



# Investor Presentation

Second Quarter Fiscal Year 2023

Leading Provider of Smart, Connected, and Secure  
Embedded Control Solutions

# 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, our financial model, managing a soft landing, performance in industry cycles, capital return strategy including debt paydown, dividend growth, and buybacks and our winning formula. 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 uncertainty, fluctuations or weakness in the U.S. and world economies (including China) due to rising interest rates, high inflation or the impact of the COVID-19 pandemic (including lock-downs in China), actions taken or which may be taken by the Biden administration or the U.S. Congress, monetary policy, political, geopolitical, trade or other issues in the U.S. or internationally (including the Ukraine-Russia military conflict), changes in demand or market acceptance of our products and the products of our customers and our ability to meet any continued increases in market demand; the impact that the CHIPS Act will have on increasing manufacturing capacity in our industry by providing incentives for us, our competitors and foundries to build new wafer manufacturing facilities; the amount and timing of any incentives we may receive under the CHIPS Act, the impact of current and future changes in U.S. corporate tax laws (including the Inflation Reduction Act of 2022, 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 to meet any continued increases in market demand; the impact of inflation on our business; competitive developments including pricing pressures; the level of orders that are received and can be shipped in a quarter; our ability to realize the expected benefits of our preferred supply program and our long-term supply assurance program; changes or fluctuations in customer order patterns and seasonality; our ability to obtain a sufficient supply of wafers from third party wafer foundries to meet our increasing needs and the cost of such wafers, our ability to obtain additional capacity from our suppliers to increase production to meet any continued increases in market demand; 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 any future significant acquisitions or strategic transactions we may make; 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 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 operating profit and free cash flow. Our non-GAAP results exclude the effect, where applicable, of share-based compensation, COVID-19 shelter in place restrictions on manufacturing activities, manufacturing excursion, expenses related to our acquisition activities (including intangible asset amortization, 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 equity investments. 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".

# Corporate Overview

## Leading Total Systems Solutions Provider:

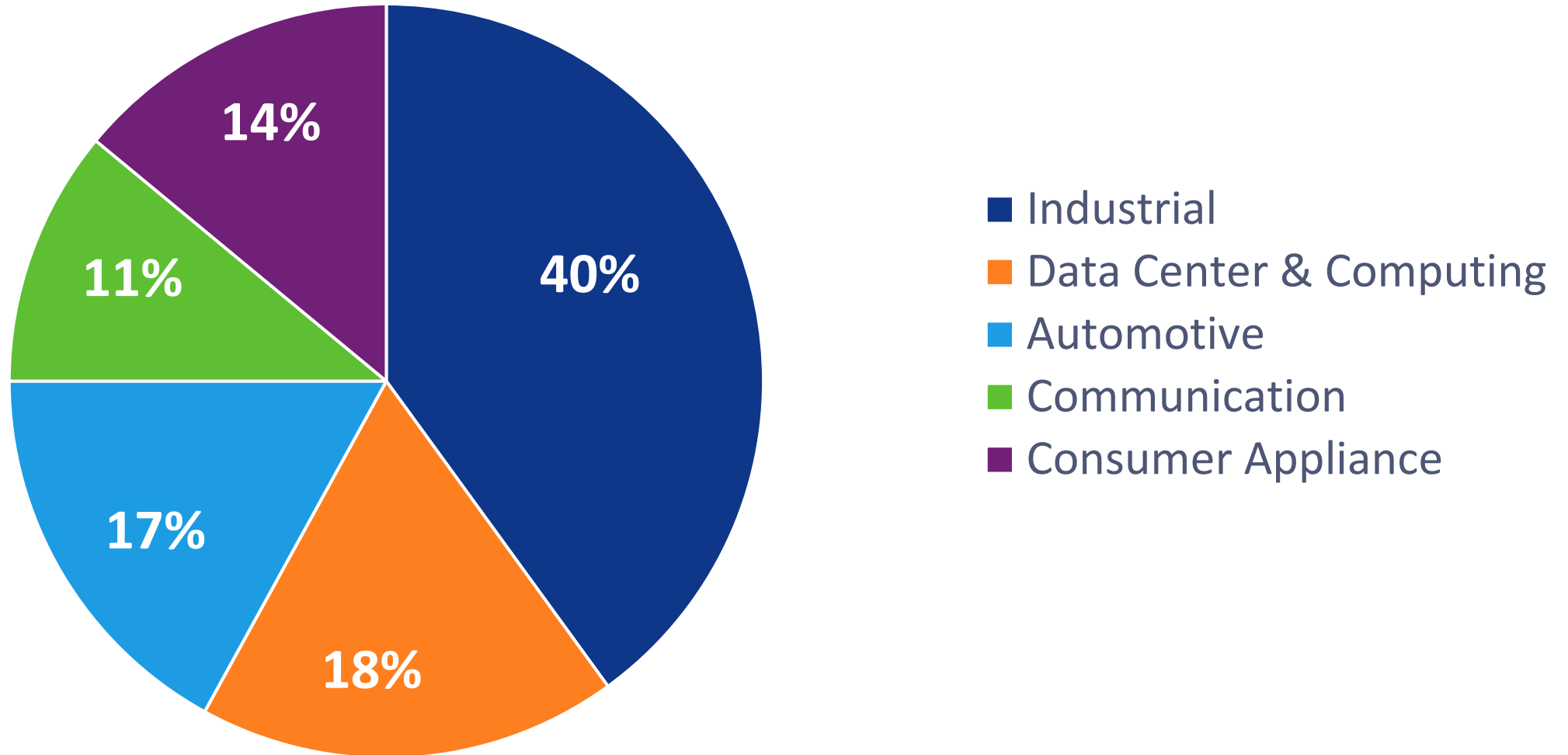
- High-performance standard and specialized Microcontroller, Digital Signal Controller and Microprocessor solutions
- Mixed-Signal, Analog, Interface and Security solutions
- Clock and Timing solutions
- Wireless and Wired Connectivity solutions
- FPGA solutions
- Non-volatile EEPROM and Flash Memory solutions
- Flash IP solutions



- **\$6.8 Billion** in FY22 net sales
- Elite long-term non-GAAP profitability & returns
- Diversified and resilient business model
- Durable end markets
- Solid track-record of shareholder value creation

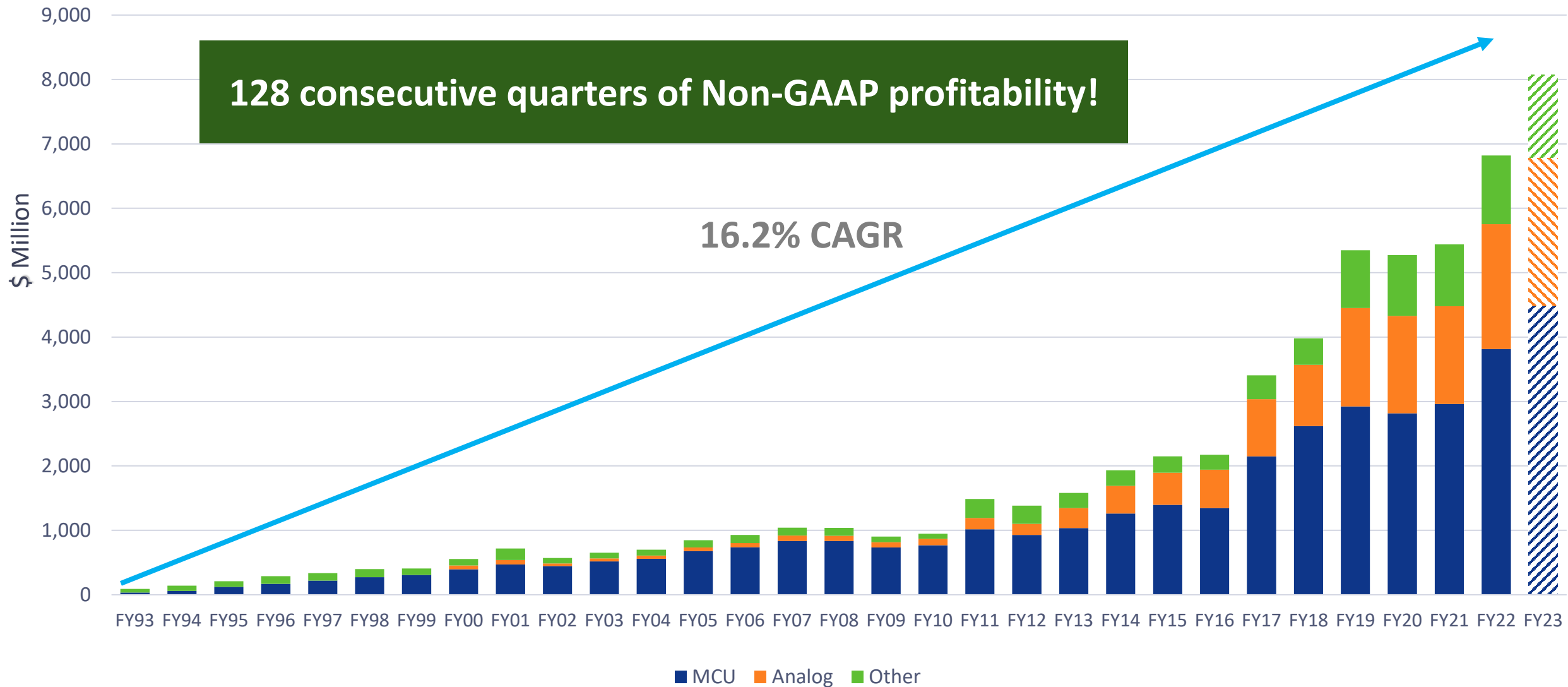
# Fiscal Year 2022 Revenue By End Market

## Durable End Markets



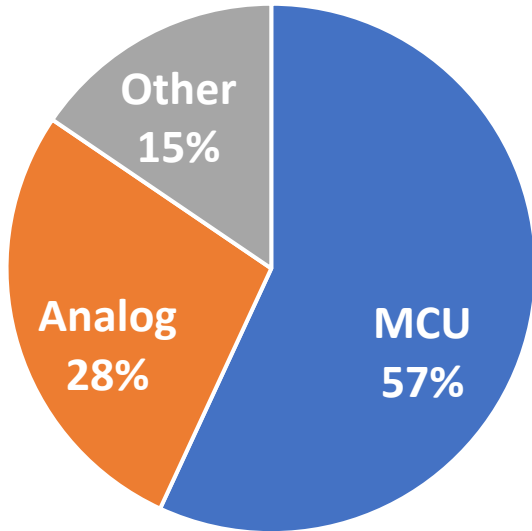


# Consistent Revenue Growth

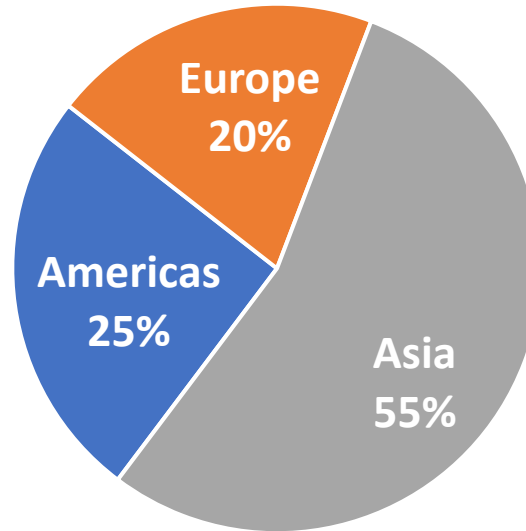


# Second Quarter FY2023 Revenue Mix

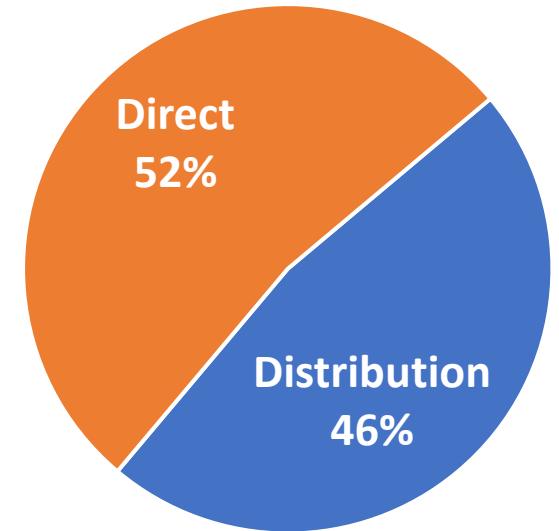
Net Sales by Product Line



Net Sales by Geography



Net Sales by Channel



- Sustained growth from organic efforts focused on TSS and Megatrends
- Synergistic product portfolio empowers disruptive growth trends
- Diversified product portfolio with long process technology and life cycles
- Customer driven obsolescence policy create high-quality revenue streams

# Record Fiscal 2<sup>nd</sup> Quarter 2023 Results (non-GAAP)

- **Record revenue of \$2.073 billion; grew 5.6% QoQ and 25.7% YoY**
  - 8 consecutive quarters of record revenue
- **Record gross margin of 67.7%; increased 244 basis points YoY**
- **Record operating margin of 46.9%; increased 438 basis points YoY**
- **Record earnings per share of \$1.46; increased 36.4% YoY**
- **Reduced net debt by \$192.6 million**
  - Cumulatively paid down \$5.48 billion of debt over the last 17 quarters
- **Record adj. TTM EBITDA\* of \$3.8 billion or 50% of TTM revenue**
- **Achieved net debt to adj. EBITDA ratio of 1.84x**
- **Free cash flow\*\* of \$682.9 million or 32.9% of revenue**
- **Total cash return of \$413.3 million**
  - Share repurchases of \$247.2 million and Dividends of \$166.1 million
- **Announced record dividend of 32.8 cents per share for Q3FY23**

7 \* TTM adjusted EBITDA equals adjusted EBITDA for the first two quarter of the fiscal year multiplied by 2

\*\* Microchip free cash flow (FCF) is based on fiscal year ending March 31. FCF is defined as cash flow from operations less capital expenditures

# Fiscal 3rd Quarter 2023 Guidance (non-GAAP)\*

	Q2 FY23 Actual	Q3 FY23 Guide @ mid-point	Long Term Model
Revenue (\$ Million)	<b>\$2,073.2</b> ↑ 5.6% QoQ 25.7% YoY	<b>\$2,156.0</b> ↑ 4.0% QoQ 22.7% YoY	FY22 – 26 CAGR of 10% to 15%
Gross Margins	67.7%	67.9%	67.5% to 68.5%
Operating Expenses	20.9%	20.8%	22.5% to 23.5%
Operating Margins	46.9%	47.1%	44% to 46%
Earnings per share	<b>\$1.46</b> ↑ 36.4% YoY	<b>\$1.55**</b> ↑ 29.2% YoY	

\* Represents guidance provided on November 03, 2022

\*\* Includes increase in cash tax rate in FY23

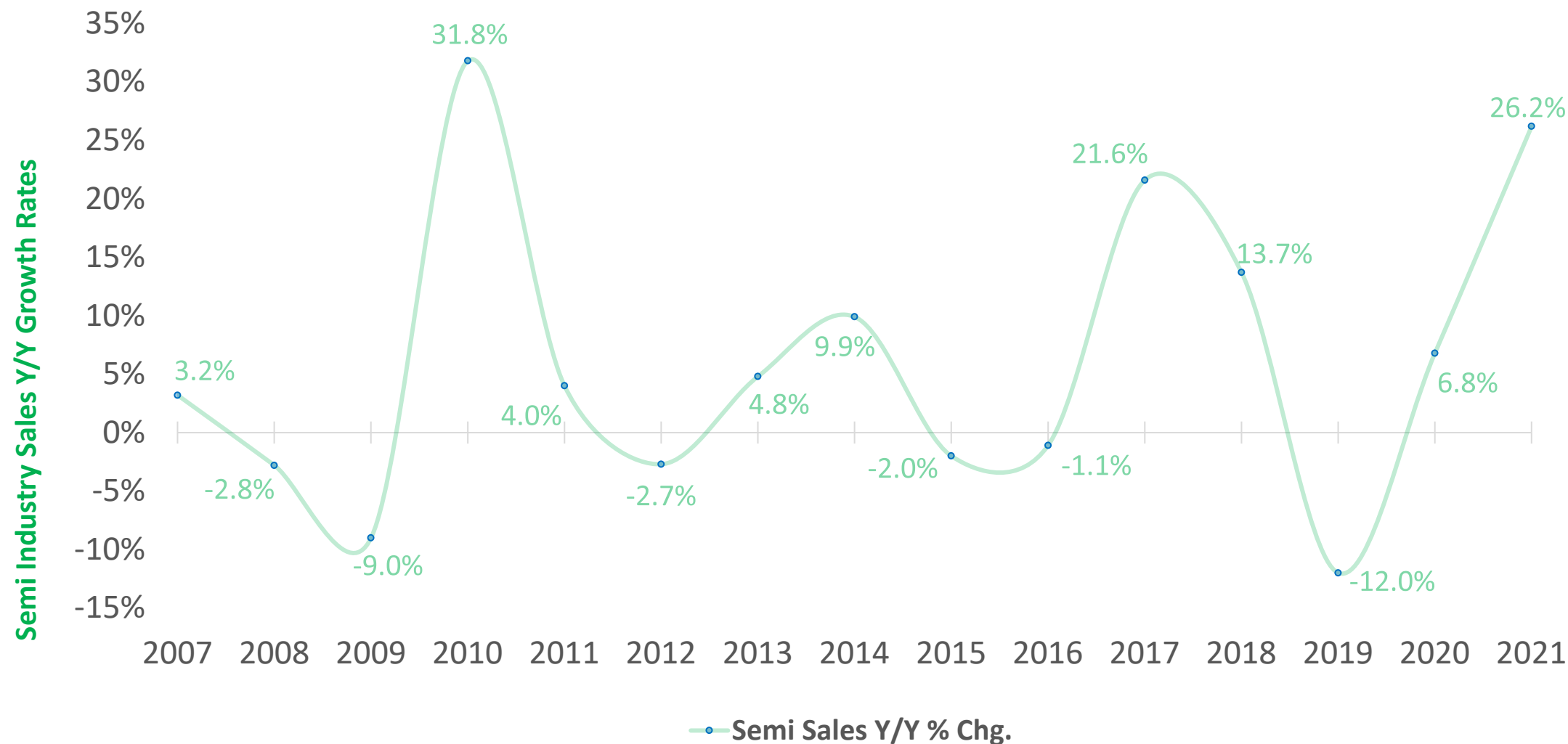
Additional guidance metrics can be found in the Q2 FY2023 earning release. [Click here](#)



# Managing A Soft Landing

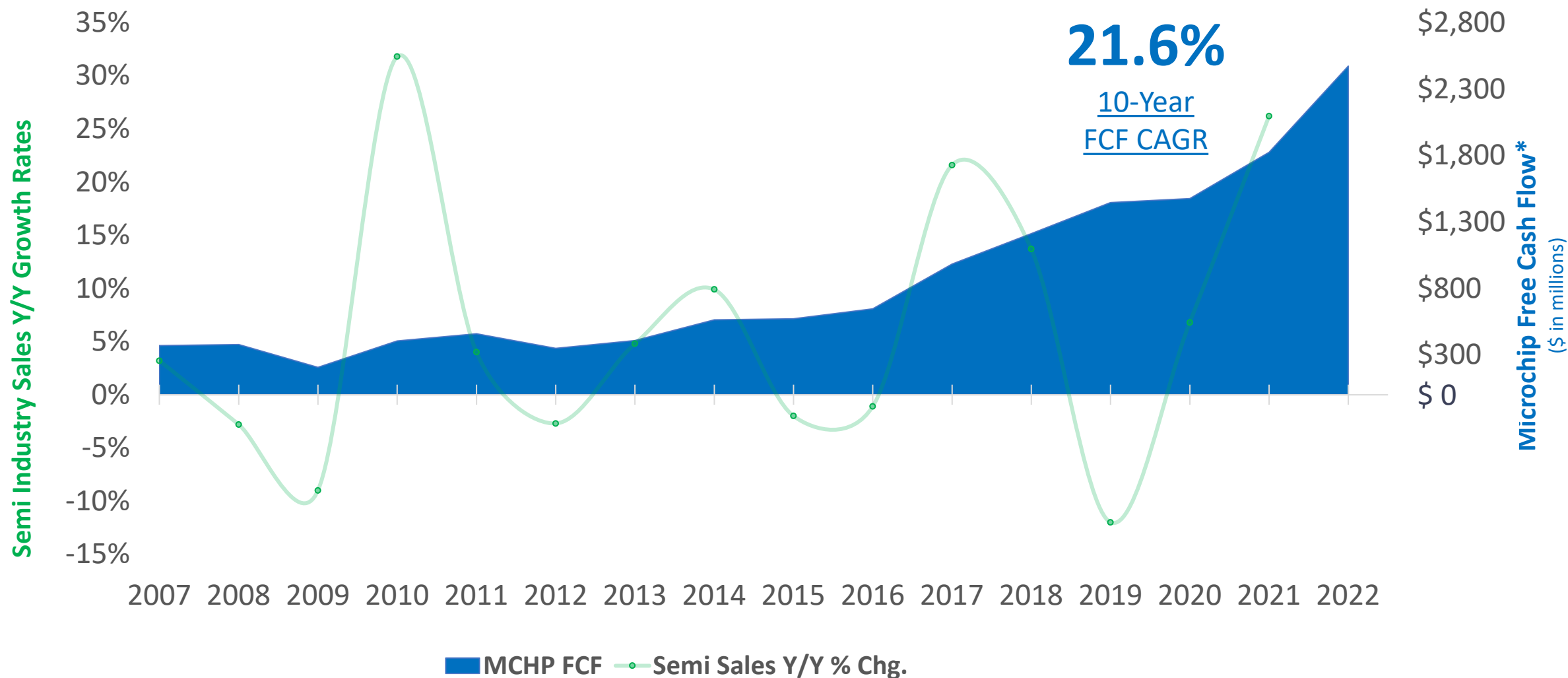
- **We recognize that macro conditions are weakening, although we do not see any weakness in our business**
  - We expect to be supply constrained throughout 2022 and into 2023
- **If or when macro weakness catches up to our business, we believe we can achieve a soft landing because:**
  - Strong PSP ( $\geq 12$  months NCNR) backlog that is  $\gg 50\%$  of our total backlog
  - Growing base of multi-year supply agreements with several large customers
  - Significant cushion from near term unsupported backlog that is much greater than 100% of supported backlog
  - Replenishing distribution inventory
  - Replenishing internal inventory and building more die bank and finished goods
  - Above average secular growth trends provided by TSS and Megatrends strategy
  - Will normally have much lower capital needs which will help drive free cash flow
  - High variable compensation which will buffer operating expenses

# Semi Industry Sales YoY Growth Through Cycles



Semi Sales Y/Y Growth is sourced BOA Global Research, IMF, and SIA

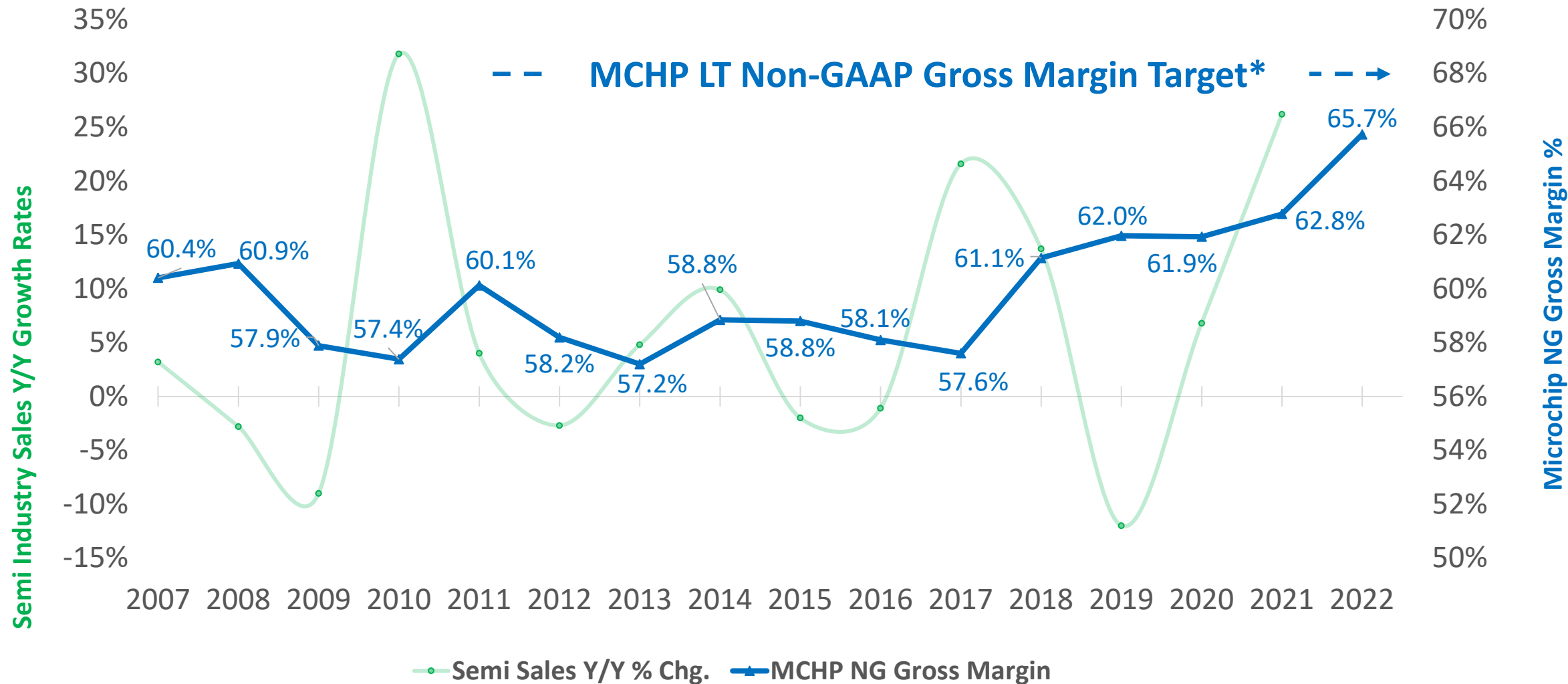
# Strong Cash Generation Through Cycles



\* Microchip free cash flow (FCF) is based on fiscal year ending March 31. FCF is defined as cash flow from operations less capital expenditures

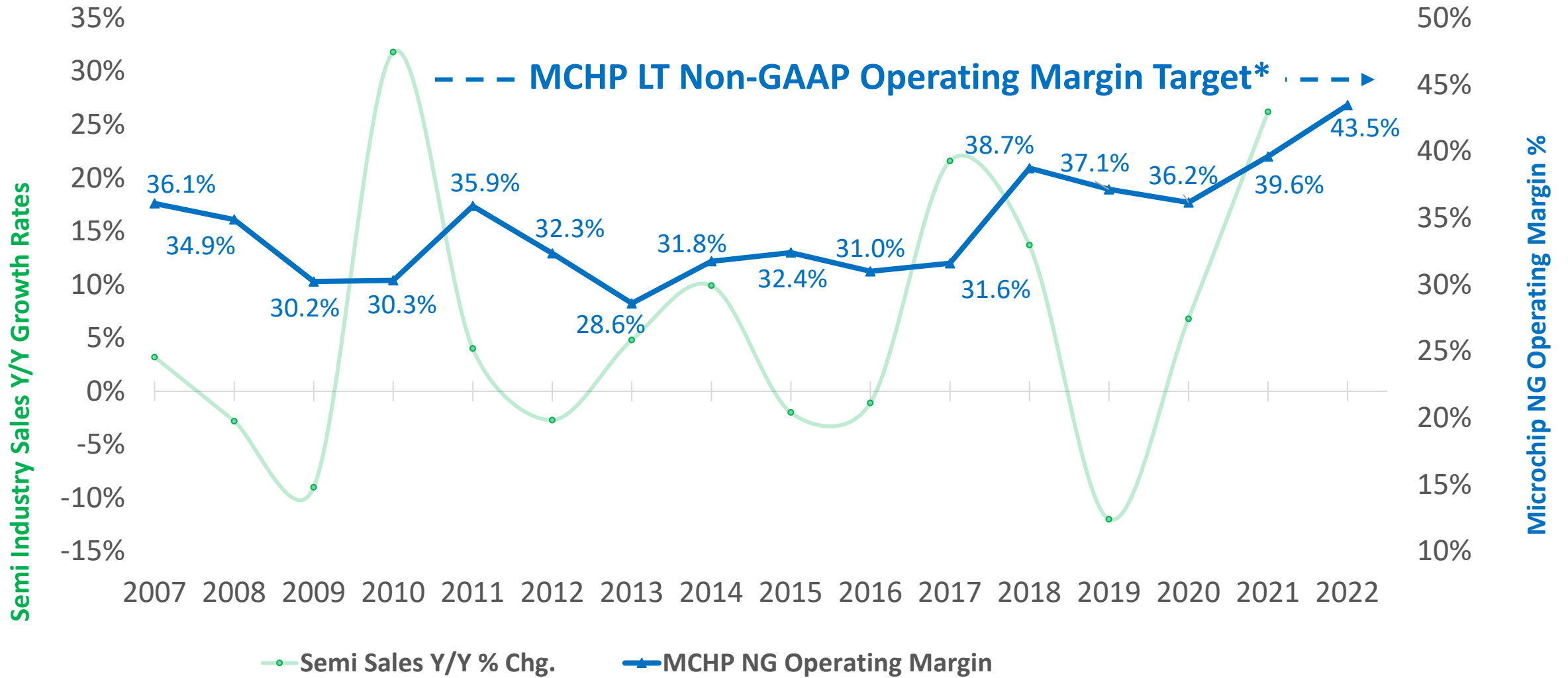
Semi Sales Y/Y Growth is sourced BOA Global Research, IMF, and SIA

# Resilient Profitability Through Cycles



\* Long-term target range 67.5% to 68.5%  
MCHP's non-GAAP gross margin % is based on fiscal year ending March 31  
Semi Sales Y/Y Growth source BOA Global Research, IMF, and SIA

# Improving Efficiency Through Cycles



\* Long-term target range 44% to 46%

MCHP's non-GAAP operating margin % is based on fiscal year ending March 31

Semi Sales Y/Y Growth source BOA Global Research, IMF, and SIA



# Microchip Organic Growth Strategy

- Focus on Total System Solutions (TSS)
  - Diversified portfolio of Smart, Connected and Secure Solutions
  - Software, firmware, reference designs to speed customer's time to market
- Provide solutions in Megatrend growth areas
  - Drives growth  $\geq 2X$  corporate growth

***Empowering innovation which enhances the human experience by delivering smart, connected and secure solutions***

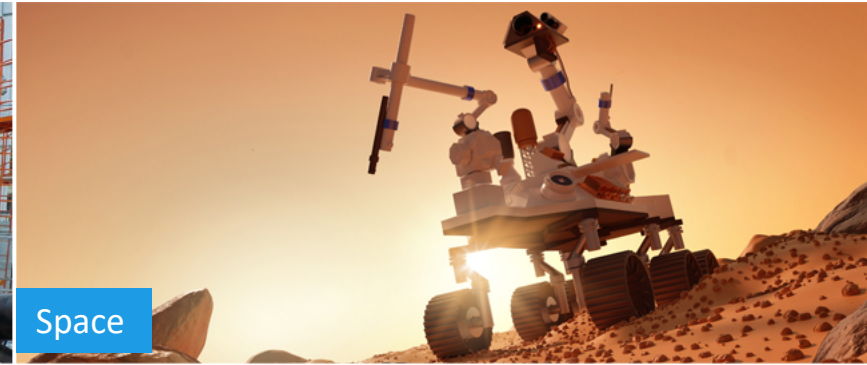
# Empowering Innovation



Consumer



Industrial



Space



Sustainability



Automotive



Medical



Data Center



Defense



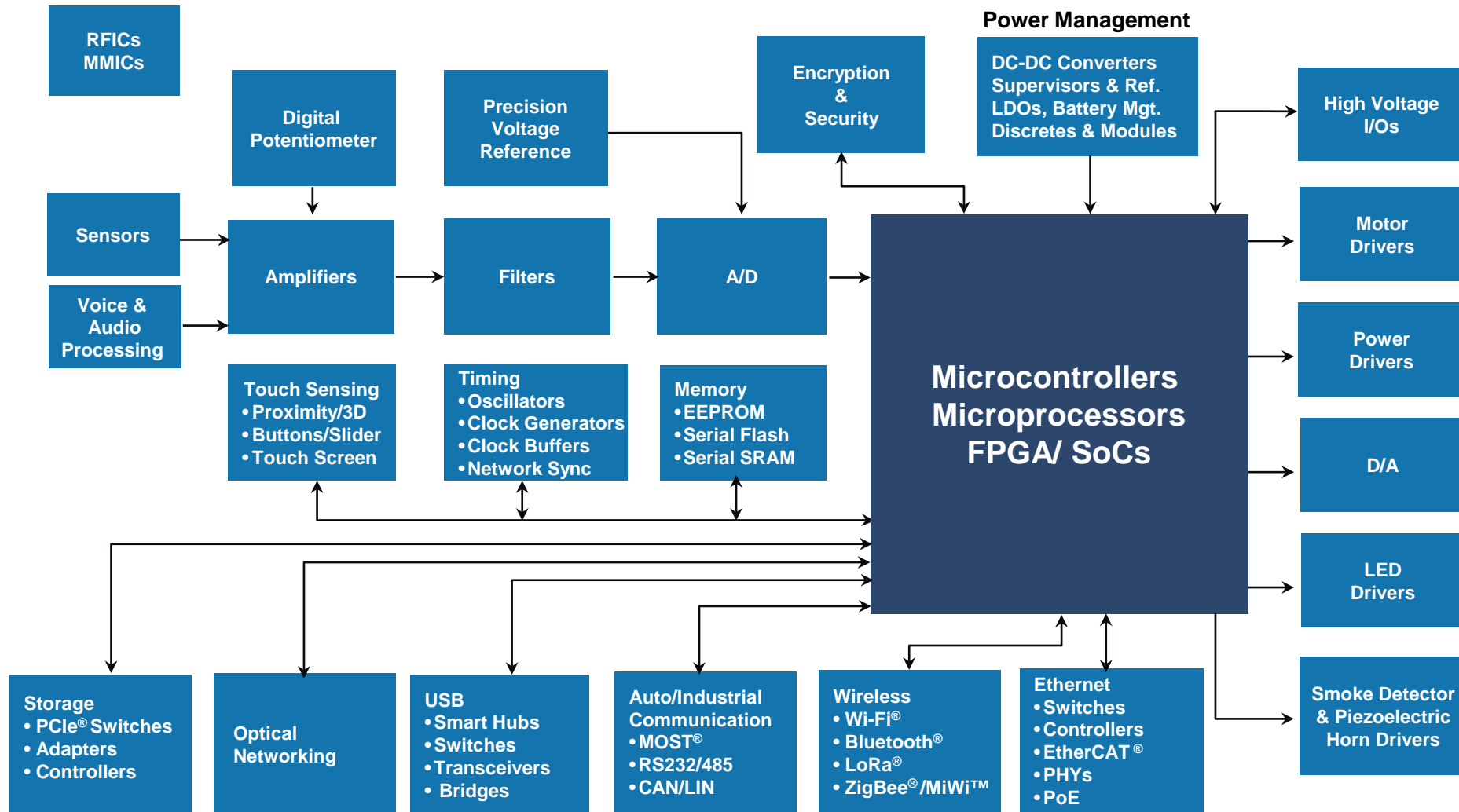
Communication Infrastructure



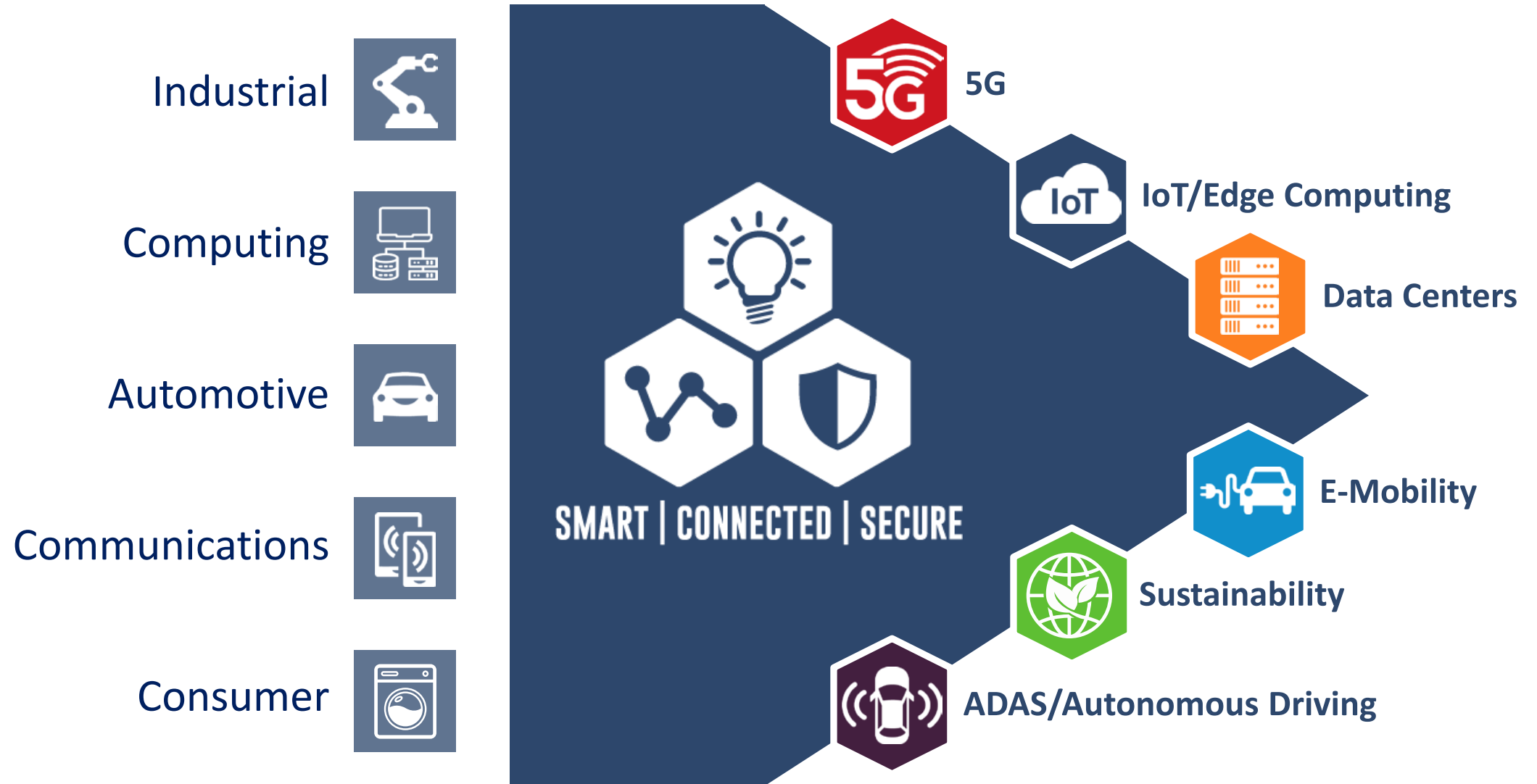
Aviation

# Providing Total System Solutions

## Portfolio of Hardware, Software and Services



# Market Megatrends





# Consistent, Disciplined and Balanced Capital Return Strategy

## Free Cash Flow Generation

Since FY2019

~\$8.6  
Billion

### Debt Paydown

**\$5.5 Billion**

- Actively reducing debt after increasing leverage for M&A
- 17 consecutive quarters of debt paydown
- Current leverage ratio of 1.84x

### Dividends Paid

**\$1.9 Billion**

- 81 consecutive quarters of dividends paid
- Expected quarterly increase of ~9% sequential

### Shares Repurchased

**\$867.8 Million**

- Active programmatic \$4B share buyback program

**TARGETING TO RETURN 100% FCF @ 1.5x LEVERAGE RATIO**



# Recent Awards and Recognition



# Microchip 3.0

Sustained growth from organic efforts focused on TSS and Megatrends

5-year Organic Revenue CAGR of 10% - 15% using FY21 as baseline

Elite long-term non-GAAP business model of 67.5% - 68.5% Gross Margin  
44% - 46% Operating Margin

Adjusted EBITDA Margin target of  $\geq 48\%$  and FCF target of  $\geq 38\%$  of revenue

Diversified end-market mix creates consistent and resilient results

Investment in inventory – 130 - 150 days over business cycles

Investment in capacity for specialized trailing-edge technologies – capital intensity of 3% - 6% of revenue

Increase capital returned to shareholders to 50% of FCF, rising to 100% of FCF as net leverage drops to  $\leq 1.5X$

Strong business foundation based on culture and sustainability

# Microchip's Winning Formula

Grow revenue  
~10% - 15%  
organically while  
significantly  
expanding gross and  
operating margins

Generate significant  
cash and increase  
capital returned to  
owners to 100% of  
Free Cash Flow

Extend our strong  
foundation built on  
culture and  
sustainability

***Our best is still ahead of us!***



# THANK YOU



A Leading Provider of Smart, Connected and Secure Embedded Control Solutions



SMART | CONNECTED | SECURE