

# Citi's 2023 Global Technology Conference



**MICROCHIP**

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A Leading Provider of Smart, Connected and Secure Embedded Solutions

**Ganesh Moorthy**  
**President & CEO**  
September 7, 2023

# 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, purpose, growth drivers, industry trends, market megatrends, our financial model, Microchip 3.0, investments in inventory, performance in industry cycles, resilient profitability, trough margins, strong cash generation, targeted free cash flow returned, capital return strategy including debt paydown, dividend growth, and share buybacks, our culture, compelling valuation, and driving significant multiple recalibration. 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 continued weakness in 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 market demand or customer requests to reschedule or cancel orders; the mix of inventory we hold, our ability to satisfy short-term orders from our inventory and our ability to effectively manage our inventory levels; 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 or expand existing 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 and the Tax Cuts and Jobs Act of 2017), foreign currency effects on our business; changes in utilization of our manufacturing capacity and our ability to effectively manage and expand our production levels to meet market demand or any customer requests to reschedule or cancel orders; 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 needs and the cost of such wafers, our ability to obtain additional capacity from our suppliers to meet any 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 September 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 margin and operating profit margin and adjusted 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. For the fourth quarters of fiscal 2023 and fiscal 2022, 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. 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. 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".

# Our Purpose

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



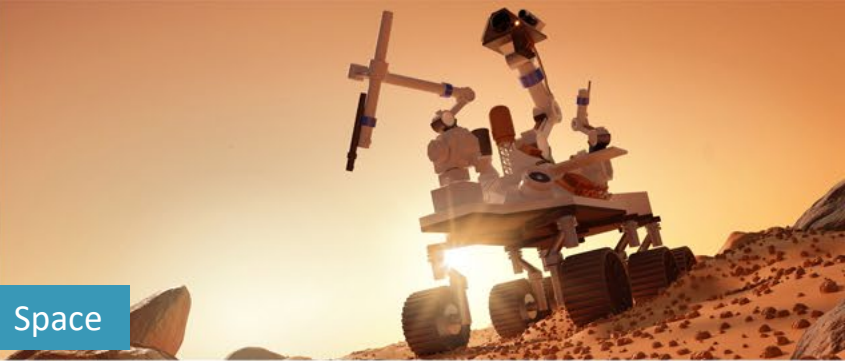
# Empowering Innovation In Diverse, Durable Markets



Consumer



Industrial



Space



Sustainability



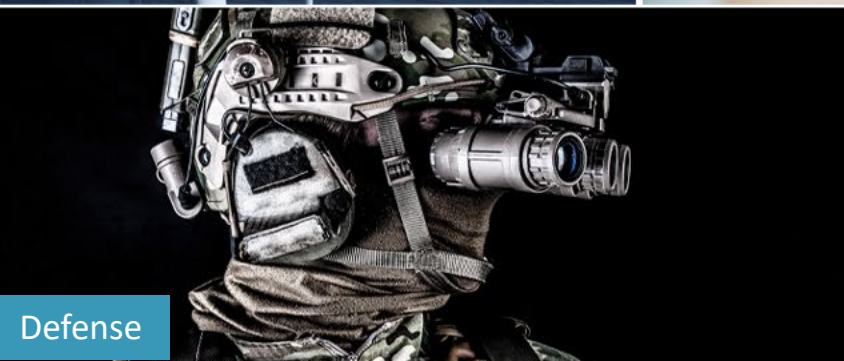
Automotive



Medical



Data Center



Defense



Communication Infrastructure



Aviation

# Microchip 3.0

Sustained revenue growth from organic efforts focused on TSS and Megatrends

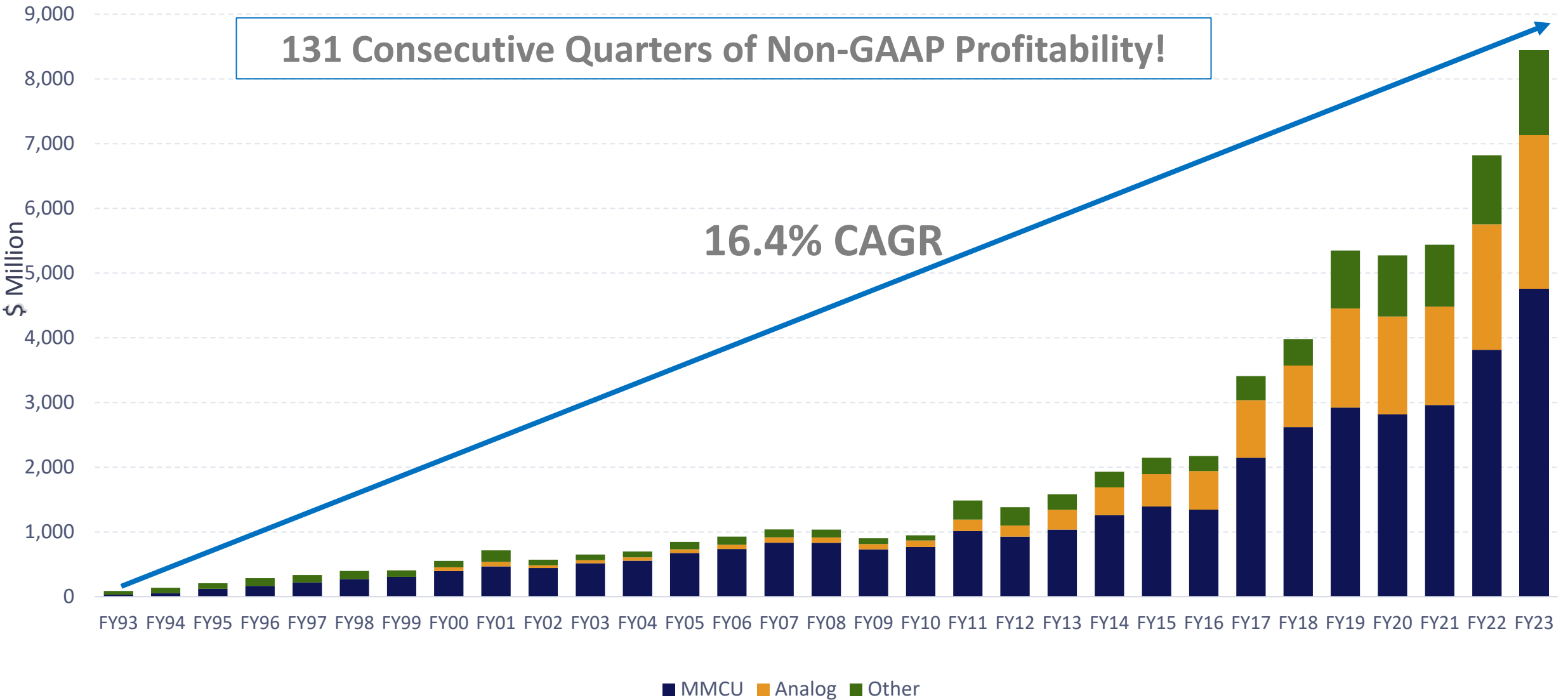
5-year Organic Revenue CAGR of 10% - 15% using FY21 as baseline

# Net Sales Growth

- FQ1'24 Net Sales = \$2.29B
- 16.6% YoY growth

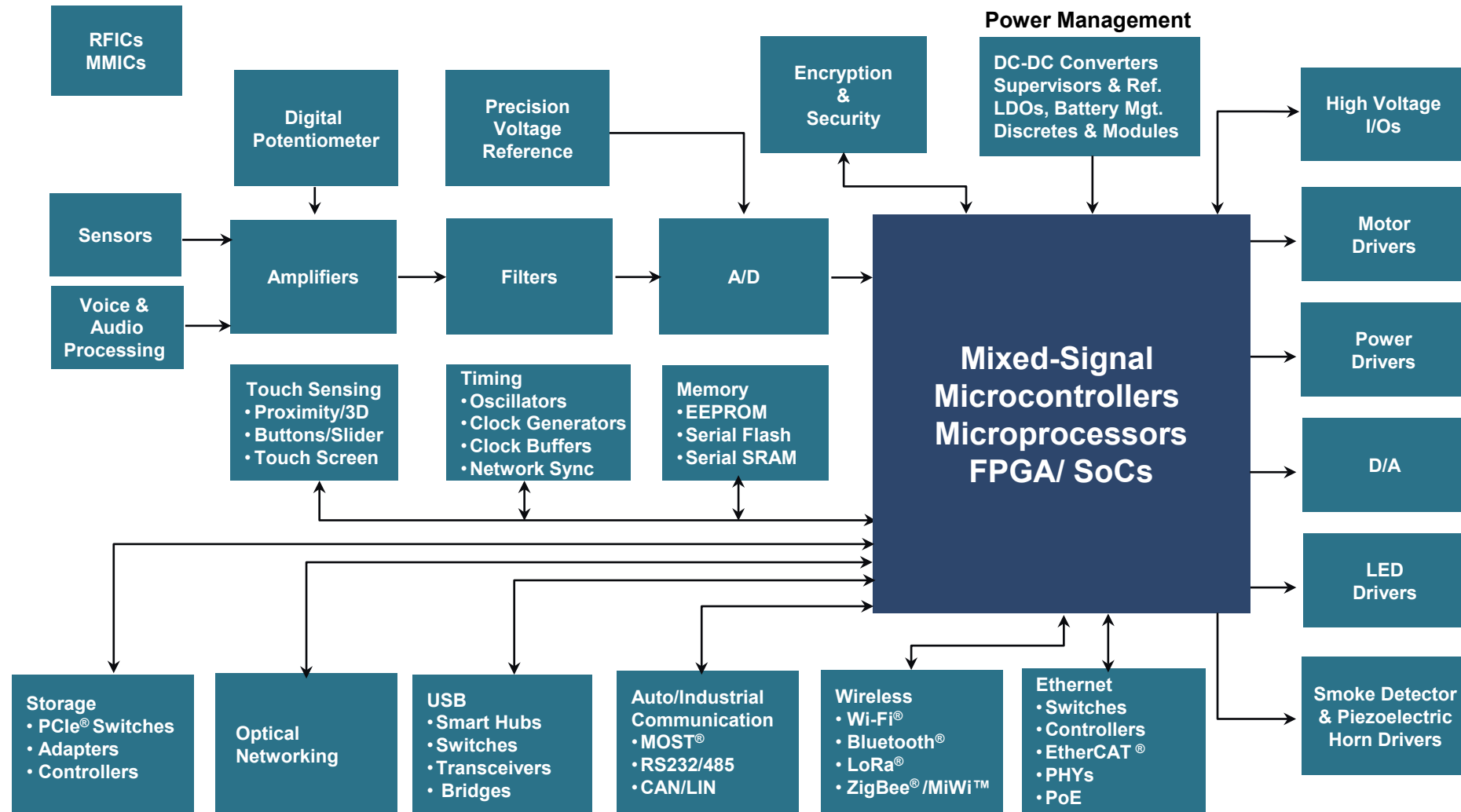
131 Consecutive Quarters of Non-GAAP Profitability!

16.4% CAGR

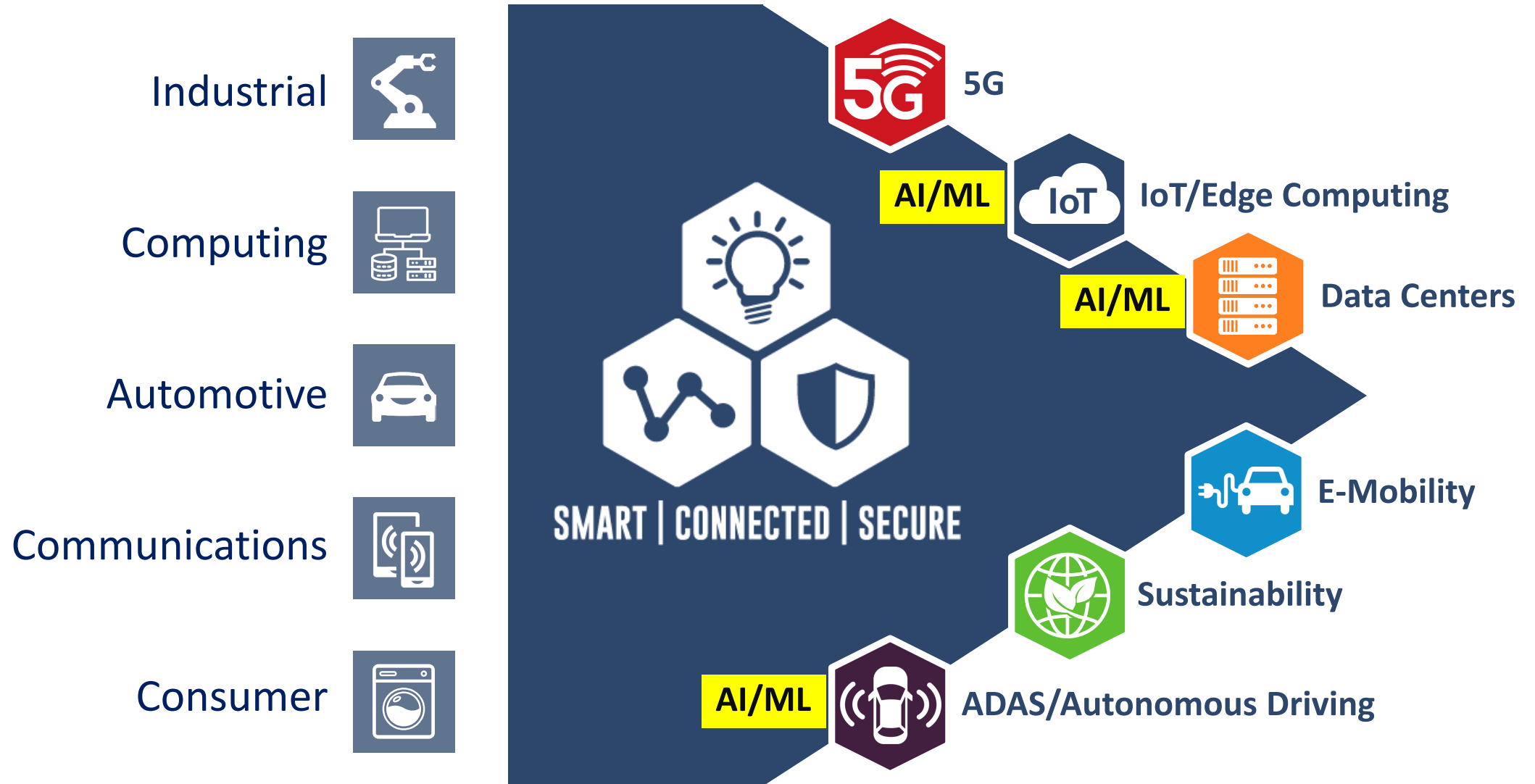


# Providing Total System Solutions

## Portfolio of Hardware, Software and Services



# Market Megatrends





# Microchip Portfolio of Data Center Solutions

## Storage & Compute Infrastructure

- RAID-on-Chip Controllers (ROCs)
- I/O Controllers (IOCs)
- PCIe Switching & Fabric
- SAS Expanders
- Universal Backplane Management

## Storage SSD Solutions

- NVMe SSD Control

## Memory Infrastructure

- Smart Memory Control
- CXL Switching & Fabric

## Datacenter Interconnect

- Multi-purpose Multi-rate PHY Interface
- 1G-800G Ethernet PHY

## Timing & Synchronization

- PCIe® Clock and Timing
- Data center NTP & PTP Sync
- Real-Time Clock/Calendar

## User Interface

- Wi-Fi® and Bluetooth® Module
- Graphics Display with Touchscreen
- USB and SD Card
- Ethernet

## System Management

- BMC Companion Microcontrollers
- PolarFire® Secure FPGA
- I/O Expanders

## Security/Authentication

- Hardware Root of Trust
- Trust Anchor

## Thermal Management

- Temperature Sensors
- Current/Power Sensors
- Fan Controllers

## Power

- AC/DC Power Supplies
- Power Management Devices
- Op Amps/Comparators
- Power MOSFET Gate Drivers
- Silicon Carbide

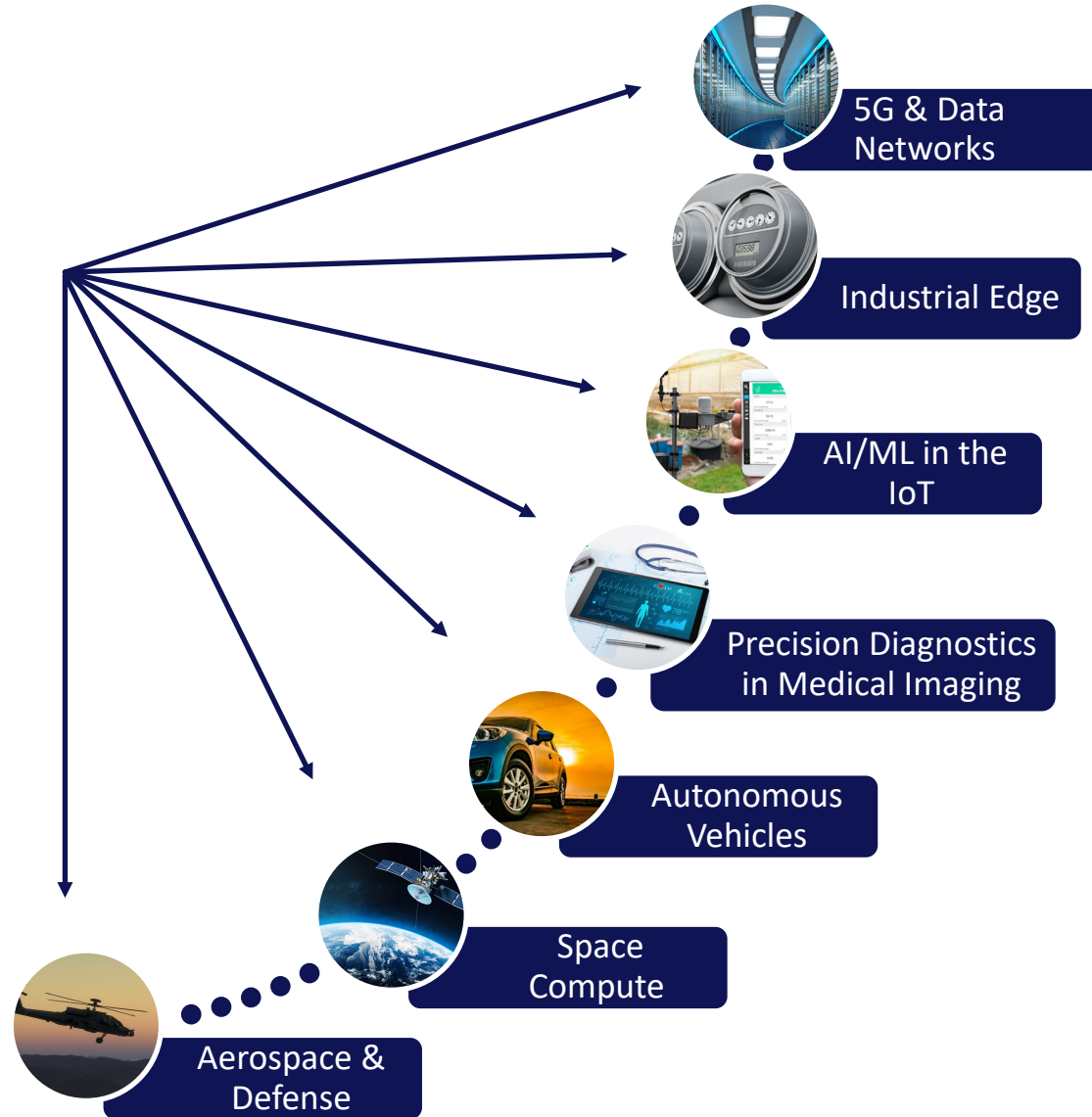
## (Other) Memory Interface

- Serial EEPROM and Flash
- DDR Termination Regulators

# AI/ML Rising In Edge Computing

When **real-time insights & decisions** happen outside the data center.

– *Gartner*



**75%** of enterprise-generated data will be created and processed outside a centralized data center or cloud by 2025.

– *Gartner*

**ML algorithm** growth will be especially strong at the intelligent edge. – *Gartner*

# Microchip in Sustainability



## Energy Generation, Storage and Distribution

- Solar Power Systems
- Wind Turbines
- Alternative Energy such as Biomass Energy/Fuel
- Energy Storage Systems (Battery Charging, Battery Management Systems)
- Smart Grid Applications



## Efficient Energy and Water Use

- Smart Agriculture (targeted irrigation & fertilization)
- High Efficiency Power Supplies
- Solar Inverters
- Higher Efficiency Motor Control
- LED Lighting
- Smart Dimmers, Actuators and Valves
- Heating, Ventilation and Air Conditioning
- Energy Star Appliances



## Resource Monitoring and Optimization

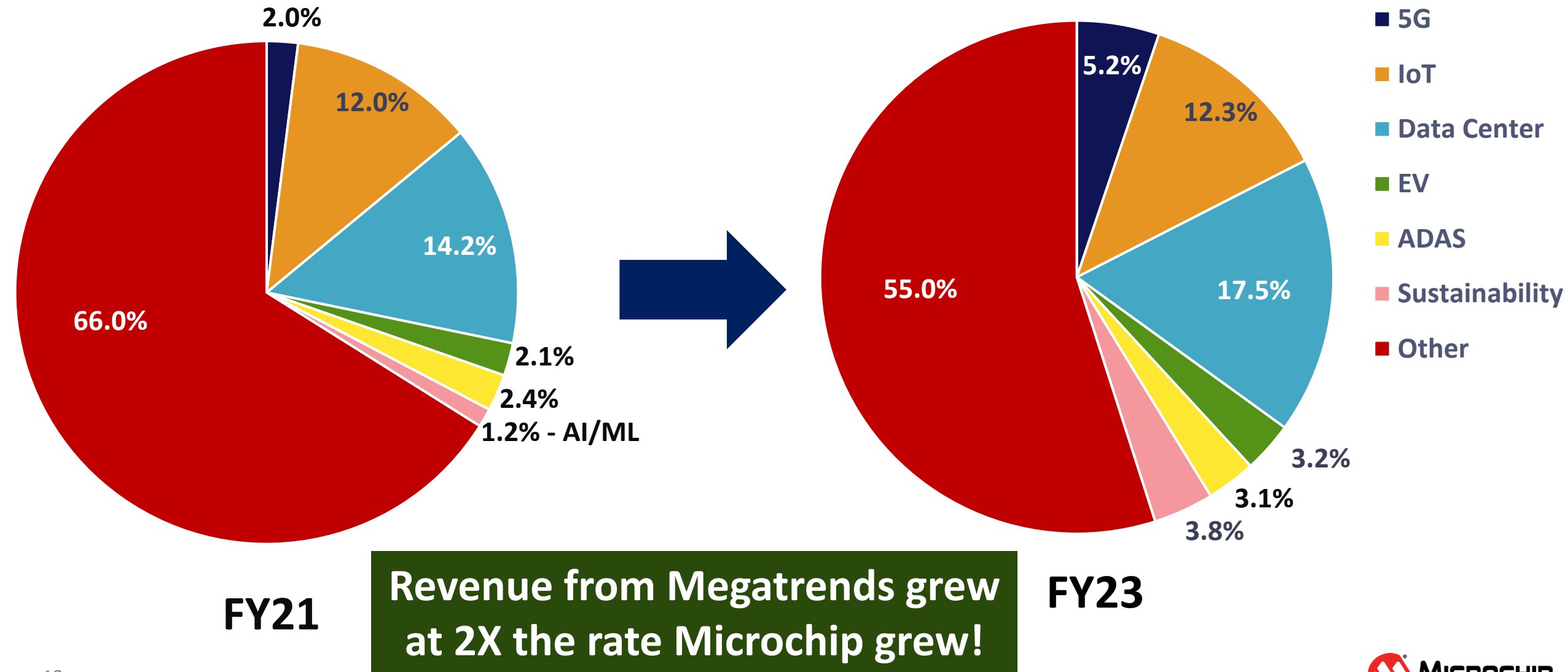
- Smart Electric/Water/Gas Meters
- In-Home Energy Displays and Awareness Systems
- Motion Sensors
- Gas Leak Detection
- Building Management (Light, Energy use)



## Waste Reduction and Reuse

- Smart Waste Management
- Water Bottle Refilling Stations
- Smart Irrigation Systems
- Asset Tracking
- Public Restroom Dispensers (Soap, Paper, Water)
- Low Standby Power

# Revenue By Megatrend



# Microchip 3.0

Sustained revenue 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

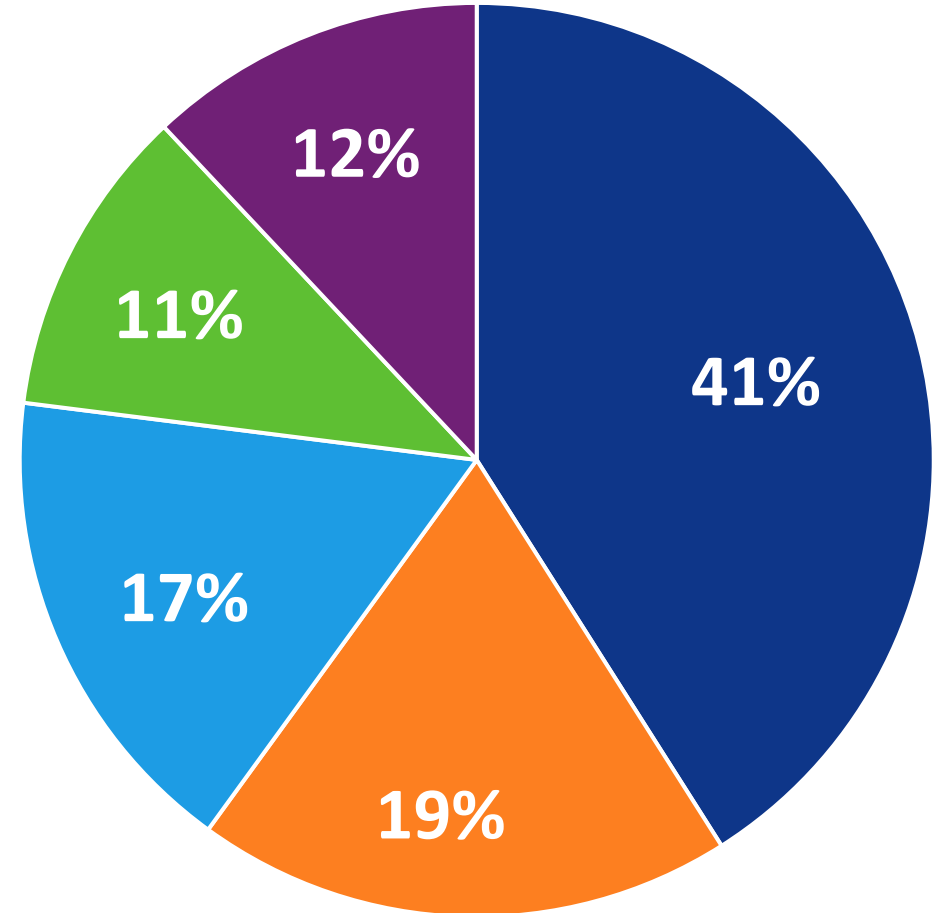
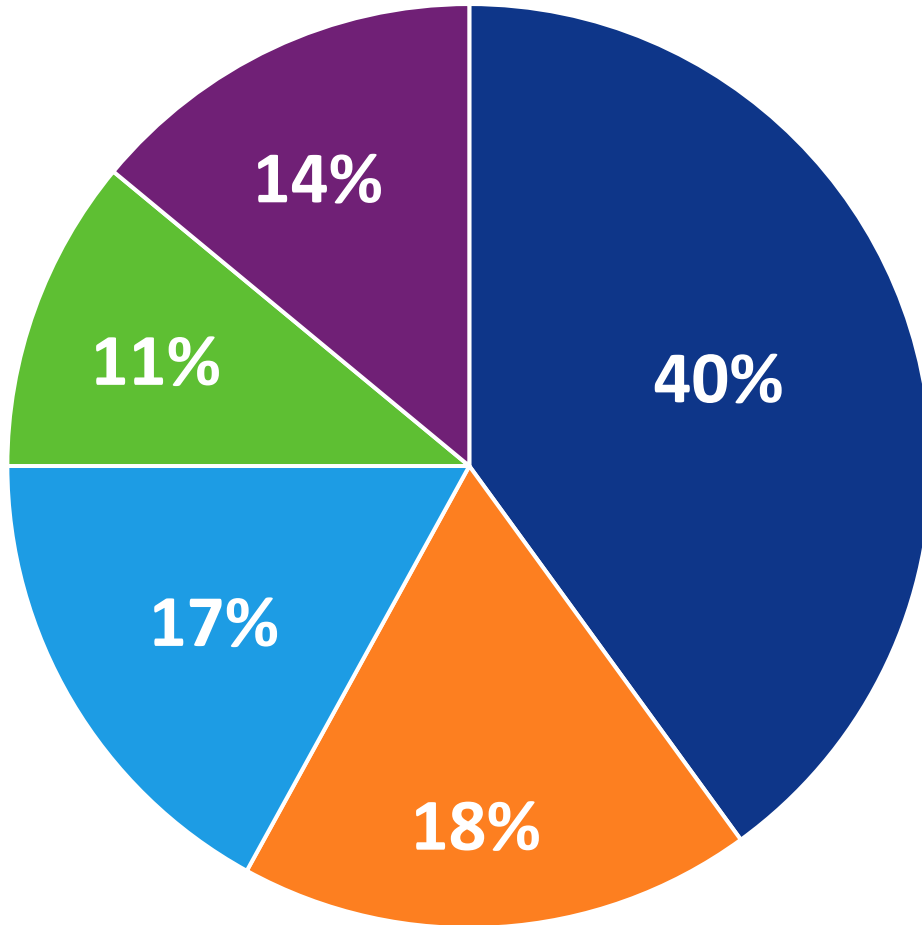
Diversified end-market mix creates consistent and resilient results

# Revenue By End Market

FY22

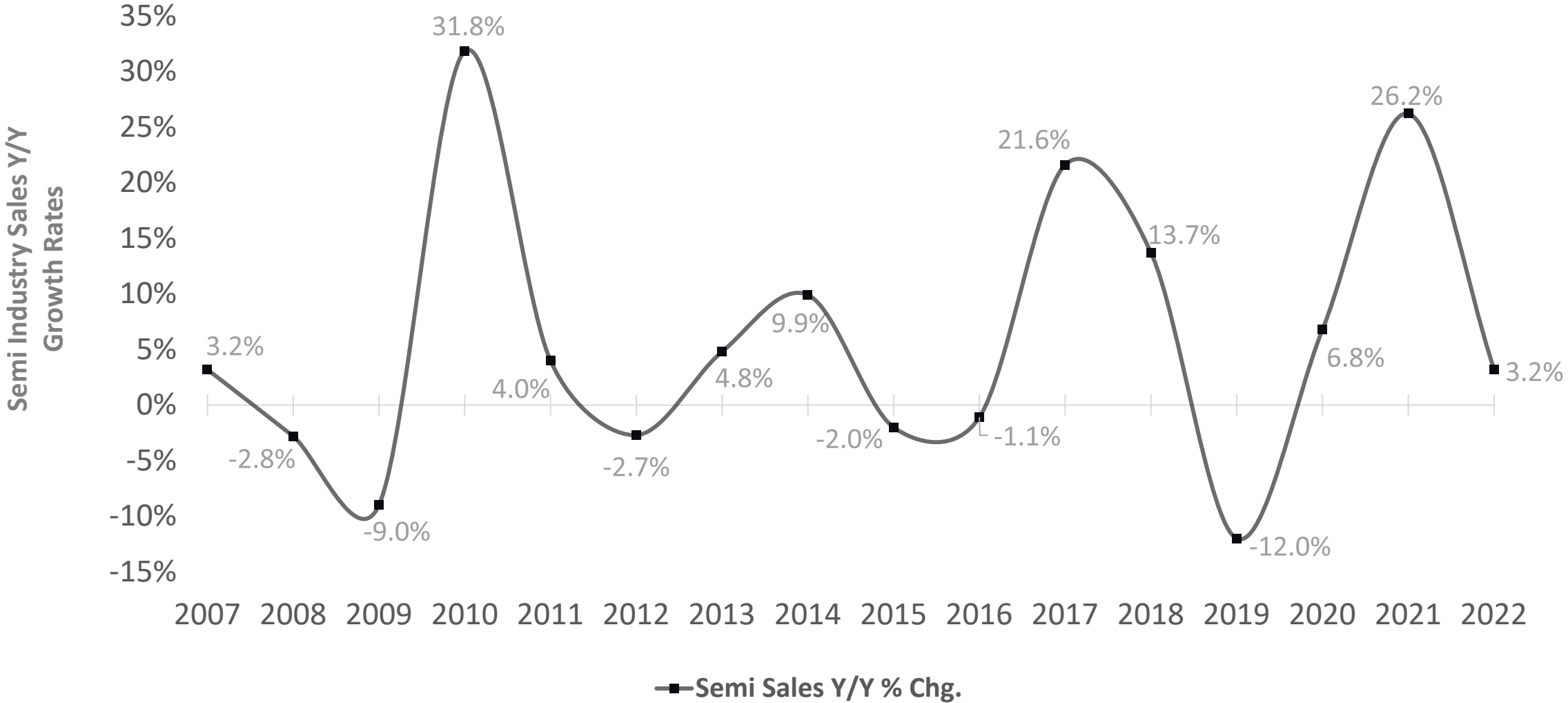
Durable End Markets

FY23



- Industrial
- Data Center & Computing
- Automotive
- Communication
- Consumer Appliance

# Semi Industry Sales YoY Growth Through Cycles

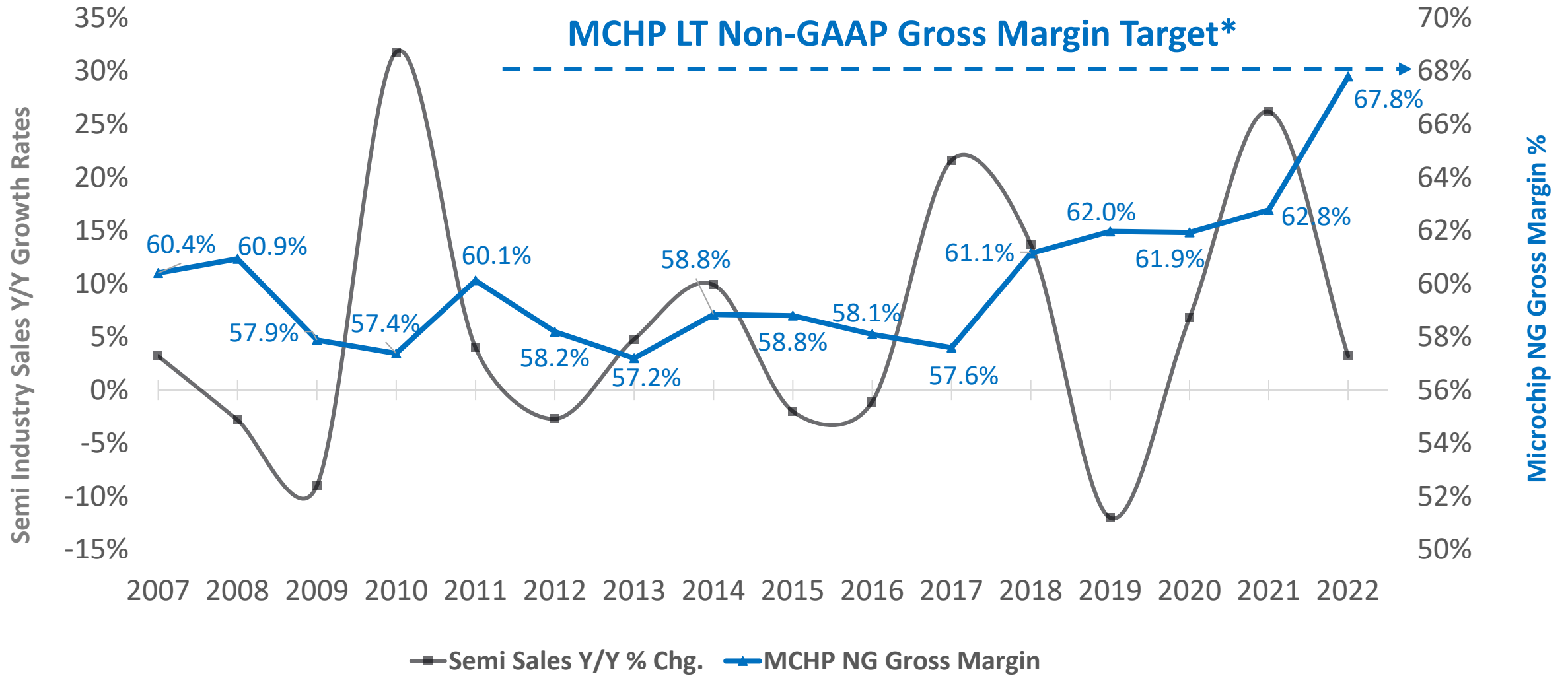


Semi Sales Y/Y Growth is sourced from SIA  
CY2022 est. annual global sales is based on World Semiconductor Trade Statistics Organization (WSTS) industry forecast



# Resilient Profitability Through Cycles

**FQ1'24 Non GAAP  
GM % = 68.4%**



\*Long-term target range 67.5% to 68.5%

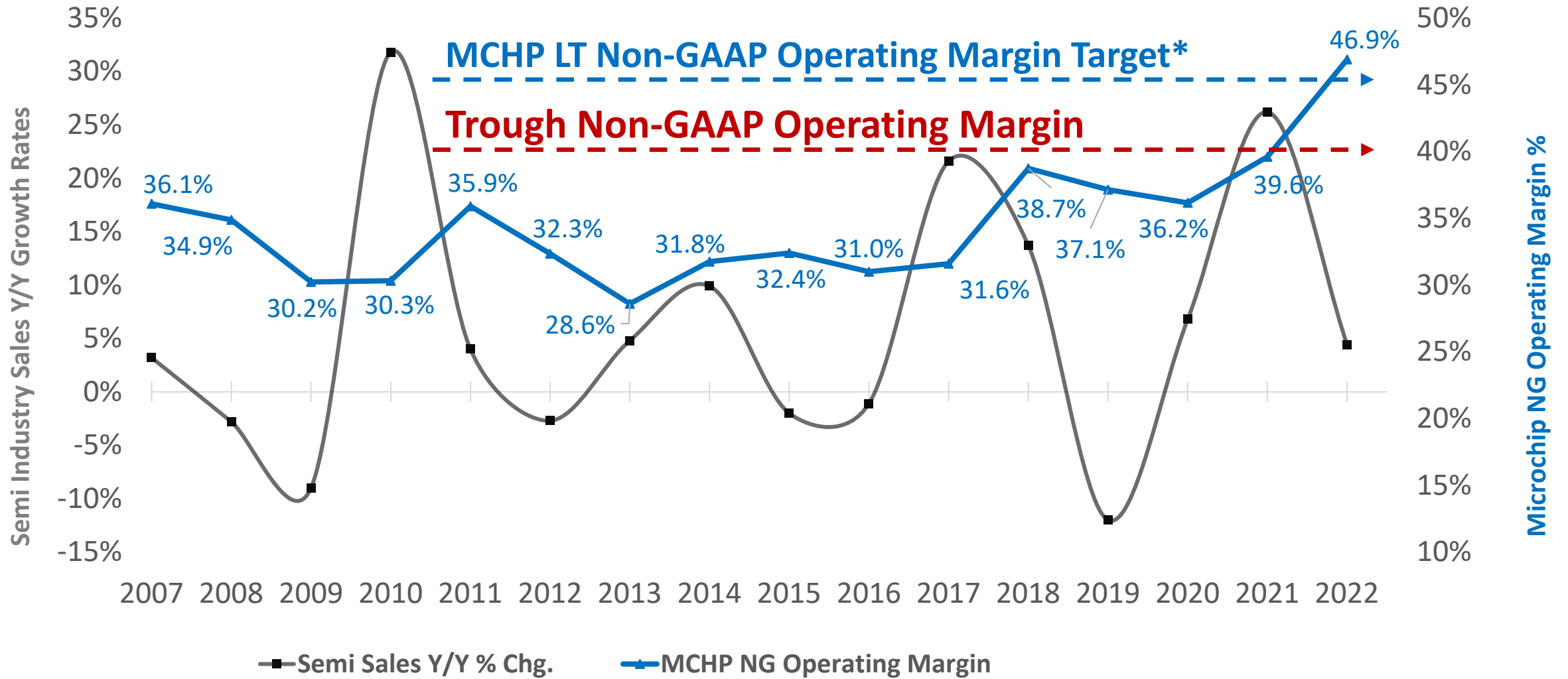
- MCHP's non-GAAP gross margin % is based on fiscal year ending March 31. Non-GAAP gross margin for 2022, represents actual results for FY23

- Semi sales Y/Y growth is sourced from SIA



# Improving Efficiency Through Cycles

**FQ1'24 Non GAAP  
OM % = 48.1%**



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

- MCHP's non-GAAP operating margin % is based on fiscal year ending March 31. Non-GAAP gross margin for 2022, represents actual results for FY23

- Semi sales Y/Y growth is sourced from SIA

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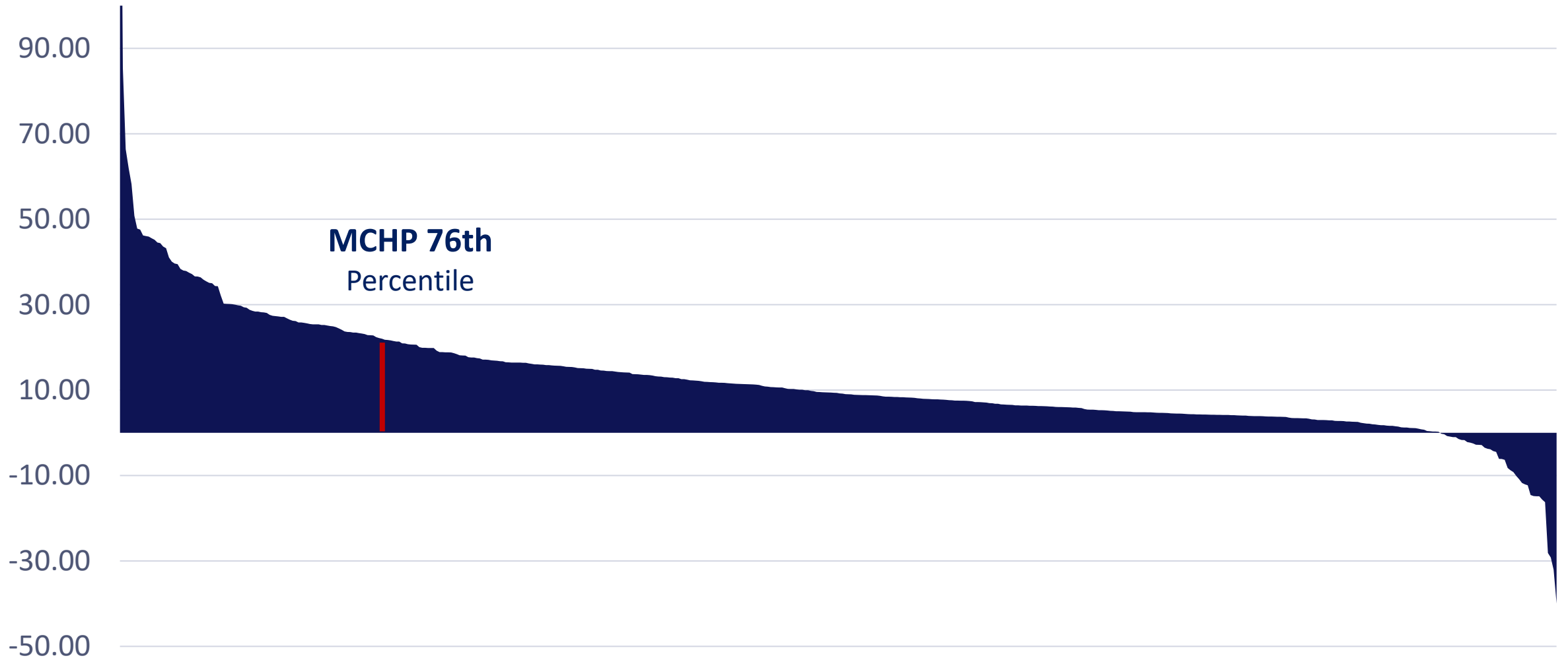
Elite long-term non-GAAP business model of  
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44% - 46% Operating Margin

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

# Return on Invested Capital (ROIC), S&P 500



Source: FactSet calculated as (Trailing Twelve Months of Net Income / Average Return on Invested Capital)\*100

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

Diversified end-market mix creates consistent and resilient results

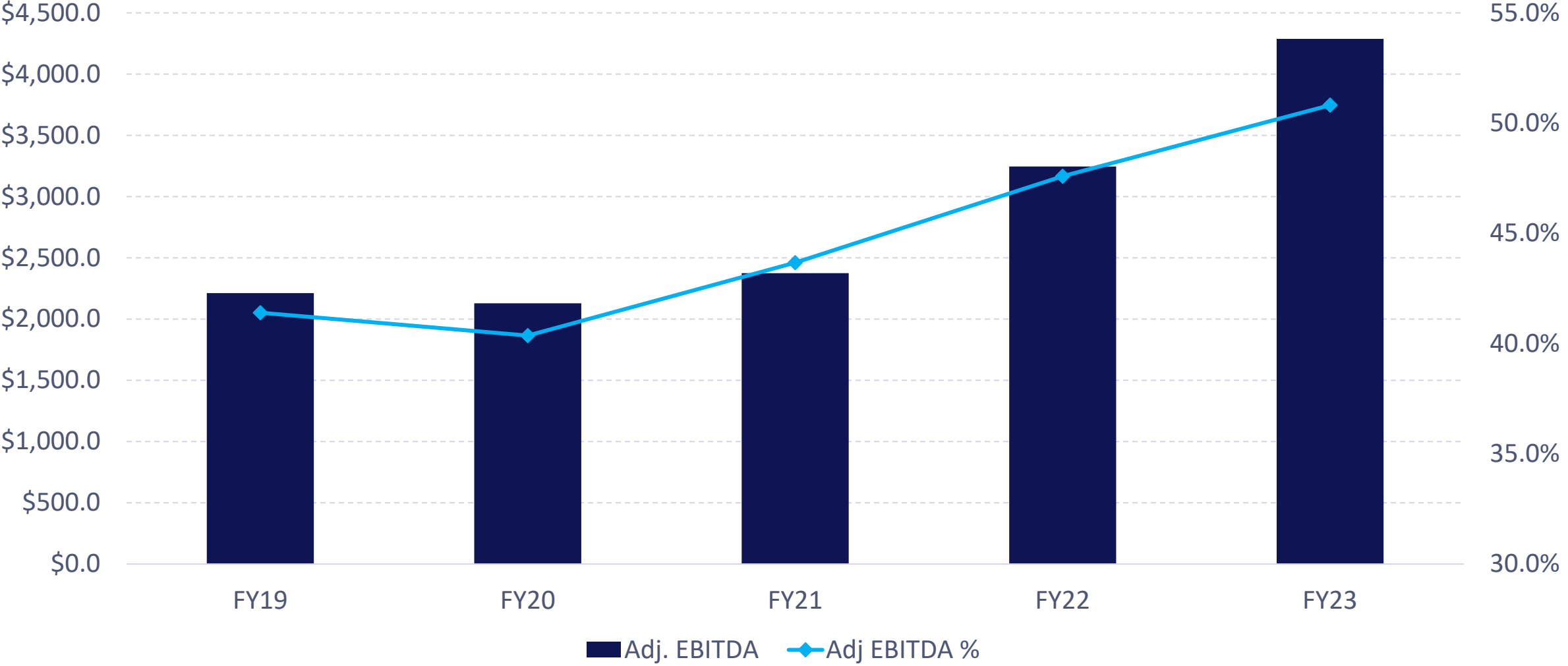
Investment in inventory – 130 - 150 days over business cycles

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

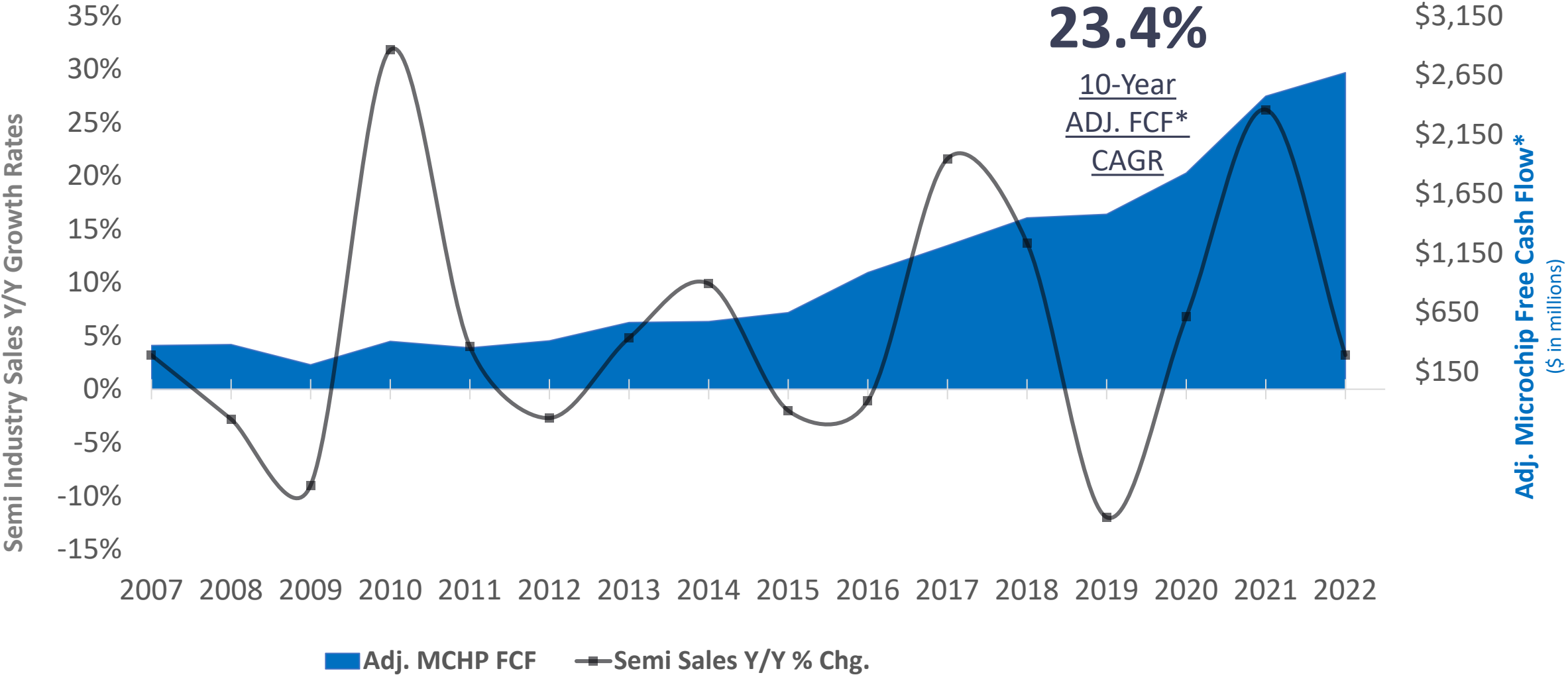
# Adjusted EBITDA Margin

**FQ1'24 EBITDA Margin**  
**\$1.17B = 51.2%**



# Strong Cash Generation Through Cycles

**FQ1'24 Adj. FCF  
\$776M = 33.9%**



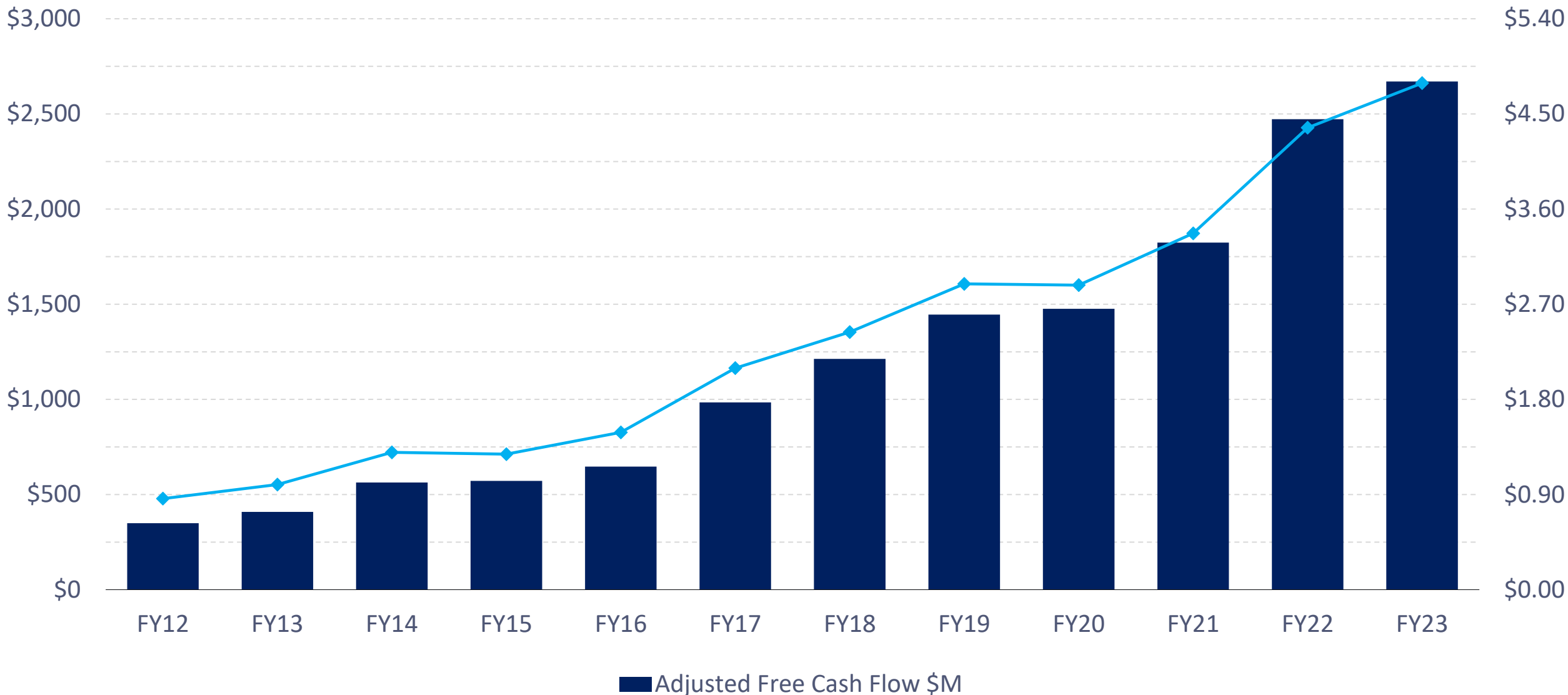
- Semi Sales Y/Y Growth is sourced from SIA

\*Microchip adj. free cash flow (adj. FCF) is based on fiscal year ending March 31. Adj. FCF is defined as cash flow from operations less (capital expenditures + cash collected/paid under long-term supply arrangements).



# Adjusted Free Cash Flow Per Share

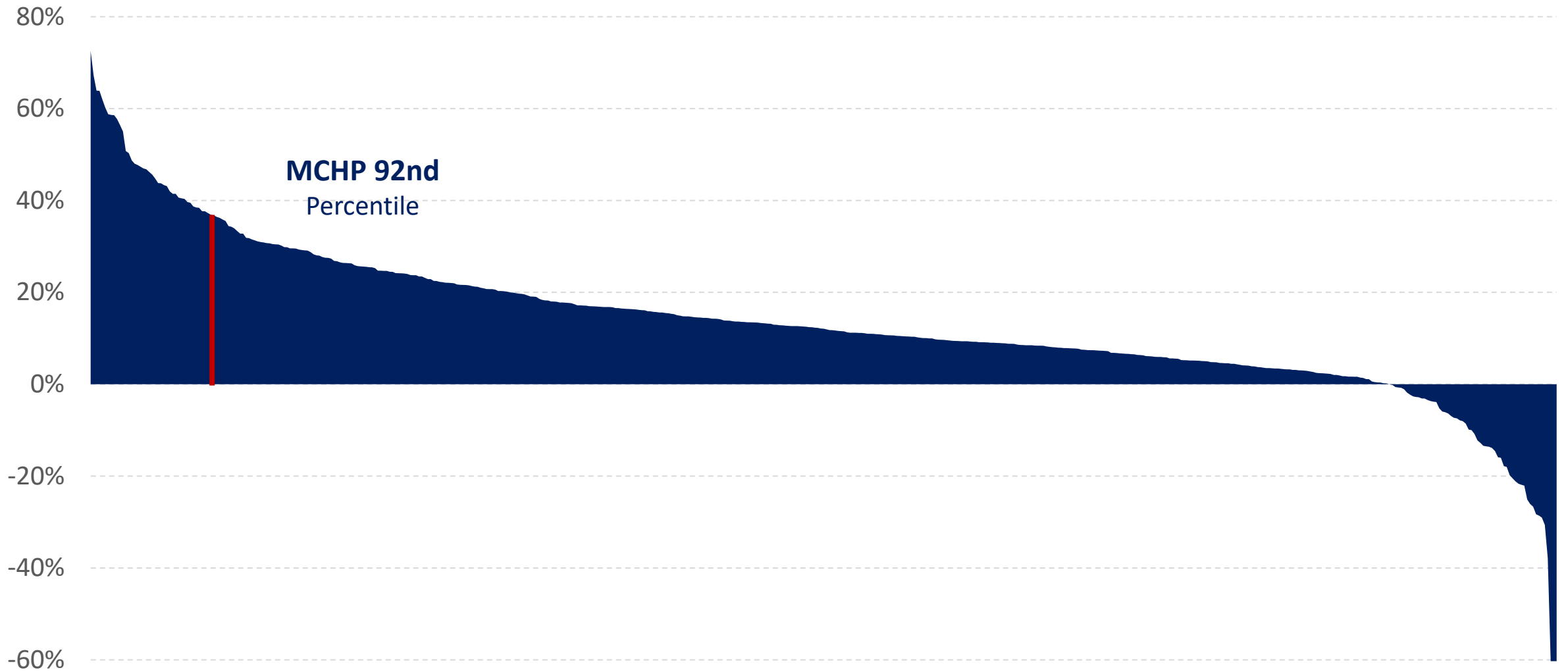
FQ1'24 Adjusted  
FCF/Share = \$1.41



23 \* Microchip adj. free cash flow (adj. FCF) is based on fiscal year ending March 31. Adj. FCF is defined as cash flow from operations less (capital expenditures + cash collected/paid under long-term supply arrangements)



# Free Cash Flow as % of Revenue, S&P 500

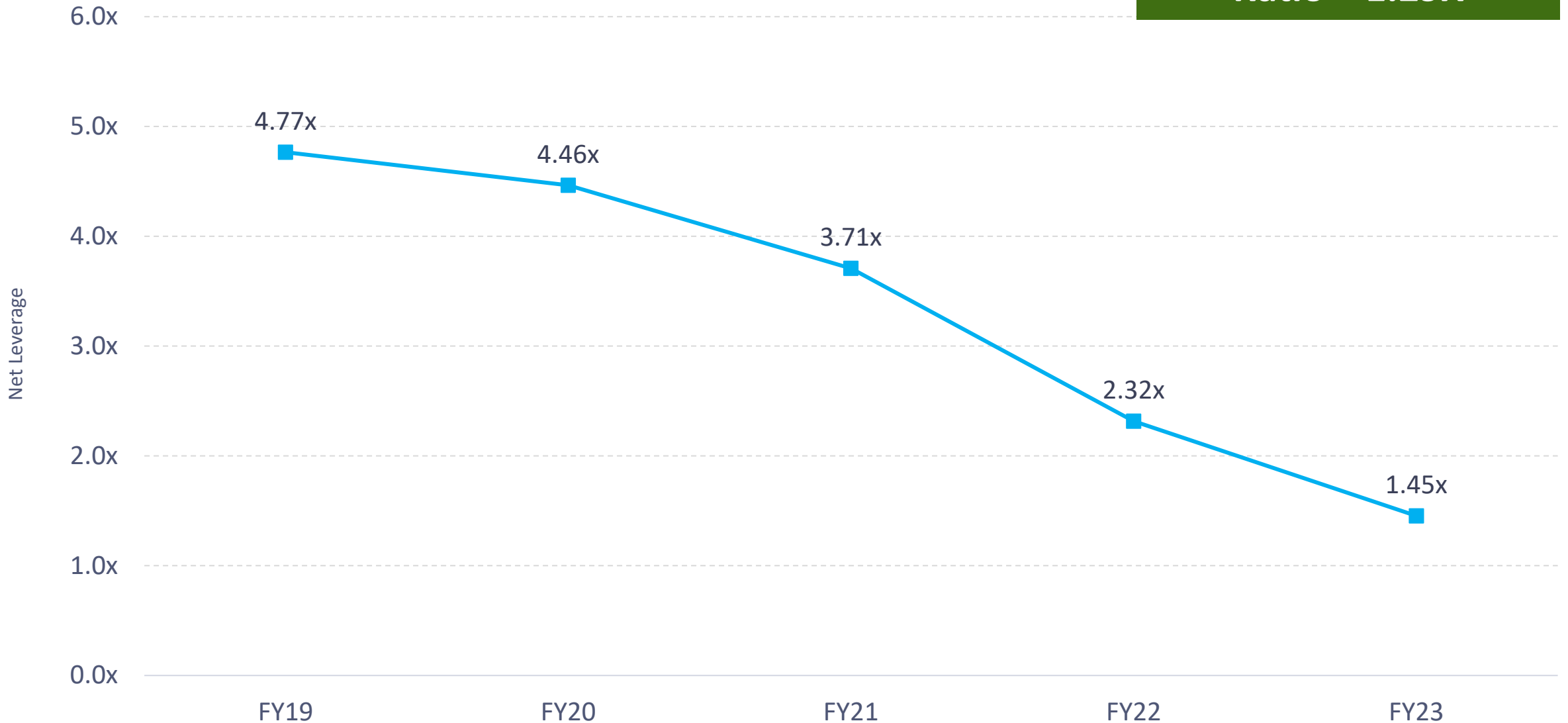


Source: FactSet – Free cash flow is defined as Trailing Twelve Months Net Cash flow from operating activities – Capital expenditures



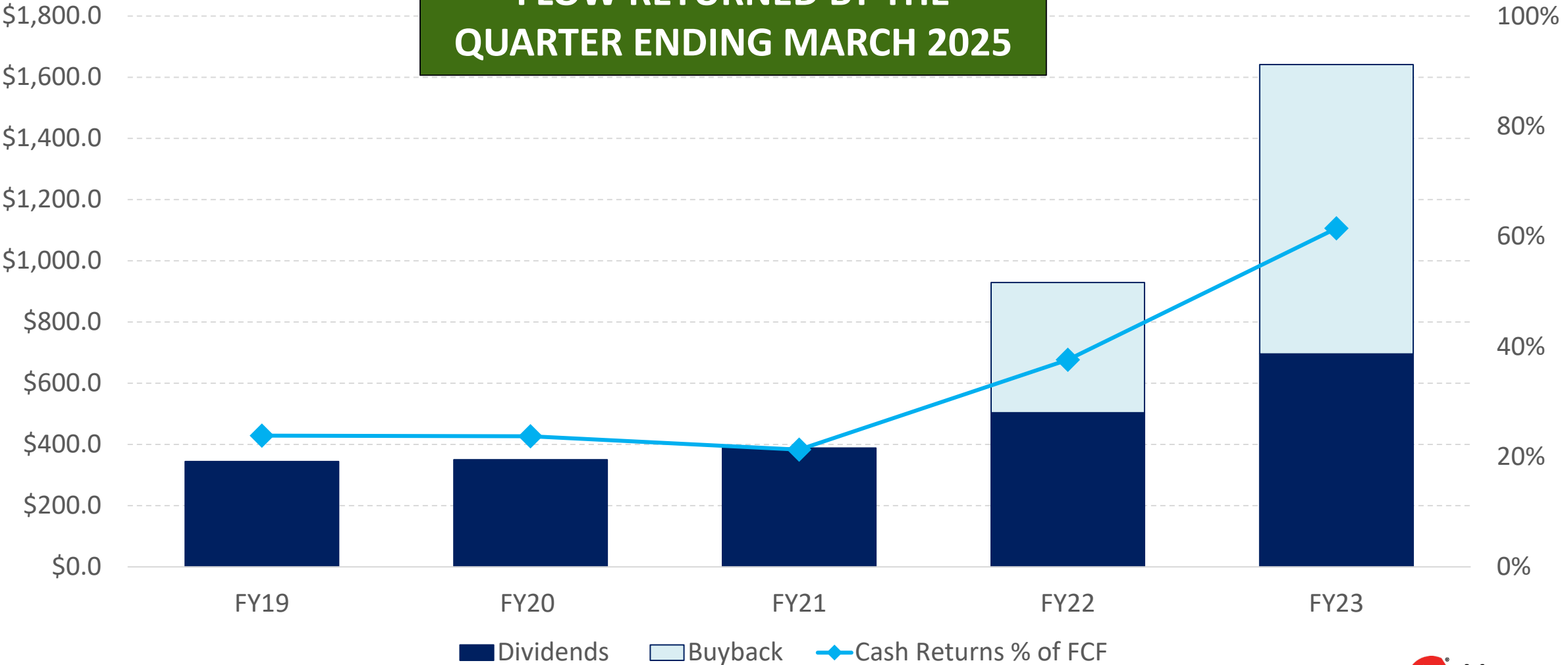
# Net Leverage

FQ1'24 Net Leverage  
Ratio = 1.29X

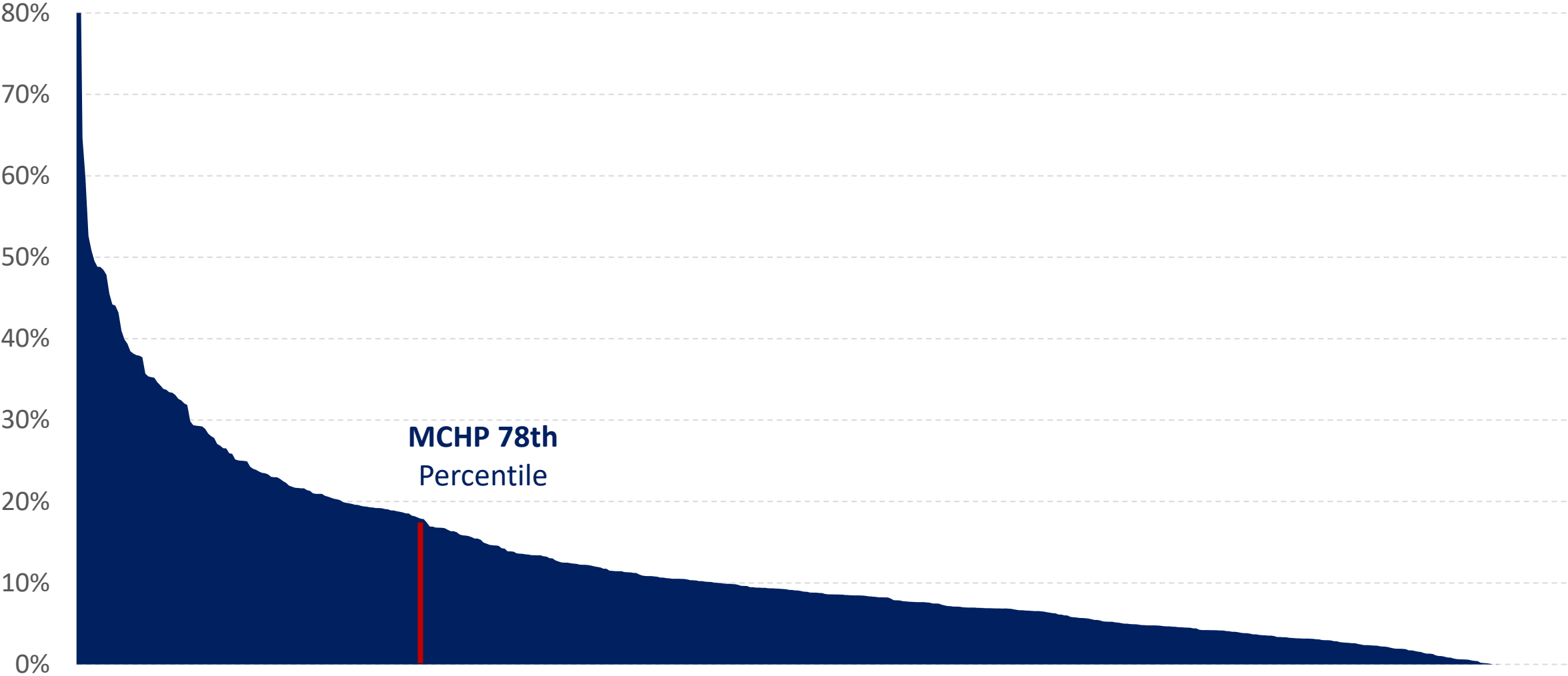


# Accelerating Free Cash Flow Returned

**TARGETING 100% OF FREE CASH FLOW RETURNED BY THE QUARTER ENDING MARCH 2025**



# Cash Returns as % of Revenue, S&P 500



Source: FactSet.  
Cash returns as a % of Revenue = ((TTM Dividend paid + TTM Share Buy Back) / TTM Total Revenue)



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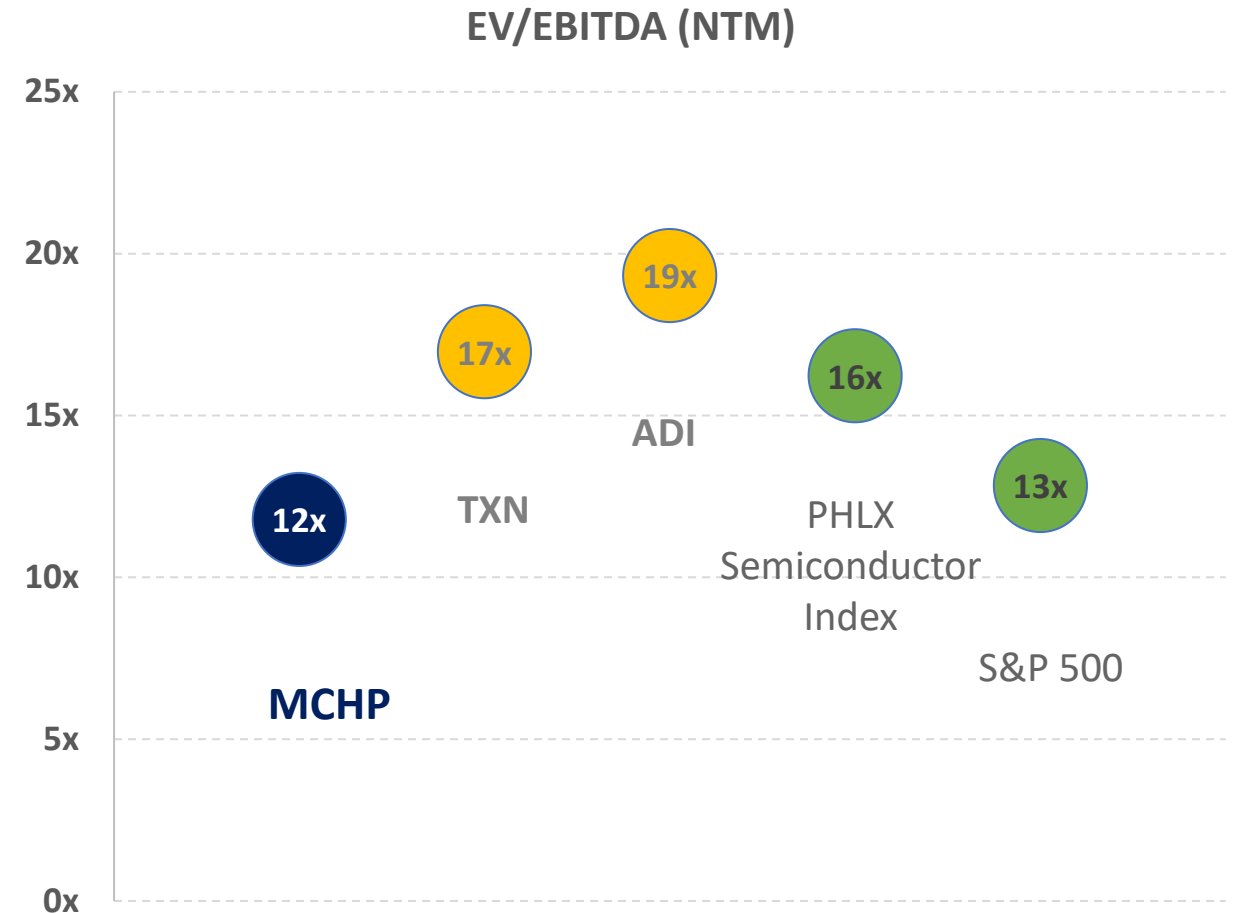
Increase capital returned to shareholders to 50% of Adj. FCF, rising to 100% of Adj. FCF as net leverage drops to  $\leq 1.5X$

Strong business foundation based on culture and sustainability

# Compelling Valuation

## Premium Performance at a Significant Discount

- 5 Year Revenue CAGR of 10% to 15%\*; 16.4% CAGR over last 30 years
- TTM non-GAAP gross margin of 68.0% and non-GAAP operating margin of 47.5%
- TTM Adj. EBITDA of \$4.5B represents 51.0% of revenue
- TTM adjusted Free Cash Flow (FCF) in the 92<sup>nd</sup> percentile of all S&P 500 companies
- On track to return 100% of adjusted FCF to shareholder by the March 2025 quarter



**MCHP 3.0 Should Drive Significant Multiple Expansion!**

Source: Company Data as of Q1FY24 and FactSet data as of 8/25/2023

EV/EBITDA is defined as Enterprise value divided by next twelve months EBITDA

\* 5-year CAGR of 10%-15% is based on FY21 as the baseline

# Summary

- **Consistent long-term growth from durable end markets**
- **Outstanding and improving gross and operating margins**
- **Strong FCF generation resulting in rapid net leverage reduction and increasing capital return**

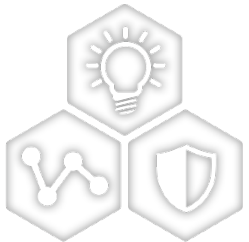
*Compelling valuation relative to peer group!*

**Thank You!**



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



SMART | CONNECTED | SECURE