7	27.3%
Net income per diluted share	\$ 0.43		\$ 1.43	

(1) See the "Use of Non-GAAP Financial Measures" section of this release.

GAAP net sales for the second quarter of fiscal 2020 were \$1.338 billion, down 6.6% from net sales of \$1.433 billion in the prior year's second fiscal quarter.

GAAP net income for the second quarter of fiscal 2020 was \$108.9 million, or \$0.43 per diluted share, up from GAAP net income of \$96.3 million, or \$0.38 per diluted share, in the prior year's second fiscal quarter. For the second quarters of fiscal 2020 and fiscal 2019,

GAAP net income was significantly adversely impacted by purchase accounting adjustments associated with our acquisitions.

Non-GAAP net income for the second quarter of fiscal 2020 was \$365.7 million, or \$1.43 per diluted share, down from non-GAAP net income of \$398.5 million, or \$1.58 per diluted share, in the prior year's second fiscal quarter. For the second quarters of fiscal 2020 and fiscal 2019, our non-GAAP results exclude the effect of share-based compensation, expenses related to our acquisition activities (including intangible asset amortization, inventory valuation costs, 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), 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 second 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. A reconciliation of our non-GAAP and GAAP results is included in this press release.

Prior to the fourth quarter of fiscal 2019, we reported non-GAAP net sales based on end-market demand, which excluded the effect of our distributors increasing or decreasing their inventory holdings. Beginning with the fourth quarter of fiscal 2019, we changed the information included in our financial guidance and provide net sales guidance based on sell-in revenue recognition under the new GAAP standard.

Microchip announced today that its Board of Directors has declared a record quarterly cash dividend on its common stock of 36.65 cents per share. The quarterly dividend is payable on December 5, 2019 to stockholders of record on November 21, 2019.

"Our September quarter financial results were reasonably good despite a challenging economic environment," said Steve Sanghi, Chief Executive Officer. "Our net sales were slightly below the midpoint of our guidance provided on August 6, 2019. Our non-GAAP gross margins were up to 62.2% in the September quarter, and very close to a record high. Our non-GAAP operating margin was also up to 36.7%, above the midpoint of our guidance. We delivered \$1.43 of non-GAAP diluted earnings per share, which was at the midpoint of our guidance."

Mr. Sanghi added, "End-market demand, which reflects sell-through activities in the distribution channel, was \$8.6 million higher than GAAP (sell-in) revenue in the September 2019 quarter. As a result, distribution inventory days declined from 32 to 30 days. We have only had one quarter in the past fifteen years where our days of inventory at our distributors have been lower than the levels at the end of the September 2019 quarter."

"The end-market demand for our microcontroller business was down 1.3% and for our analog business was up 0.2% compared to the June 2019 quarter. Microcontrollers represented 53.3% and analog represented 28.7% of our end-market demand in the September quarter. We continue to introduce a steady stream of new and innovative products in both microcontroller and analog that we believe position us well for future growth,"

said Ganesh Moorthy, President and Chief Operating Officer.

Mr. Moorthy added, "The integration of Microsemi with Microchip continues to progress well. On the business systems front, we went live with a few more systems on November 1,

2019. We are pleased with the synergies we have achieved since we closed the acquisition despite the weaker macro-economic environment over the past several quarters."

Eric Bjornholt, Microchip's Chief Financial Officer, said, "We paid down \$315.5 million of total debt during the September quarter, reflecting a cumulative pay down of \$1.729 billion over the past five quarters, as we continued to manage our working capital requirements for the business. We will continue to use substantially all of our excess cash generation after dividends to reduce the amount of debt on our balance sheet as quickly as possible."

Mr. Sanghi concluded, "There is continued uncertainty in the economic environment, specifically as it relates to the U.S. and China trade dispute and hence we had limited backlog visibility from our customers and distributors to start the quarter. However, although we started the December quarter with much lower backlog than the September quarter, October bookings were the highest since June 2018, and the backlog for the quarter is filling at a much steeper rate. While we estimate our net sales in the December 2019 quarter to be down between 2% and 10% sequentially, there are early signs that we may be at a positive inflexion point."

Microchip's Highlights for the Quarter Ended September 30, 2019:

- Delivered the Analog Embedded SuperFlash® Technology - SuperFlash memBrain™ neuromorphic memory solution, providing substantial reduction in compute power to improve Artificial Intelligence (AI) inference at the edge and enhancing system architecture implementation.
- Announced the industry's first commercially available serial memory controller - the **SMC 1000 8x25G**, enabling CPUs and other compute-centric SoCs to utilize four times the memory channels of parallel attached DDR4 DRAM within the same package footprint. Recognized with best-of-show award at Flash Memory Summit 2019 for enabling high memory bandwidth required by next-generation CPUs and SoCs for Artificial Intelligence (AI) and Machine Learning (ML).
- Introduced the Trust Platform for the CryptoAuthentic™ family, the industry's first pre-provisioned solution providing secure key storage for low-, mid- and high-volume device deployments using the ATECC608A secure elements.
- Announced the Smart Embedded Vision initiative providing for designing intelligent machine vision systems with low-power PolarFire® FPGAs.
- Announced two solutions that simplify USB Type-C Power Delivery (PD) - the **USB705x** family enabling fast device charging with PD implementations, and the **UPD301A** standalone USB Type-C PD controller simplifying the implementation of basic USB Type-C PD charging functionality.
- Introduced the **SST26VF Serial Quad I/O™ (SQI™) 3V Flash family**, the industry's first NOR Flash devices to offer integrated MAC address options.

Third Quarter Fiscal Year 2020 Outlook:

Beginning with the fiscal quarter ending March 31, 2019, we changed the information included in our financial guidance in response to comments from and discussions with the Staff of the Securities and Exchange Commission. We are now providing net sales

guidance based on sell-in revenue recognition under the new GAAP standard. We are also providing guidance and reporting non-GAAP gross margin percentage, operating expense percentage, operating profit percentages and diluted earnings per share based on sell-in GAAP revenue. We are also providing information on end-market demand so that investors will have information on the consumption in the marketplace of our products by our customers or our distributors. We do not use end-market demand for any of our non-GAAP income statement calculations. Please see "Use of End-Market Demand Metric" below for information on how we calculate end-market demand.

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially. We are not able to predict whether inventory at our distributors will increase or decrease and are therefore providing a range of GAAP net sales guidance. In recent years, we have seen net inventory at our distributors increase or decrease by a significant amount in a single quarter.

	Microchip Consolidated Guidance		
Net Sales	\$1.204 to \$1.311 billion		
	GAAP	Non-GAAP Adjustments	Non-GAAP ¹
Gross Margin	60.5% to 60.9%	\$5.5 to \$6.5 million	61.0% to 61.4%
Operating Expenses ²	48.6% to 52.1%	\$290.0 to \$294.0 million	26.2% to 28.0%
Operating Income	8.5% to 12.3%	\$295.5 to \$300.5 million	33.0% to 35.2%
Other Expense, net	\$120.0 to \$122.0 million	\$31.0 million	\$89.0 to \$91.0 million
Income Tax Provision (Benefit)	\$8.2 to \$(6.6) million ³	\$13.4 to \$28.8 million	\$21.6 to \$22.2 million ⁴
Net (Loss) Income	\$(26.4) to \$45.6 million	\$302.7 to \$313.1 million	\$286.7 to \$348.3 million
Diluted Common Shares Outstanding	Approximately 239.3 ⁵ to 263.2 million shares	Approximately 0 to 17.5 million shares	Approximately 256.8 to 263.2 million shares
(Loss) Earnings per Diluted Share	(11) to 17 cents	\$1.15 to \$1.23	\$1.12 to \$1.32

¹ See the "Use of Non-GAAP Financial Measures" section of this release for information regarding our non-GAAP guidance.

² We are not able to estimate the amount of Special Charges and Other, net that may be incurred during the quarter ending December 31, 2019. Therefore, our estimate of GAAP operating expenses excludes any amount that may be recognized as Special Charges and Other, net in the quarter ending December 31, 2019.

³ The forecast for GAAP tax expense excludes any unexpected tax events that may occur during the quarter, as these amounts cannot be forecasted.

⁴ Represents expected cash tax rate for fiscal 2020 excluding any transition tax payments associated with the Tax Cuts and Jobs Act.

⁵ In the case of a net loss, diluted common shares outstanding exclude potentially dilutive common shares from employee equity incentive plans and common shares issuable upon the exchange of our convertible debentures as the related impact would have been anti-dilutive.

- Microchip's inventory days in the December 2019 quarter are expected to be in the range of 131 to 144 days, compared to 131 days at September 30, 2019. Our actual inventory level will depend on the inventory that our distributors decide to hold to support their customers, overall demand for our products and our production levels.
- Capital expenditures for the quarter ending December 31, 2019 are expected to be between \$20 million and \$25 million. Capital expenditures for all of fiscal 2020 are expected to be between \$90 million and \$100 million. We are continuing to invest in

the equipment needed to support the growth of our production capabilities for fast-growing new products and technologies and to bring in-house more of the assembly and test operations that are currently outsourced.

Use of End-Market Demand Metric: End-market demand 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. We are able to calculate end-market demand based on information that our distributors provide us about their product shipments to their customers and inventory holdings. The value of end-market demand from our distributors is calculated as the net transaction value of these shipments. We believe that our end-market demand metric reflects true end-market demand based on when product is sold to direct customers or by our distributors to an end customer.

Under the new GAAP revenue recognition standard, we are required to recognize revenue when control of the product changes from us to a customer or distributor. We focus our sales and marketing efforts on creating demand for our products in the end markets we serve and not on moving inventory into our distribution network. Therefore, the elements of our internal performance and executive and employee compensation metrics that are based on sales and operating results are measured using the value of the end-market demand for our products. We use end-market demand for these purposes because we do not believe that the underlying value of our business benefits from increases in the value of inventory that is held in the supply chain. As many of our products are designed into customer applications with relatively long lives, such value is only realized when the end-market demand is created and the supply chain sells the inventory to the end customer. We believe the use of end-market demand is also important to investors and users of our financial statements as it reflects the final outcome of our sales activities whereas our GAAP net sales are based on estimates made earlier in (or before the end of) the process of creating and fulfilling demand is complete. We also manage our manufacturing and supply chain operations, including our distributor relationships, towards the goal of having our products available at the time and location the end customer desires. Management uses end-market demand to manage and assess the profitability of our business and when developing and monitoring our budgets and spending. Many of our investors have requested that we disclose end-market demand metric because they believe it is useful in understanding our performance as it provides better information regarding end-market demand for our products. Therefore, we believe that it is useful to investors for us to disclose end-market demand. Our determination of end-market demand metric might not be the same as similarly titled measures used by other companies.

Use of Non-GAAP Financial Measures: Our non-GAAP adjustments, where applicable, include the effect of share-based compensation, expenses related to our acquisition activities (including intangible asset amortization, inventory valuation costs, 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), IT security remediation costs, non-cash interest expense on our convertible debentures, losses on the settlement of debt, and gains and losses on available-for-sale investments. For the second quarters of fiscal 2020 and 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.

We are required to estimate the cost of certain forms of share-based compensation, including employee stock options, restricted stock units and our employee stock purchase plan, and to record a commensurate expense in our income statement. Share-based

compensation expense is a non-cash expense that varies in amount from period to period and is affected by the price of our stock at the date of grant. The price of our stock is affected by market forces that are difficult to predict and are not within the control of management. Our other non-GAAP adjustments are either non-cash expenses, unusual or infrequent items or other expenses related to transactions. Management excludes all of these items from its internal operating forecasts and models.

We are using non-GAAP operating expenses in dollars including non-GAAP research and development expenses and non-GAAP selling, general and administrative expenses, non-GAAP other expense, net, and non-GAAP income tax rate, which exclude the items noted above, as applicable, to permit additional analysis of our performance.

Management believes these non-GAAP measures are useful to investors because they enhance the understanding of our historical financial performance and comparability between periods. Many of our investors have requested that we disclose this non-GAAP information because they believe it is useful in understanding our performance as it excludes non-cash and other charges that many investors feel may obscure our underlying operating results. Management uses these non-GAAP measures to manage and assess the profitability of our business and for compensation purposes. We also use our non-GAAP results when developing and monitoring our budgets and spending. Our determination of these 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 these 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.

Generally, gross margin fluctuates over time, driven primarily by the mix of products sold and licensing revenue; variances in manufacturing yields; fixed cost absorption; wafer fab loading levels; costs of wafers from foundries; inventory reserves; pricing pressures in our non-proprietary product lines; and competitive and economic conditions. Operating expenses fluctuate over time, primarily due to net sales and profit levels.

Diluted Common Shares Outstanding can vary for, among other things, the trading price of our common stock, the exercise of options or vesting of restricted stock units, the potential for incremental dilutive shares from our convertible debentures (additional information regarding our share count is available in the investor relations section of our website under the heading "Supplemental Financial Information"), and repurchases or issuances of shares of our common stock. The diluted common shares outstanding presented in the guidance table above assumes an average Microchip stock price in the December 2019 quarter between \$94 and \$104 per share (however, we make no prediction as to what our actual share price will be for such period or any other period and we cannot estimate what our stock option exercise activity will be during the quarter).

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions except per share amounts)
(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 1,337.8	\$ 1,432.5	\$ 2,660.4	\$ 2,644.9
Cost of sales	510.3	743.2	1,017.7	1,313.6
Gross profit	827.5	689.3	1,642.7	1,331.3
Research and development	219.8	221.9	438.9	393.8
Selling, general and administrative	172.3	176.6	340.2	340.7
Amortization of acquired intangible assets	248.2	169.9	496.7	303.6
Special charges and other, net	3.6	18.2	11.7	58.3
Operating expenses	643.9	586.6	1,287.5	1,096.4
Operating income	183.6	102.7	355.2	234.9
Losses on equity method investment	—	(0.1)	—	(0.1)
Other expense, net	(130.1)	(142.0)	(261.2)	(236.5)
Income (loss) before income taxes	53.5	(39.4)	94.0	(1.7)
Income tax benefit	(55.4)	(135.7)	(65.6)	(133.7)
Net income	\$ 108.9	\$ 96.3	\$ 159.6	\$ 132.0
Basic net income per common share	\$ 0.46	\$ 0.41	\$ 0.67	\$ 0.56
Diluted net income per common share	\$ 0.43	\$ 0.38	\$ 0.63	\$ 0.52
Basic common shares outstanding	238.4	235.8	238.1	235.5
Diluted common shares outstanding	255.3	251.8	254.6	252.0

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

ASSETS

	September 30, 2019	March 31, 2019
	(Unaudited)	
Cash and short-term investments	\$ 405.1	\$ 430.9
Accounts receivable, net	848.6	880.6
Inventories	734.2	711.7
Other current assets	189.9	191.6
Total current assets	<u>2,177.8</u>	<u>2,214.8</u>
Property, plant and equipment, net	937.0	996.7
Other assets	14,743.7	15,138.5
Total assets	<u>\$ 17,858.5</u>	<u>\$ 18,350.0</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued liabilities	\$ 1,036.1	\$ 1,013.7
Current portion of long-term debt	1,387.3	1,360.8
Total current liabilities	<u>2,423.4</u>	<u>2,374.5</u>
Long-term debt	8,415.3	8,946.2
Long-term income tax payable	716.5	756.2
Long-term deferred tax liability	577.9	706.1
Other long-term liabilities	364.1	279.5
Stockholders' equity	5,361.3	5,287.5
Total liabilities and stockholders' equity	<u>\$ 17,858.5</u>	<u>\$ 18,350.0</u>

MICROCHIP TECHNOLOGY INCORPORATED AND SUBSIDIARIES
RECONCILIATION OF GAAP TO NON-GAAP MEASURES

(in millions except per share amounts and percentages)
(unaudited)

The non-GAAP results for the three and six months ended September 30, 2018 in the following reconciliation tables have been adjusted from previously reported amounts. The percentages are now calculated based on GAAP net sales whereas the previously reported percentages were calculated based on non-GAAP net sales, which included the impact of changes in distributor inventory levels (sell-through). Please refer to our prior year earnings releases for the previously reported non-GAAP figures.

RECONCILIATION OF GAAP GROSS PROFIT TO NON-GAAP GROSS PROFIT

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Gross profit, as reported	\$ 827.5	\$ 689.3	\$ 1,642.7	\$ 1,331.3
Share-based compensation expense	5.2	3.9	10.1	7.5
Acquisition-related costs	—	—	—	0.2
Excess capacity charges to normalize acquired inventory levels	—	2.3	—	2.3
Acquired inventory valuation costs	—	182.1	—	289.6
Non-GAAP gross profit	<u>\$ 832.7</u>	<u>\$ 877.6</u>	<u>\$ 1,652.8</u>	<u>\$ 1,630.9</u>
Non-GAAP gross profit percentage	62.2 %	61.3 %	62.1 %	61.7 %

RECONCILIATION OF GAAP RESEARCH AND DEVELOPMENT EXPENSES TO NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Research and development expenses, as reported	\$ 219.8	\$ 221.9	\$ 438.9	\$ 393.8
Share-based compensation expense	(22.3)	(19.7)	(41.8)	(33.8)
Acquisition-related costs	—	(0.7)	(0.1)	(1.0)
Non-GAAP research and development expenses	\$ 197.5	\$ 201.5	\$ 397.0	\$ 359.0
Non-GAAP research and development expenses as a percentage of net sales	14.8 %	14.1 %	14.9 %	13.6 %

RECONCILIATION OF GAAP SELLING, GENERAL AND ADMINISTRATIVE EXPENSES TO NON-GAAP SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Selling, general and administrative expenses, as reported	\$ 172.3	\$ 176.6	\$ 340.2	\$ 340.7
Share-based compensation expense	(17.8)	(17.8)	(34.1)	(29.5)
Acquisition-related costs	(8.1)	(5.9)	(14.6)	(32.5)
IT security remediation	(2.0)	—	(5.0)	—
Non-GAAP selling, general and administrative expenses	\$ 144.4	\$ 152.9	\$ 286.5	\$ 278.7
Non-GAAP selling, general and administrative expenses as a percentage of net sales	10.8 %	10.7 %	10.8 %	10.5 %

RECONCILIATION OF GAAP OPERATING EXPENSES TO NON-GAAP OPERATING EXPENSES

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Operating expenses, as reported	\$ 643.9	\$ 586.6	\$ 1,287.5	\$ 1,096.4
Share-based compensation expense	(40.1)	(37.5)	(75.9)	(63.3)
Acquisition-related costs	(8.1)	(6.6)	(14.7)	(33.5)
IT security remediation	(2.0)	—	(5.0)	—
Amortization of acquired intangible assets	(248.2)	(169.9)	(496.7)	(303.6)
Special charges and other, net	(3.6)	(18.2)	(11.7)	(58.3)
Non-GAAP operating expenses	\$ 341.9	\$ 354.4	\$ 683.5	\$ 637.7
Non-GAAP operating expenses as a percentage of net sales	25.6 %	24.7 %	25.7 %	24.1 %

RECONCILIATION OF GAAP OPERATING INCOME TO NON-GAAP OPERATING INCOME

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Operating income, as reported	\$ 183.6	\$ 102.7	\$ 355.2	\$ 234.9
Share-based compensation expense	45.3	41.4	86.0	70.8
Acquisition-related costs	8.1	6.6	14.7	33.7
IT security remediation	2.0	—	5.0	—
Excess capacity charges to normalize acquired inventory levels	—	2.3	—	2.3
Acquired inventory valuation costs	—	182.1	—	289.6
Amortization of acquired intangible assets	248.2	169.9	496.7	303.6
Special charges and other, net	3.6	18.2	11.7	58.3
Non-GAAP operating income	\$ 490.8	\$ 523.2	\$ 969.3	\$ 993.2
Non-GAAP operating income as a percentage of net sales	36.7 %	36.5 %	36.4 %	37.6 %

RECONCILIATION OF GAAP OTHER EXPENSE, NET TO NON-GAAP OTHER EXPENSE, NET

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Other expense, net, as reported	\$ (130.1)	\$ (142.0)	\$ (261.2)	\$ (236.5)
Loss on settlement of debt	0.1	4.1	2.0	4.1
Non-cash other expense, net	30.6	28.9	60.5	65.4
(Gains) losses on available-for-sale investments	(0.3)	0.9	(1.1)	6.1
Non-GAAP other expense, net	\$ (99.7)	\$ (108.1)	\$ (199.8)	\$ (160.9)
Non-GAAP other expense, net, as a percentage of net sales	(7.5)%	(7.5)%	(7.5)%	(6.1)%

RECONCILIATION OF GAAP INCOME TAX BENEFIT TO NON-GAAP INCOME TAX PROVISION

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Income tax benefit, as reported	\$ (55.4)	\$ (135.7)	\$ (65.6)	\$ (133.7)
Income tax rate, as reported	(103.6)%	344.4%	(69.8)%	7,864.7%
Other non-GAAP tax adjustment	80.8	152.2	111.8	165.0
Non-GAAP income tax provision	\$ 25.4	\$ 16.5	\$ 46.2	\$ 31.3
Non-GAAP income tax rate	6.5%	4.0%	6.0%	3.8%

RECONCILIATION OF GAAP NET INCOME AND GAAP DILUTED NET INCOME PER COMMON SHARE TO NON-GAAP NET INCOME AND NON-GAAP DILUTED NET INCOME PER COMMON SHARE

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net income, as reported	\$ 108.9	\$ 96.3	\$ 159.6	\$ 132.0
Share-based compensation expense	45.3	41.4	86.0	70.8
Acquisition-related costs	8.1	6.6	14.7	33.7
IT security remediation	2.0	—	5.0	—
Excess capacity charges to normalize acquired inventory levels	—	2.3	—	2.3
Acquired inventory valuation costs	—	182.1	—	289.6
Amortization of acquired intangible assets	248.2	169.9	496.7	303.6
Special charges and other, net	3.6	18.2	11.7	58.3
Loss on settlement of debt	0.1	4.1	2.0	4.1
Non-cash other expense, net	30.6	28.9	60.5	65.4
(Gains) losses on available-for-sale investments	(0.3)	0.9	(1.1)	6.1
Other non-GAAP tax adjustment	(80.8)	(152.2)	(111.8)	(165.0)
Non-GAAP net income	\$ 365.7	\$ 398.5	\$ 723.3	\$ 800.9
Non-GAAP net income as a percentage of net sales	27.3%	27.8%	27.2%	30.3%
GAAP net income as a percentage of net sales	8.1%	6.7%	6.0%	5.0%
Diluted net income per common share, as reported	\$ 0.43	\$ 0.38	\$ 0.63	\$ 0.52
Non-GAAP diluted net income per common share	\$ 1.43	\$ 1.58	\$ 2.84	\$ 3.18
Diluted common shares outstanding, as reported	255.3	251.8	254.6	252.0
Diluted common shares outstanding non-GAAP	255.3	251.8	254.6	252.0

Microchip will host a conference call today, November 5, 2019 at 5:00 p.m. (Eastern Time) to discuss this release. This call will be simulcast over the Internet at www.microchip.com. The webcast will be available for replay until November 19, 2019.

A telephonic replay of the conference call will be available at approximately 8:00 p.m. (Eastern Time) on November 5, 2019 and will remain available until 5:00 p.m. (Eastern

Time) on November 19, 2019. Interested parties may listen to the replay by dialing 719-457-0820 and entering access code 6550607.

Cautionary Statement:

The statements in this release relating to continuing to introduce a steady stream of new and innovative products in both microcontroller and analog that we believe position us well for future growth, the integration of Microsemi with Microchip progressing well, that we will continue to use substantially all of our excess cash generation after dividends to reduce the amount of debt on our balance sheet as quickly as possible, continued uncertainty in the economic environment, that backlog for the quarter is filling at a much steeper rate, that we estimate our net sales in the December 2019 quarter to be down between 2% and 10% sequentially, that there are early signs that we may be at a positive inflexion point, our third quarter fiscal 2020 guidance for net sales and GAAP and non-GAAP gross margin, operating expenses, operating income, other expense, net, income taxes, net (loss) income, diluted common shares outstanding, (loss) earnings per diluted share, inventory days in the December 2019 quarter expected to be in the range of 131 to 144 days, capital expenditures for the December 2019 quarter and for all of fiscal 2020, continuing to invest to support the growth of our production capabilities for fast-growing new products and technologies and to bring in-house more of the assembly and test operations that are currently outsourced, our belief that our end-market demand metric reflects true end-market demand based on when product is sold to direct customers or by our distributors to an end customer and our assumed average stock price in the December 2019 quarter are forward-looking statements 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 monetary policy, political, trade or other issues in the U.S. or internationally, any 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 (including our acquisition of Microsemi Corporation); 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 2019 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 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) or the SEC's website (www.sec.gov) or from commercial document retrieval services.

Stockholders of Microchip 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 this November 5, 2019 press release, or to reflect the occurrence of unanticipated events.

About Microchip:

Microchip Technology Incorporated is a leading provider of smart, connected and secure embedded control solutions. Its easy-to-use development tools and comprehensive product portfolio enable customers to create optimal designs, which reduce risk while lowering total system cost and time to market. The company's solutions serve more than 120,000 customers across the industrial, automotive, consumer, aerospace and defense, communications and computing markets. Headquartered in Chandler, Arizona, Microchip offers outstanding technical support along with dependable delivery and quality. For more information, visit the Microchip website at www.microchip.com.

Note: The Microchip name and logo, the Microchip logo, PCIe, MaXTouch and TimeProvider are registered trademarks of Microchip Technology Inc. in the USA and other countries. All other trademarks mentioned herein are the property of their respective companies.

INVESTOR RELATIONS CONTACT:

J. Eric Bjornholt -- CFO..... (480) 792-7804



Source: Microchip Technology Inc.