

Citi's 2022 Global Technology Conference



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

Ganesh Moorthy
President & CEO
September 8, 2022



SMART | CONNECTED | SECURE

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, market and industry trends, market size, Microchip 3.0, our financial model, managing a soft landing, competitive advantages, capital return strategy including dividend growth and target cash return, and compelling valuation relative to our peer group. 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 economic uncertainty due to 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 (including increases in interest rates), political, geopolitical, trade or other issues in the U.S. or internationally (including the Ukraine-Russia military conflict), any further 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 and our ability to meet any continued increases in market demand; 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; 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 that the recently enacted CHIPS Act will have on increasing manufacturing capacity in our industry by providing incentives for us, our competitors and foundries to construct new wafer manufacturing facilities; 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 inflation on our business; the impact of any future significant acquisitions that 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) or the SEC's website (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 margin and operating margin 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 and certain supplemental information and reconciliations are available on our website at www.microchip.com/investors under the heading "Supplemental Financial Information".

Corporate Overview

Leading Total Systems Solutions Provider:

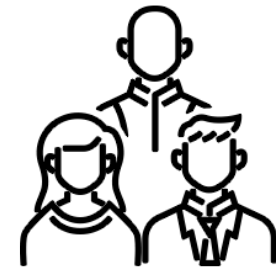
- High-performance standard and specialized Microcontroller, Digital Signal Controller and Microprocessor solutions
- Mixed-Signal, Analog, Interface and Security solutions
- Clock and Timing solutions
- Wireless and Wired Connectivity solutions
- FPGA solutions
- Non-volatile EEPROM and Flash Memory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



\$6.8 Billion Revenue
in FY2022



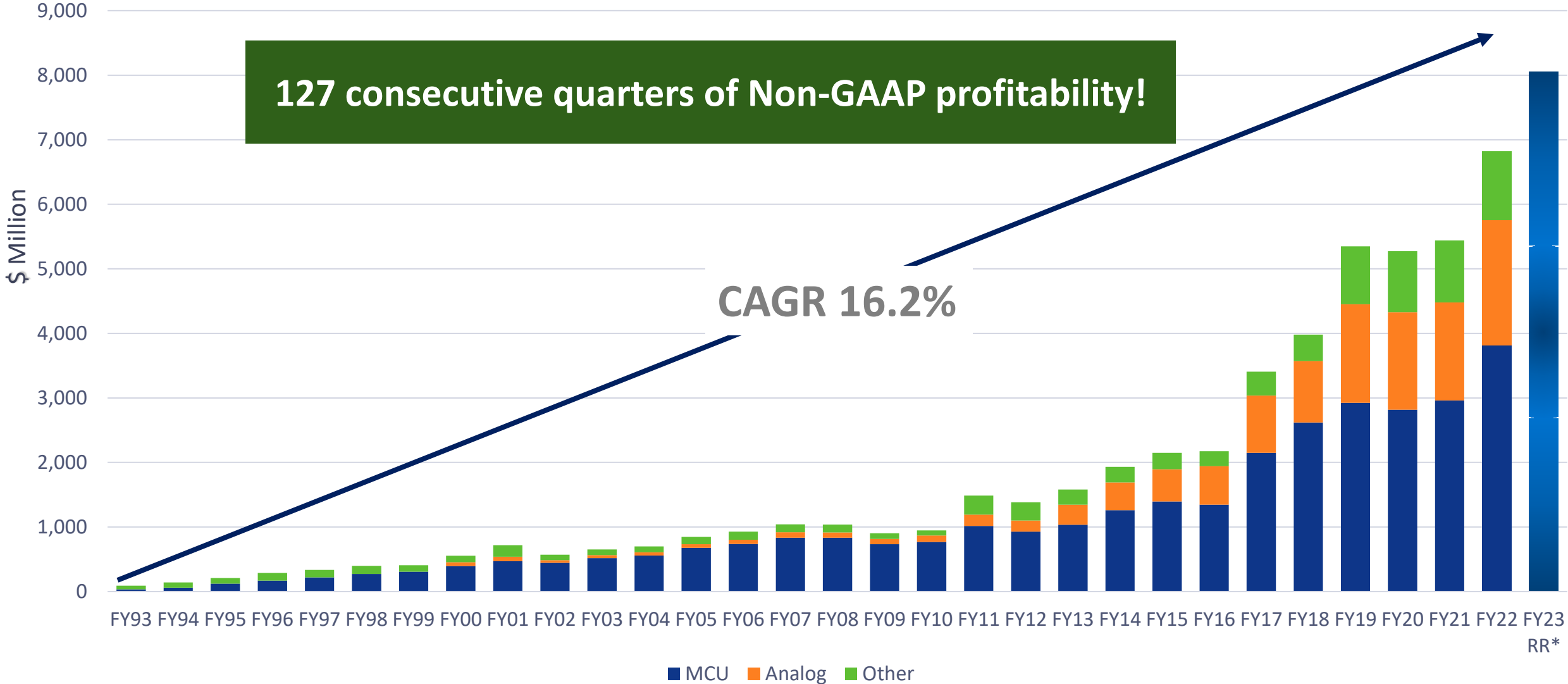
Headquartered near
Phoenix in Chandler, AZ



~21,000
Employees

Consistent Revenue Growth

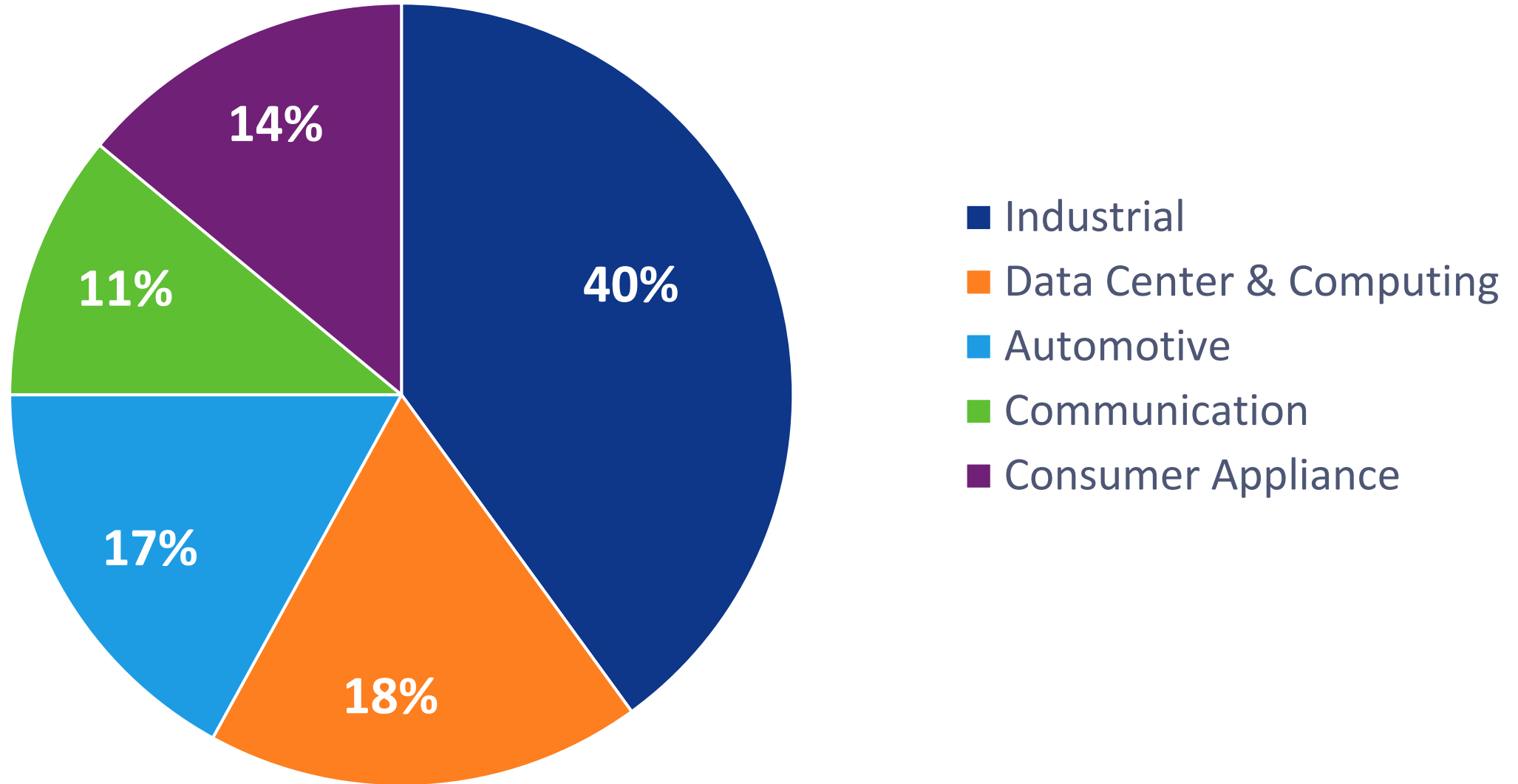
127 consecutive quarters of Non-GAAP profitability!



* Run rate for FY23 represents (actual results for the first quarter + midpoint of guidance provided on August 02, 2022 * 2)



FY22 Revenue By End Market



FQ1 Results (Non-GAAP)

- **Record revenue of \$1.964 billion; grew 6.5% QoQ and 25.1% YoY**
 - 7 consecutive quarters of record revenue
- **Record gross margin of 67.1%; increased 230 basis points YoY**
- **Record operating margin of 45.6%; increased 390 basis points YoY**
- **Record earnings per share of \$1.37; increased 38.4% YoY**
- **Reduced net debt by \$293.3 million**
 - Cumulatively paid down \$5.21 billion of debt over the last 16 quarters
- **Record adjusted EBITDA of \$986.7 million or 50.2% of revenue**
- **Achieved net debt to adjusted EBITDA ratio of 2.05**
- **Free cash flow of \$718.5 million or 36.6% of revenue**
- **Total cash return of \$348.2 million**
 - Share repurchases of \$195.2 million and Dividends of \$153 million
- **Announced record dividend of 30.1 cents per share for Q2FY23**

Fiscal 2nd Quarter 2023 Guidance (Non-GAAP)*

	Q1 FY23 Actual	Q2 FY23 Guide @ mid-point	Long Term Model
Revenue (\$ Million)	\$1,963.6 ↑ 6.5% QoQ 25.1% YoY	\$2,062.0 ↑ 5.0% QoQ 25.0% YoY	FY22 – 26 CAGR of 10% to 15%
Gross Margins	67.1%	67.5%	67.5% to 68.5%
Operating Expenses	21.5%	21.5%	22.5% to 23.5%
Operating Margins	45.6%	46.0%	44% to 46%
Earnings per share	\$1.37 ↑ 38.4% YoY	\$1.44** ↑ 34.6% YoY	

* Represents guidance provided on August 02, 2022

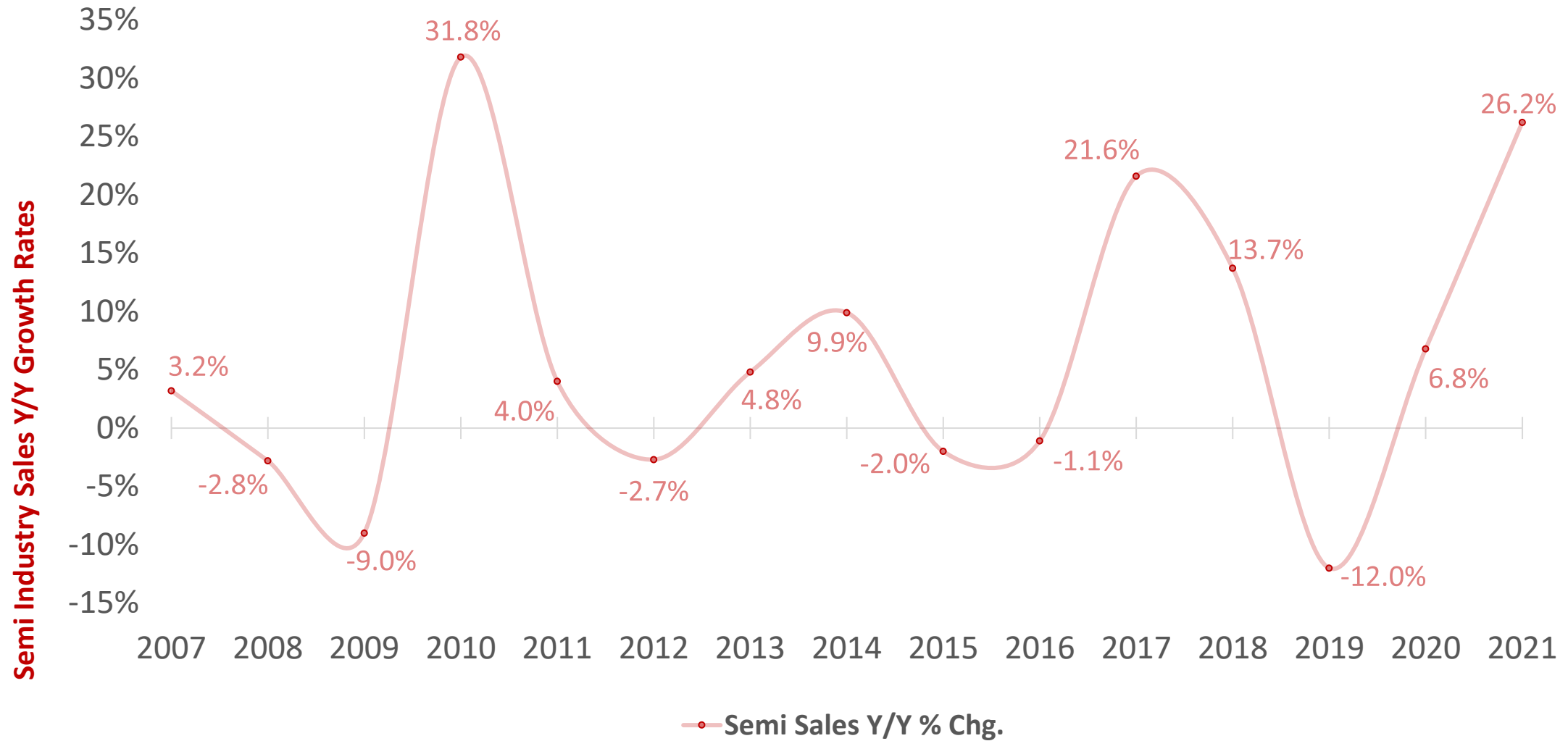
** Includes increase in cash tax rate in FY23

Additional guidance metrics can be found in the Q1 FY2023 earning release. [Click here](#)

Managing A Soft Landing

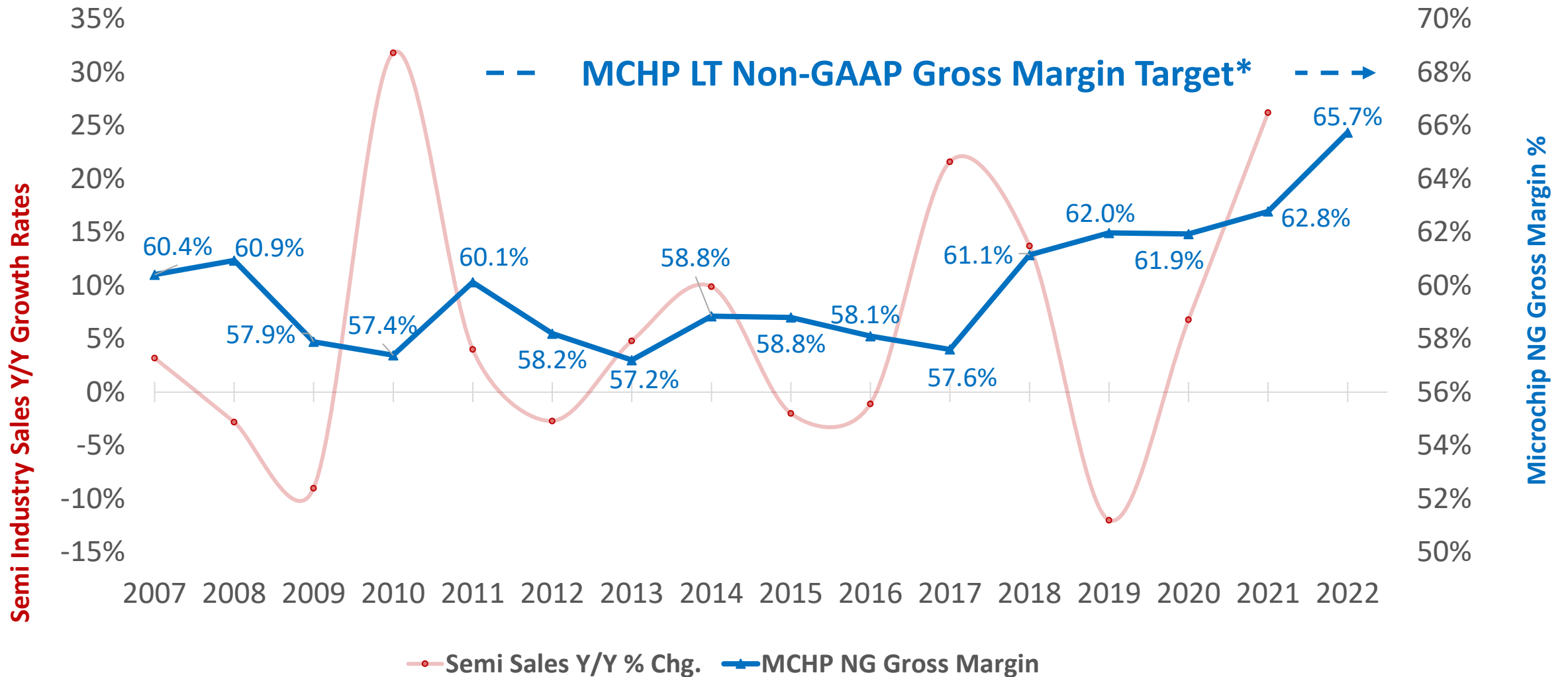
- **We recognize that macro conditions are weakening, although our business remains strong**
 - We expect to be supply constrained throughout 2022 and into 2023
- **If or when macro weakness catches up to our business, we believe we can achieve a soft landing because:**
 - Strong PSP (≥ 12 months NCNR) 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 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

Resilient Profitability Through Cycles

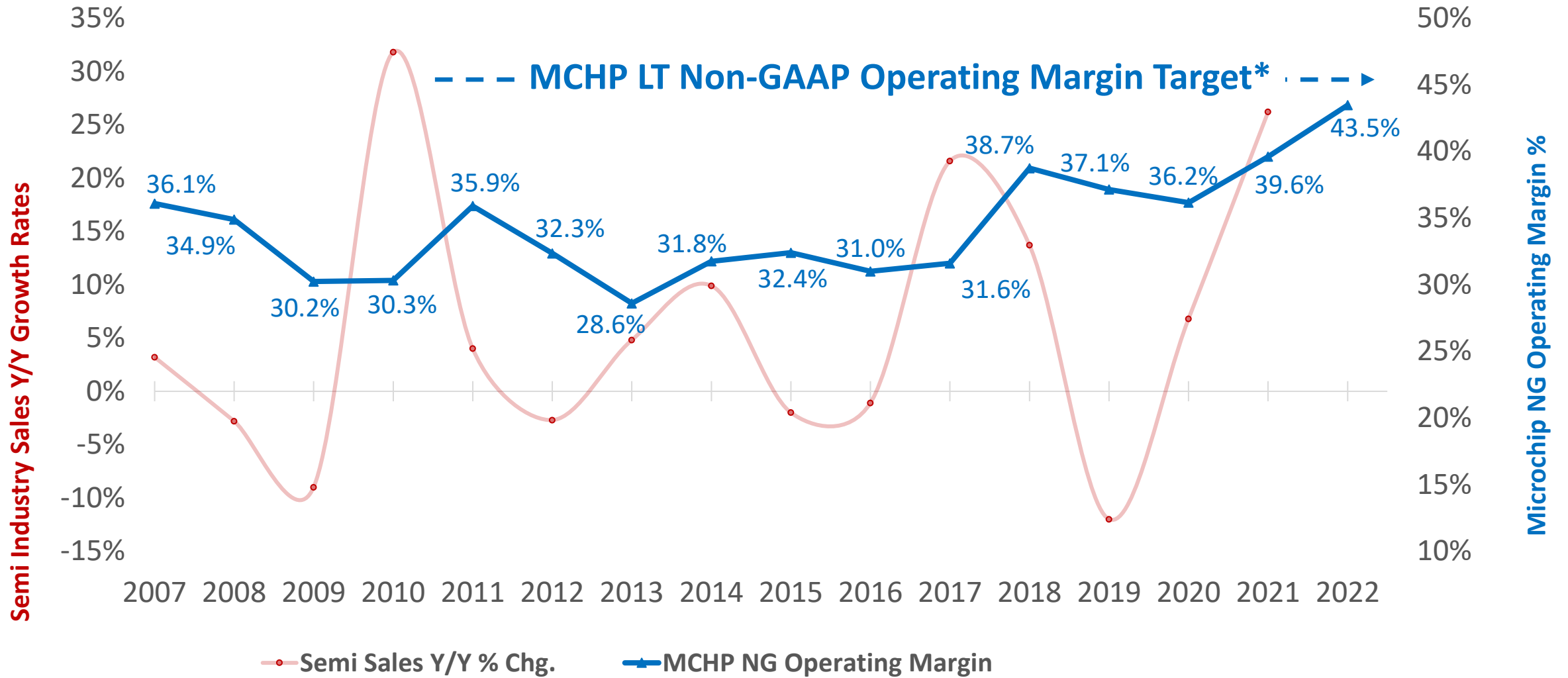


* Long-term target range 67.5% to 68.5%

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

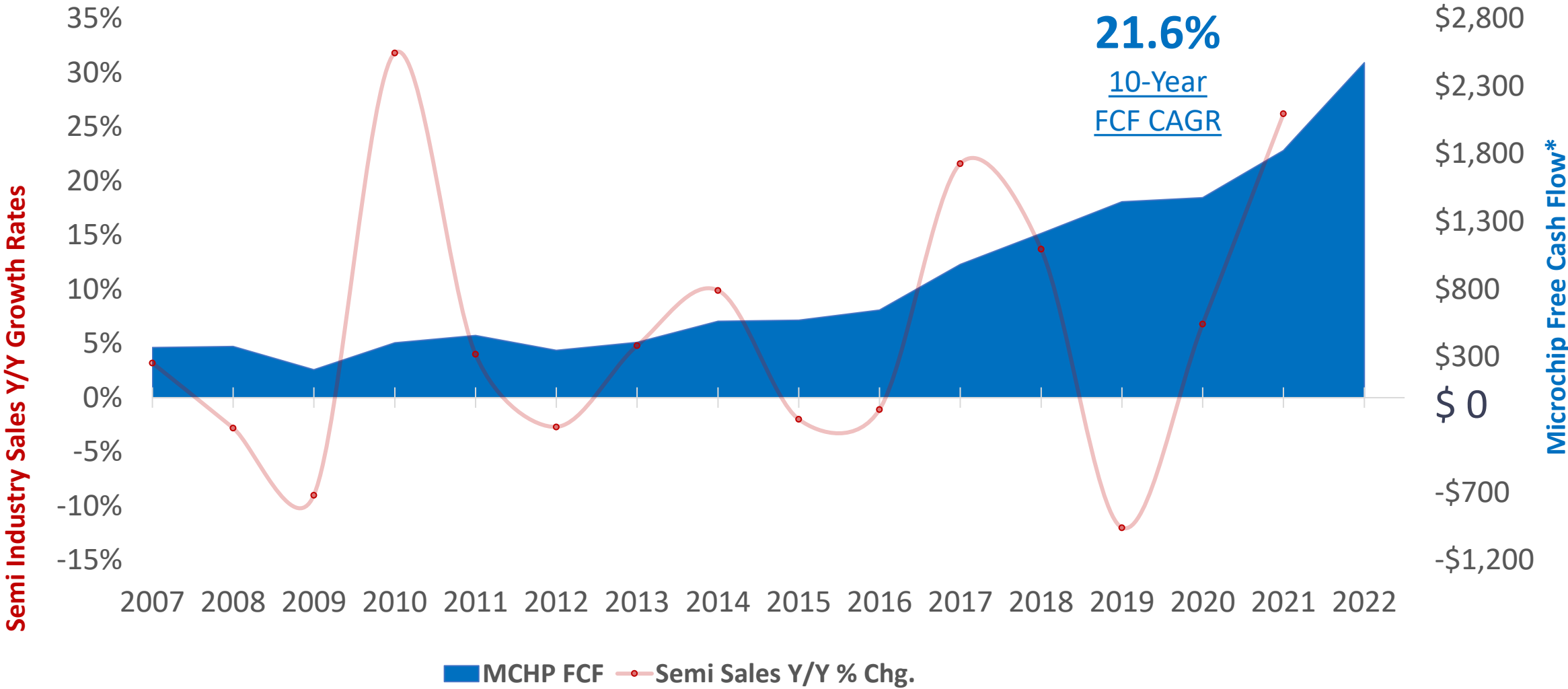


* Long-term target range 44% to 46%

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

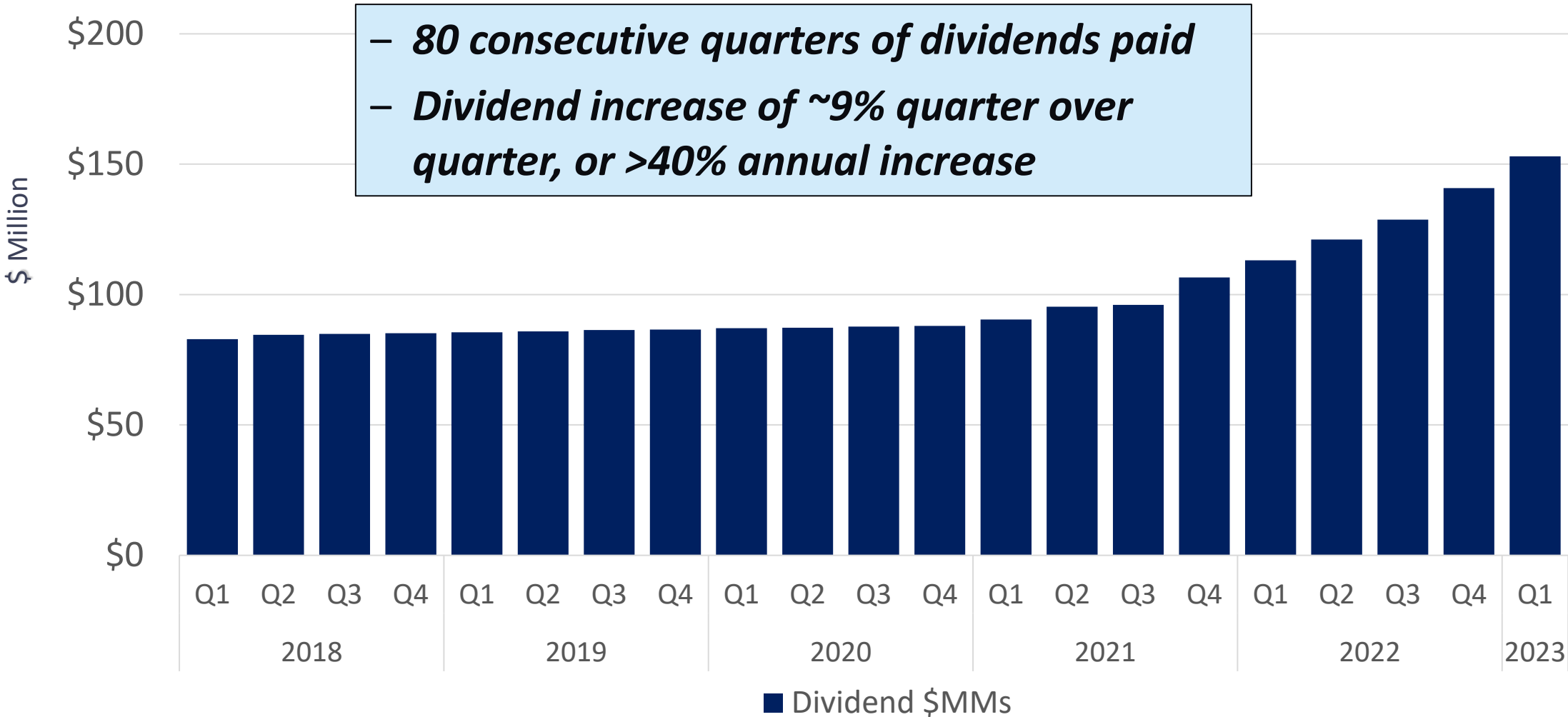
Semi Sales Y/Y Growth source BOA Global Research, IMF, and SIA

Strong Free Cash Flow Generation Through Cycles

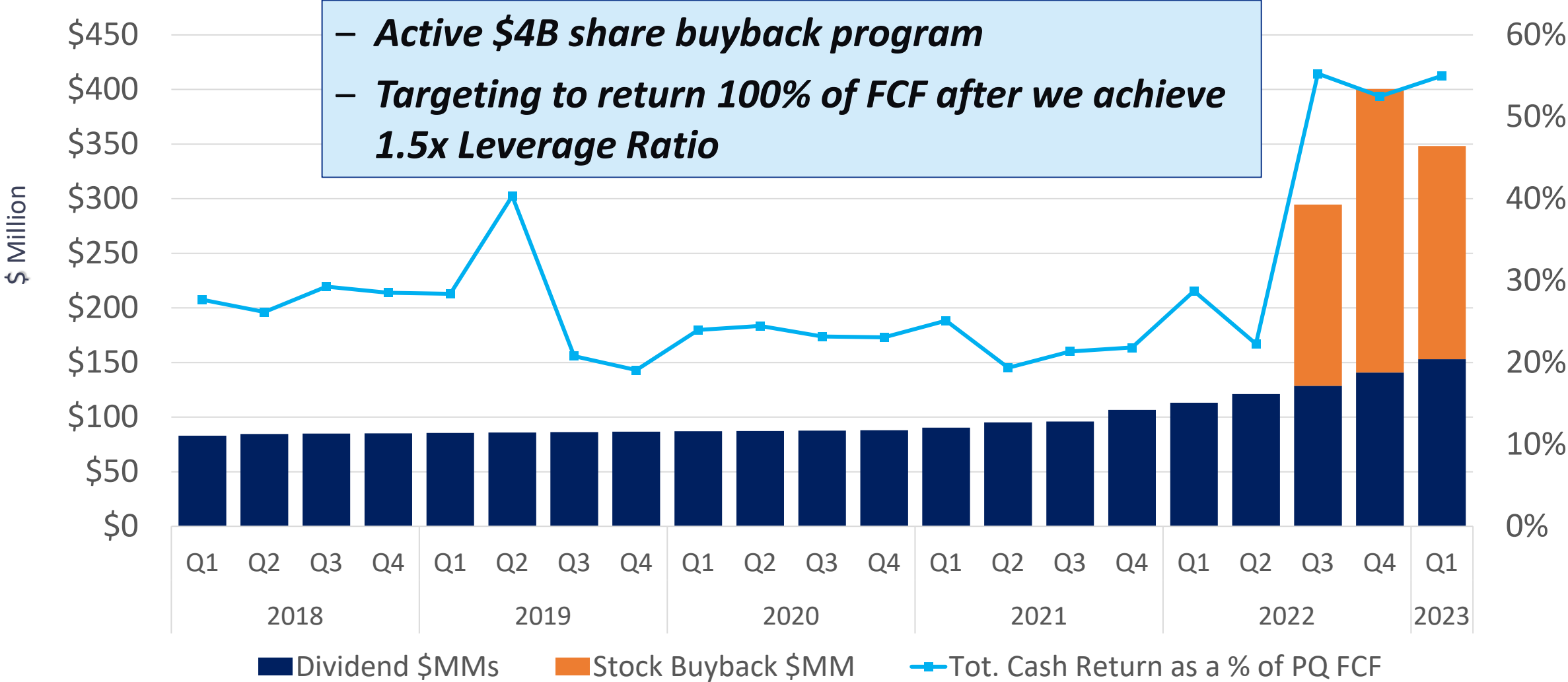


* Microchip free cash flow (FCF) is based on fiscal year ending March 31. FCF is defined as cash flow from operations less capital expenditures.
Semi Sales Y/Y Growth is sourced BOA Global Research, IMF, and SIA

Capital Returned – Dividends



Capital Returned – Dividends + Share Buybacks



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

Our Purpose: Empowering innovation which enhances the human experience by delivering smart, connected and secure solutions

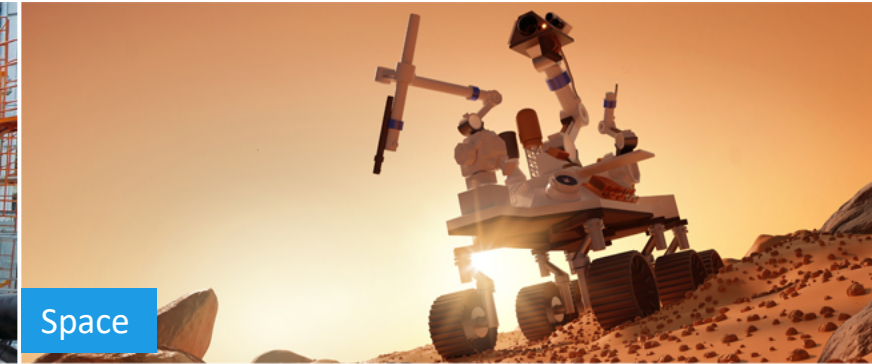
Empowering Innovation



Consumer



Industrial



Space



Sustainability



Automotive



Medical



Data Center



Defense



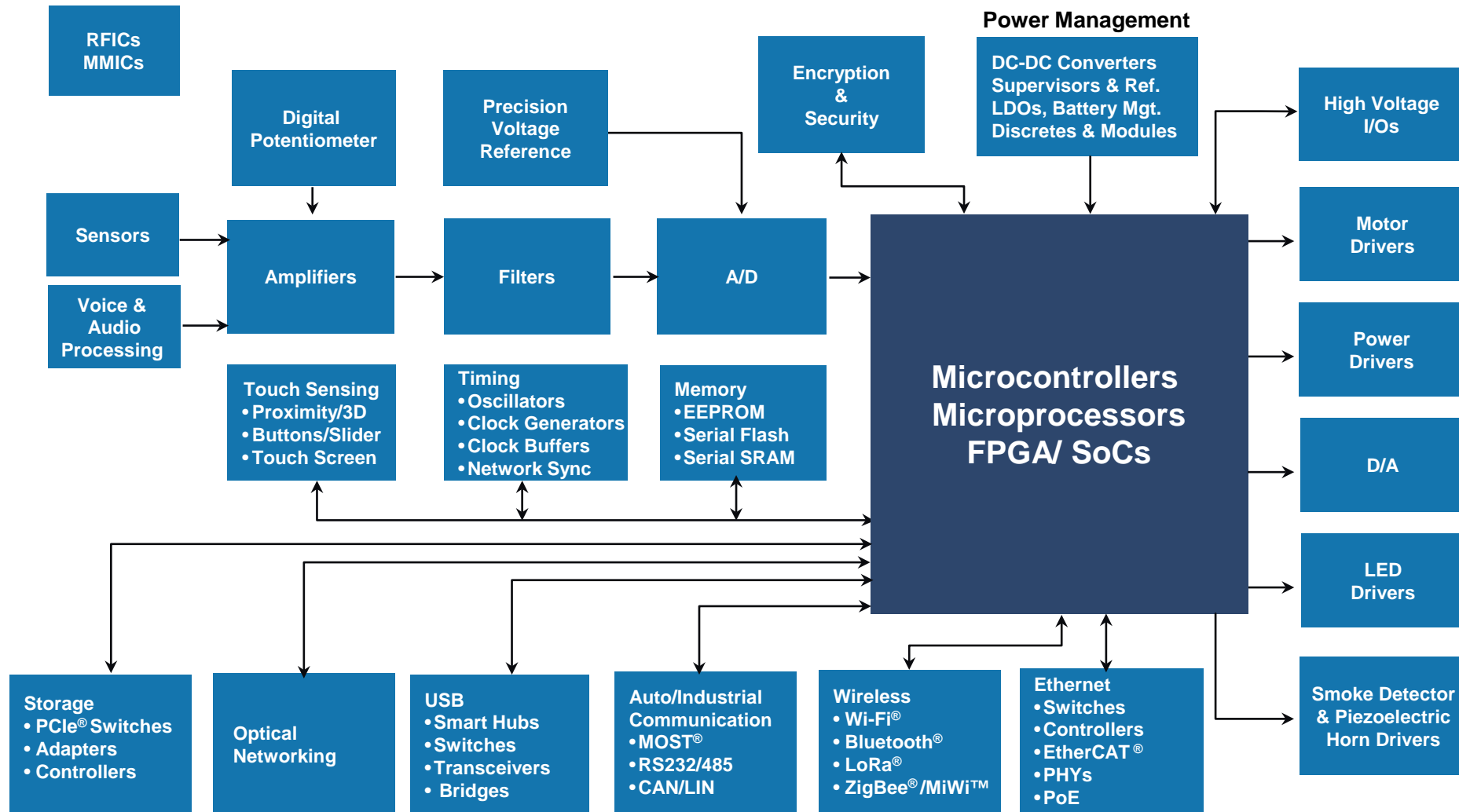
Communication Infrastructure



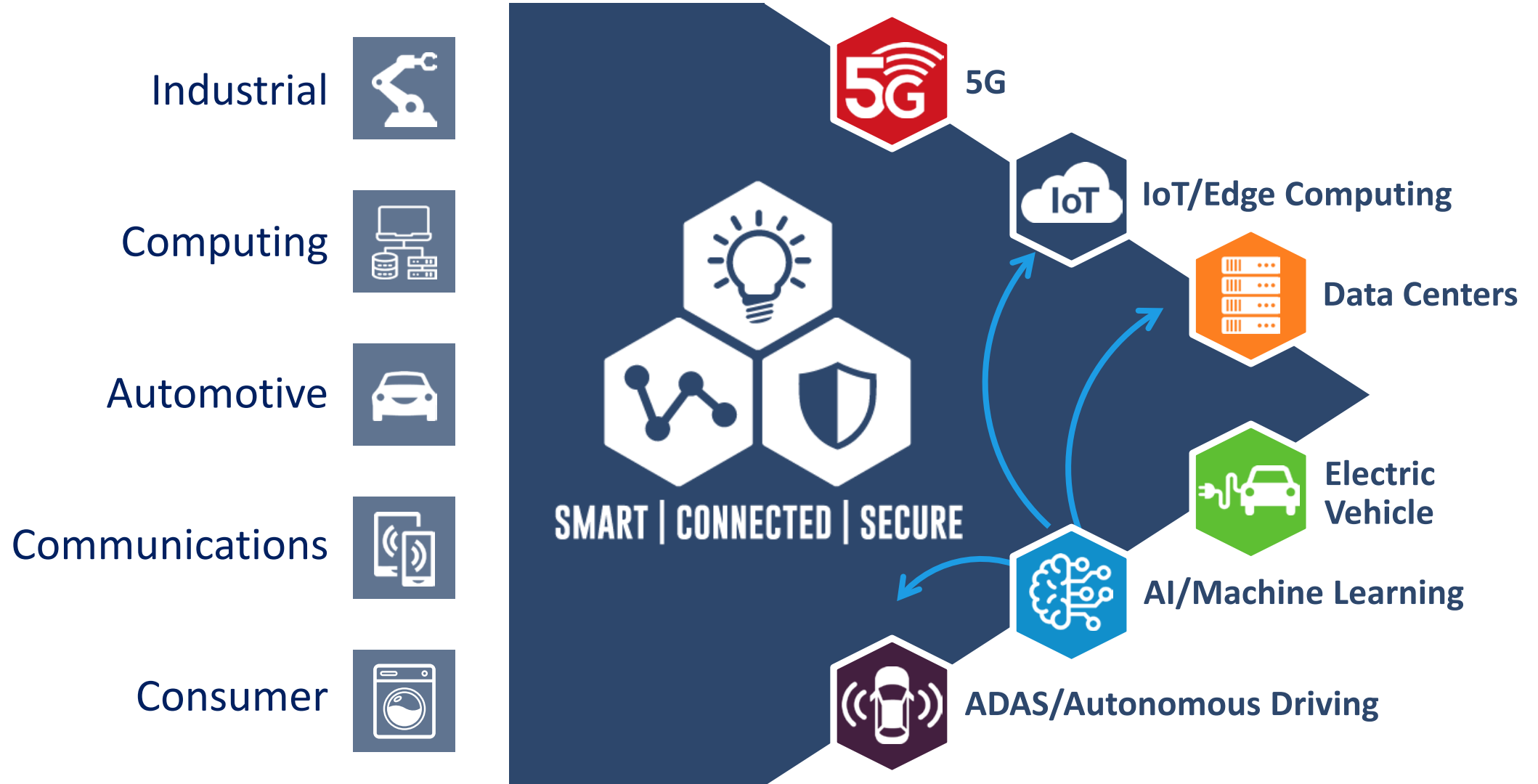
Aviation

Providing Total System Solutions

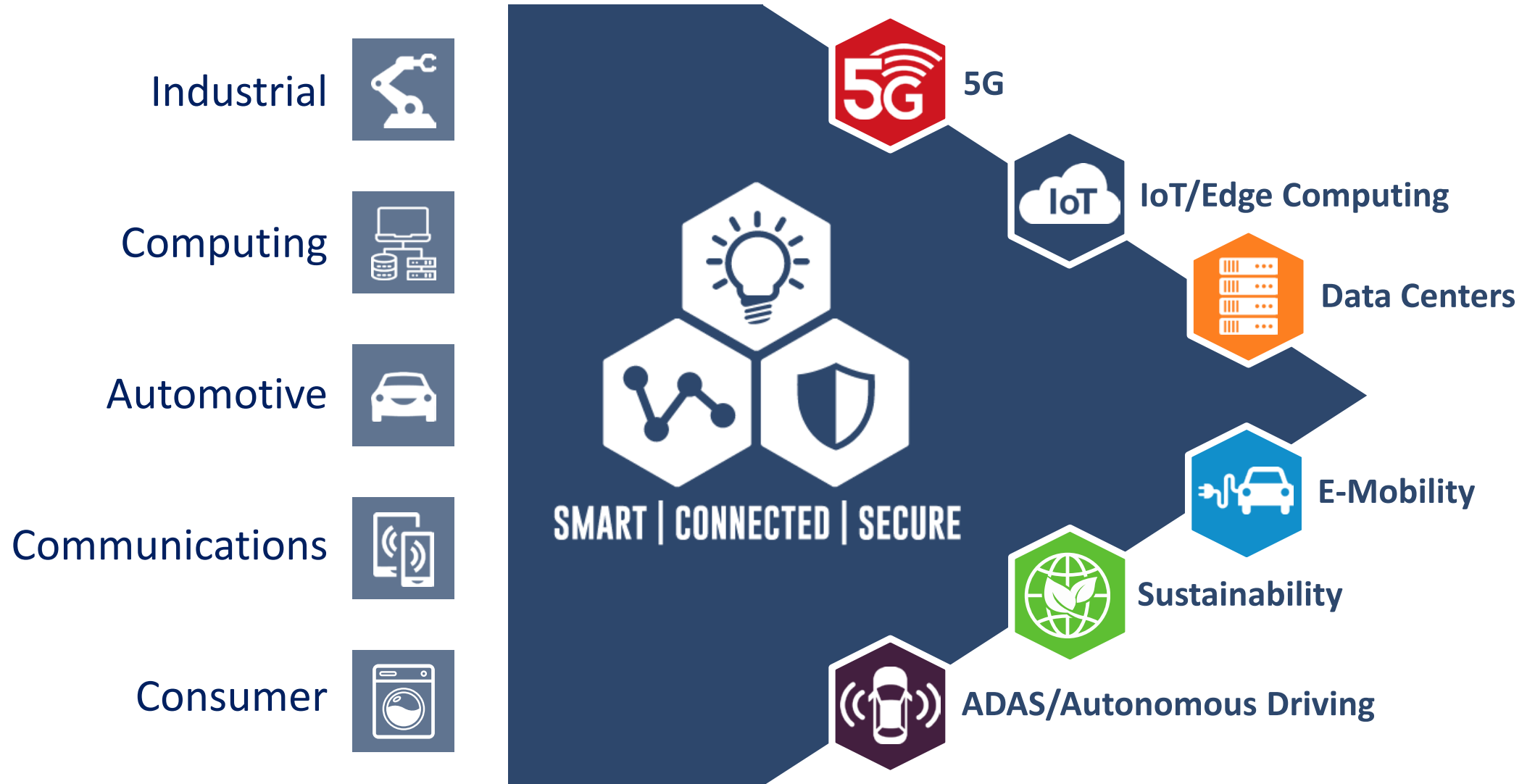
Portfolio of Hardware, Software and Services



Megatrends



Megatrends



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

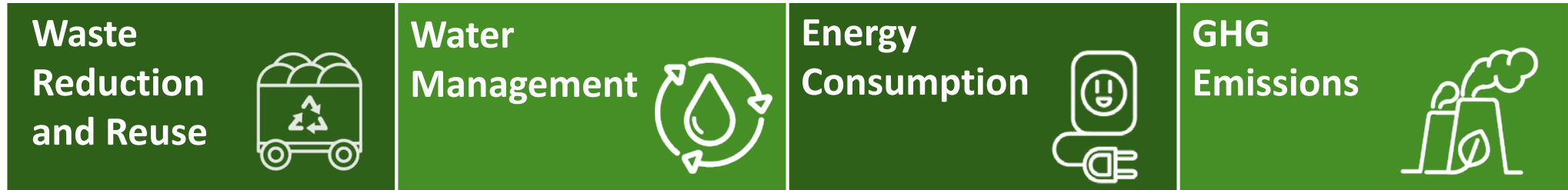
- Smart Electric/Water/Gas Meters
- In-Home Energy Displays and Awareness Systems
- Motion Sensors
- Gas Leak Detection
- Building Management (Light, Energy use)



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

Environmental Stewardship



NET ZERO BY
2040

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 specialty 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

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





Appendix

Non-GAAP Reconciliation

	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23**
Net Sales, as reported*	\$ 1,383.2	\$ 1,581.6	\$ 1,931.2	\$ 2,147.0	\$ 2,173.3	\$ 3,407.8	\$ 3,980.8	\$ 5,349.5	\$ 5,274.2	\$ 5,438.4	\$ 6,820.9	\$ 8,050.8
Distributor revenue recognition adjustment	-	24.8	-	13.6	40.5	93.9	-	-	-	-	-	-
Non-GAAP Net Sales	\$ 1,383.2	\$ 1,606.4	\$ 1,931.2	\$ 2,160.6	\$ 2,213.8	\$ 3,501.7	\$ 3,980.8	\$ 5,349.5	\$ 5,274.2	\$ 5,438.4	\$ 6,820.9	\$ 8,050.8
	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23**
Gross Margin, as reported	\$ 799.3	\$ 838.5	\$ 1,128.7	\$ 1,229.6	\$ 1,205.5	\$ 1,757.2	\$ 2,420.7	\$ 2,931.3	\$ 3,242.1	\$ 3,378.8	\$ 4,449.6	\$ 5,387.2
Share-based compensation expense	5.6	8.2	7.3	9.0	8.3	18.7	13.8	14.9	20.9	26.6	34.3	31.4
Acquisition related	-	-	-	1.8	0.7	3.1	-	0.9	-	-	-	-
Distributor revenue recognition adjustment	-	15.9	-	6.4	23.8	50.3	-	-	-	-	-	-
Manufacturing excursion	-	-	-	-	3.6	(0.5)	(0.6)	-	-	5.8	-	-
Excess capacity charges to normalize acquired inventory levels	-	-	-	-	-	-	-	2.3	-	-	-	-
Acquired inventory valuation costs	-	56.0	0.4	24.4	44.9	186.7	-	365.7	-	-	-	-
COVID-19 shelter-in-place restrictions	-	-	-	-	-	-	-	-	3.3	2.8	-	-
Non-GAAP Gross Margin	\$ 804.9	\$ 918.6	\$ 1,136.4	\$ 1,271.1	\$ 1,286.8	\$ 2,015.5	\$ 2,433.9	\$ 3,315.0	\$ 3,266.4	\$ 3,414.0	\$ 4,483.9	\$ 5,418.6
Non-GAAP Gross Margin Percentage of Non-GAAP Net Sales	58.2%	57.2%	58.8%	58.8%	58.1%	57.6%	61.1%	62.0%	61.9%	62.8%	65.7%	67.3%
GAAP Gross Margin Percentage of Net Sales	57.8%	53.0%	58.4%	57.3%	55.5%	51.6%	60.8%	54.8%	61.5%	62.1%	65.2%	66.9%
	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23**
Operating Income, as reported	\$ 396.5	\$ 178.6	\$ 458.9	\$ 425.6	\$ 352.3	\$ 275.8	\$ 936.3	\$ 714.3	\$ 647.1	\$ 998.1	\$ 1,849.6	\$ 2,853.4
Share-based compensation expense	38.3	58.0	53.8	58.6	71.5	128.1	93.2	149.2	170.2	198.3	210.2	168.4
Acquisition-related restructuring and other costs	0.8	7.3	2.7	5.8	10.4	31.0	10.1	44.1	35.8	4.0	4.9	26.6
Distributor revenue recognition adjustment	-	15.9	-	6.4	23.8	50.3	-	-	-	-	-	-
Manufacturing excursion	-	-	-	-	3.6	(0.5)	(0.6)	-	-	5.8	-	-
Excess capacity charges to normalize acquired inventory levels	-	-	-	-	-	-	-	2.3	-	-	-	-
Acquired inventory valuation costs	-	56.0	0.4	24.4	44.9	186.7	-	365.7	-	-	-	-
COVID-19 shelter-in-place restrictions	-	-	-	-	-	-	-	-	3.3	2.8	-	-
Amortization of acquired intangible assets	11.0	111.5	94.5	176.7	174.9	337.7	485.5	674.1	993.9	932.3	862.5	670.2
Special charges	0.8	32.2	3.0	2.8	4.0	98.6	17.5	33.7	46.7	1.7	29.5	(33.8)
IT security remediation	-	-	-	-	-	-	-	-	6.8	1.5	0.2	-
Professional services - certain legal matters	-	-	-	-	-	-	-	-	3.3	9.5	8.4	1.8
Non-GAAP Operating Income	\$ 447.4	\$ 459.5	\$ 613.2	\$ 700.4	\$ 685.4	\$ 1,107.7	\$ 1,542.0	\$ 1,983.4	\$ 1,907.2	\$ 2,153.9	\$ 2,965.3	\$ 3,686.8
Non-GAAP Operating Income Percentage of Non-GAAP Net Sales	32.3%	28.6%	31.8%	32.4%	31.0%	31.6%	38.7%	37.1%	36.2%	39.6%	43.5%	45.8%
GAAP Operating Income Percentage of Non-GAAP Net Sales	28.7%	11.3%	23.8%	19.8%	16.2%	8.1%	23.5%	13.4%	12.3%	18.4%	27.1%	35.4%

*In FY19, the Company adopted ASC 606, which requires revenue to be recognized when control of the product changes from us to a customer or distributor. Prior to FY19, Net Sales was reported on a sell-through basis, when our distributors sold the inventory to the end customer. Non-GAAP adjustments represent changes in distributor revenue recognition related to our acquisitions.

**Run rate for FY23 represents (actual results for the first quarter + midpoint of guidance provided on August 02, 2022 * 2)



Non-GAAP Reconciliation

	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Net cash provided by operations, as reported	\$ 412.0	\$ 459.4	\$ 676.6	\$ 721.2	\$ 744.4	\$ 1,059.5	\$ 1,419.6	\$ 1,674.8	\$ 1,543.8	\$ 1,916.5	\$ 2,842.7	\$ 3,281.6
Capital expenditures	(62.4)	(50.8)	(113.1)	(149.5)	(97.9)	(75.3)	(206.8)	(228.9)	(67.6)	(92.6)	(370.1)	(532.0)
Free Cash Flow	\$ 349.6	\$ 408.6	\$ 563.5	\$ 571.7	\$ 646.5	\$ 984.2	\$ 1,212.8	\$ 1,445.9	\$ 1,476.2	\$ 1,823.9	\$ 2,472.6	\$ 2,749.6
Free Cash Flow Percentage of Non-GAAP Net Sales	25.3%	25.4%	29.2%	26.5%	29.2%	28.1%	30.5%	27.0%	28.0%	33.5%	36.3%	34.2%

Adjusted EBITDA*

	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Net income, as reported	\$ 336.7	\$ 127.4	\$ 395.3	\$ 369.0	\$ 324.1	\$ 164.6	\$ 255.4	\$ 355.9	\$ 570.6	\$ 349.4	\$ 1,285.5	\$ 2,073.6
Discontinued operations, net	-	-	-	-	-	6.0	-	-	-	-	-	-
Noncontrolling interests	-	-	-	(3.7)	(0.2)	-	-	-	-	-	-	-
Interest expense	34.3	40.9	48.7	62.0	104.0	146.3	199.0	502.9	497.3	356.9	257.0	210.0
Income tax (benefit) expense	43.0	24.8	37.1	(19.4)	(42.6)	(80.8)	481.9	(151.4)	(420.2)	(9.9)	197.0	561.2
Depreciation	86.4	88.3	89.7	97.3	103.8	122.9	123.7	180.6	168.9	160.6	209.1	274.8
Amortization	13.0	115.8	99.4	181.0	179.3	346.3	492.2	695.8	1,046.7	992.7	934.4	750.6
Special charges and other, net	0.8	32.2	3.0	2.8	4.0	98.6	17.5	16.5	46.7	1.7	29.5	(33.8)
Share based compensation expense	38.3	58.0	53.8	58.6	71.4	128.2	93.2	166.7	170.2	198.3	210.2	168.4
Non-cash losses, charges or expenses	-	-	-	-	23.8	50.3	-	-	-	-	-	-
Acquisition related and non-operating expenses and income	-	56.0	0.7	24.7	48.6	217.3	10.8	409.7	49.2	23.6	13.4	28.4
Other loss (income)	0.4	0.4	(5.9)	(13.7)	(8.9)	(1.3)	5.8	2.2	(3.2)	3.8	(2.8)	(3.4)
Interest income	(12.4)	(15.6)	(16.5)	(19.5)	(24.4)	(3.1)	(22.0)	(8.1)	(2.8)	(1.7)	(0.5)	(0.4)
Losses on equity method investments	0.2	0.6	0.2	0.3	0.3	0.2	0.2	0.2	-	-	-	-
Pre-acquisition Adjusted EBITDA of acquired companies	-	-	-	-	-	-	-	28.6	-	-	-	-
Loss on settlement of debt	-	-	-	50.6	-	43.9	16.0	12.6	5.4	299.6	113.4	12.4
Adjusted EBITDA	\$ 540.7	\$ 528.9	\$ 705.5	\$ 790.1	\$ 783.2	\$ 1,239.3	\$ 1,673.7	\$ 2,212.2	\$ 2,128.8	\$ 2,375.0	\$ 3,246.2	\$ 4,041.8
Adjusted EBITDA Percentage of Non-GAAP Net Sales	39.1%	32.9%	36.5%	36.6%	35.4%	35.4%	42.0%	41.4%	40.4%	43.7%	47.6%	50.2%

*Adjusted EBITDA is as defined in the Company's Amended and Restated Credit Agreement dated as of December 16, 2021 and includes the pre-acquisition Adjusted EBITDA of Microsemi in Fiscal 19.