



Semtech Announces Third Quarter of Fiscal Year 2020 Results

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CAMARILLO, Calif.

Semtech Corporation (Nasdaq: SMTC), a leading supplier of high performance analog and mixed-signal semiconductors and advanced algorithms, today reported unaudited financial results for its third quarter of fiscal year 2020, which ended October 27, 2019.

Highlights for the Third Fiscal Quarter 2020

- Q3 FY2020 net sales increased 3% sequentially to \$141.0 million.
- Q3 FY2020 GAAP EPS of \$0.26 and non-GAAP EPS of \$0.41.
- Distributor Point of Sale (POS) increased 8% sequentially and represented a new quarterly record.
- Cash flow from operations was \$33.3 million or 24% of net sales.
- Refinanced the prior credit facility with a new, \$600.0 million credit agreement.

Results on a GAAP basis for the Third Fiscal Quarter 2020

- GAAP Net sales were \$141.0 million
- GAAP Gross margin was 61.2%
- GAAP SG&A expense was \$33.8 million
- GAAP R&D expense was \$26.7 million
- GAAP Operating margin was 15.7%
- GAAP Net income was \$17.6 million or \$0.26 per diluted share

To facilitate a complete understanding of comparable financial performance between periods, the Company also presents performance results that exclude certain non-cash items and items that are not considered reflective of the Company's core results over time. These non-GAAP financial measures exclude certain items and are described below under "Non-GAAP Financial Measures."

Results on a Non-GAAP basis for the Third Fiscal Quarter 2020 (see the list of non-GAAP items and the reconciliation of these to the most relevant GAAP items set forth in the tables below):

- Non-GAAP Gross margin was 61.6%
- Non-GAAP SG&A expense was \$28.5 million
- Non-GAAP R&D expense was \$24.4 million
- Non-GAAP Operating margin was 24.0%
- Non-GAAP Net income was \$27.4 million or \$0.41 per diluted share

Mohan Maheswaran, Semtech's President and Chief Executive Officer, stated, "Fiscal Q3 represented another quarter of solid Q/Q growth driven by a strong recovery in demand for our PON products, and higher demand for our LoRa® and our hyper scale data center platforms. Despite the macro headwinds and geopolitical uncertainty, the channel is healthy and we believe the secular drivers behind our key platforms in IoT, data center and mobile devices should position the Company to return to growth in fiscal 2021."

Fourth Fiscal Quarter 2020 Outlook

Both the GAAP and non-GAAP fourth fiscal quarter 2020 outlook below take into account the anticipated impact to the Company, based on its current estimates, of the export restrictions pertaining to Huawei and certain of its affiliates, imposed by the U.S. Department of Commerce. The Company is continuing to review and assess the impact of the export restrictions on its products and services, but is unable to predict the full impact such restrictions may have on its future results of operations.

GAAP Fourth Fiscal Quarter 2020 Outlook

- Net sales are expected to be in the range of \$130.0 million to \$140.0 million
- GAAP Gross margin is expected to be in the range of 60.6% to 61.6%
- GAAP SG&A expense is expected to be in the range of \$36.1 million to \$37.1 million
- GAAP R&D expense is expected to be in the range of \$27.3 million to \$28.3 million
- GAAP Intangible amortization expense is expected to be approximately \$3.8 million
- GAAP Interest and other expense, net is expected to be approximately \$2.0 million
- GAAP Effective tax rate is expected to be in the range of 12% to 16%
- GAAP Earnings per diluted share are expected to be in the range of \$0.12 to \$0.19
- Fully-diluted share count is expected to be approximately 67.3 million shares
- Share-based compensation is expected to be approximately \$12.0 million, categorized as follows: \$0.6 million cost of sales, \$8.1 million SG&A, and \$3.3 million R&D
- Capital expenditures are expected to be approximately \$5.5 million
- Depreciation expense is expected to be approximately \$5.8 million

Non-GAAP Fourth Fiscal Quarter 2020 Outlook *(see the list of non-GAAP items and the reconciliation of these to the most comparable GAAP items set forth in the tables below)*

- Non-GAAP Gross margin is expected to be in the range of 61.0% to 62.0%
- Non-GAAP SG&A expense is expected to be in the range of \$28.0 million to \$29.0 million
- Non-GAAP R&D expense is expected to be in the range of \$24.0 million to \$25.0 million
- Non-GAAP Interest and other expense, net is expected to be approximately \$1.5 million
- Non-GAAP Effective tax rate is expected to be in the range of 13% to 17%
- Non-GAAP Earnings per diluted share are expected to be in the range of \$0.33 to \$0.39

Webcast and Conference Call

Semtech will be hosting a conference call today to discuss its third fiscal quarter 2020 results at 2:00 p.m. Pacific time. An audio webcast will be available on Semtech's website at www.semtech.com in the "Investor Relations" section under "Investor News." A replay of the call will be available through January 2, 2020 at the same website or by calling (877) 660-6853 and entering conference ID 13692224.

Non-GAAP Financial Measures

To supplement the Company's consolidated financial statements prepared in accordance with GAAP, this release includes a presentation of select non-GAAP metrics. The Company's measure of

free cash flow is calculated as cash flow from operations less net capital expenditures. The Company's non-GAAP measures of gross margin, SG&A expenses, R&D expenses, operating margin, effective tax rate, net income and earnings per diluted share exclude the following items, if any:

- Share-based compensation
- Amortization of purchased intangibles and impairments
- Restructuring, transaction and other acquisition or disposition-related expenses and gains on dispositions
- Litigation expenses or dispute settlement charges or gains
- Environmental reserves
- Equity in net gains or losses of equity method investments

To provide additional insight into the Company's fourth quarter outlook, this release also includes a presentation of forward-looking non-GAAP measures. Management believes that the presentation of these non-GAAP financial measures provide useful information to investors regarding the Company's financial condition and results of operations because these non-GAAP financial measures are adjusted to exclude the items identified above because such items are either operating expenses which would not otherwise have been incurred by the Company in the normal course of the Company's business operations or are not reflective of the Company's core results over time. These excluded items may include recurring as well as non-recurring items, and no inference should be made that all of these adjustments, charges, costs or expenses are unusual, infrequent or non-recurring. For example: certain restructuring and integration-related expenses (which consist of employee termination costs, facility closure or lease termination costs, and contract termination costs) may be considered recurring given the Company's ongoing efforts to be more cost effective and efficient; certain acquisition and disposition-related adjustments or expenses may be deemed recurring given the Company's regular evaluation of potential transactions and investments; and certain litigation expenses or dispute settlement charges or gains (which may include estimated losses for which we may have established a reserve, as well as any actual settlements, judgments, or other resolutions against, or in favor of, the Company related to litigation, arbitration, disputes or similar matters, and insurance recoveries received by the Company related to such matters) may be viewed as recurring given that the Company may from time to time be involved in, and may resolve, litigation, arbitration, disputes, and similar matters.

Notwithstanding that certain adjustments, charges, costs or expenses may be considered recurring, in order to provide meaningful comparisons, the Company believes that it is appropriate to exclude such items because they are not reflective of the Company's core results and tend to vary based on timing, frequency and magnitude.

As noted in its first quarter fiscal year 2019 earnings release, the Company is no longer adjusting prior-period non-GAAP performance metrics of net sales and gross margin to exclude the cost of the Comcast Warrant as the Comcast Warrant was fully vested in the first quarter of fiscal year 2019. The Company in previous periods had excluded the recognized cost of the Comcast Warrant from non-GAAP net sales and non-GAAP gross margin because the cost related to a non-routine, non-cash equity award that was provided to Comcast as an incentive to deploy a network based on technology developed by the Company and because the Comcast Warrant would not have had an ongoing impact on revenues in future periods.

These non-GAAP financial measures are provided to enhance the user's overall understanding of the Company's comparable financial performance between periods. In addition, the Company's management generally excludes the items noted above when managing and evaluating the performance of the business. The financial statements provided with this release include reconciliations of these non-GAAP measures to their most comparable GAAP measures for the third quarter of fiscal year 2019 and the second and third quarters of fiscal year 2020, along with a

reconciliation of forward-looking non-GAAP measures (other than the non-GAAP effective tax rate) to their most comparable GAAP measures for the fourth quarter of fiscal year 2020. The Company is unable to include a reconciliation of the forward-looking non-GAAP measure of the non-GAAP effective tax rate to the corresponding GAAP measure as this is not available without unreasonable efforts due to the high variability and low visibility with respect to the charges that are excluded from this non-GAAP measure. We expect the variability of the above charges to have a potentially significant impact on our GAAP financial results. These additional non-GAAP financial measures should not be considered substitutes for any measures derived in accordance with GAAP and may be inconsistent with similar measures presented by other companies.

Forward-Looking and Cautionary Statements

This press release contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on the Company's current expectations, estimates and projections about its operations, industry, financial condition, performance, results of operations, and liquidity. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as future financial performance including the fourth quarter of fiscal year 2020 outlook, the Company's expectations concerning the negative impact on the Company's results of operations from its inability to ship certain products and provide certain support services due to the export restrictions related to Huawei, future operational performance, the anticipated impact of specific items on future earnings, and the Company's plans, objectives and expectations. Statements containing words such as "may," "believes," "anticipates," "expects," "intends," "plans," "projects," "estimates," "should," "will," "designed to," "projections," or "business outlook," or other similar expressions constitute forward-looking statements.

Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results and events to differ materially from those projected. Potential factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: the Company's ability to manage expenses to achieve anticipated shifts in demand among target customers, and other comparable changes or protracted weakness in projected or anticipated markets; competitive changes in the marketplace including, but not limited to, the pace of growth or adoption rates of applicable products or technologies; export restrictions and laws affecting the Company's trade and investments including the adoption and expansion of trade restrictions including with respect to Huawei, and tariffs or the occurrence of trade wars; changes in the legal requirements related to the sale of our products, including developments regarding the restrictions on future shipments with respect to Huawei; shifts in focus among target customers, and other comparable changes in projected or anticipated end-user markets; the Company's ability to forecast its effective tax rates due to changing income in higher or lower tax jurisdictions and other factors that contribute to the volatility of the Company's effective tax rates and impact anticipated tax benefits; the Company's ability to integrate its acquisitions and realize expected synergies and benefits from its acquisitions and dispositions; the continuation and/or pace of key trends considered to be main contributors to the Company's growth, such as demand for increased network bandwidth and connectivity, demand for increasing energy efficiency in the Company's products or end-use applications of the products, and demand for increasing miniaturization of electronic components; adequate supply of components and materials from the Company's suppliers, to include disruptions due to natural causes or disasters, weather, or other extraordinary events; the Company's ability to forecast and achieve anticipated net sales and earnings estimates in light of periodic economic uncertainty, to include impacts arising from European, Asian and global economic dynamics; and the amount and timing of expenditures for capital equipment. Additionally, forward-looking statements should be considered in conjunction with the cautionary statements contained in the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 27, 2019, subsequent Quarterly Reports on Form 10-Q, and other filings with the Securities and Exchange Commission, and in material incorporated therein, including, without limitation, information under the

captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors”. In light of the significant risks and uncertainties inherent in the forward-looking information included herein that may cause actual performance and results to differ materially from those predicted, any such forward-looking information should not be regarded as representations or guarantees by the Company of future performance or results, or that its objectives or plans will be achieved or that any of its operating expectations or financial forecasts will be realized. Reported results should not be considered an indication of future performance. Investors are cautioned not to place undue reliance on any forward-looking information contained herein, which reflect management’s analysis only as of the date hereof. Except as required by law, the Company assumes no obligation to publicly release the results of any update or revision to any forward-looking statements that may be made to reflect new information, events or circumstances after the date hereof or to reflect the occurrence of unanticipated or future events, or otherwise.

About Semtech

Semtech Corporation is a leading supplier of high performance analog, mixed-signal semiconductors and advanced algorithms for high-end consumer, enterprise computing, communications and industrial equipment. Products are designed to benefit the engineering community as well as the global community. The Company is dedicated to reducing the impact it, and its products, have on the environment. Internal green programs seek to reduce waste through material and manufacturing control, use of green technology and designing for resource reduction. Publicly traded since 1967, Semtech is listed on the NASDAQ Global Select Market under the symbol SMTC. For more information, visit <http://www.semtech.com>.

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SEMTECH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended			Nine Months Ended	
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018
	Q320	Q220	Q319	Q320	Q319
Net sales	\$141,011	\$137,146	\$173,550	\$409,511	\$467,190
Cost of sales	54,763	52,262	66,988	157,104	189,035
Gross profit	86,248	84,884	106,562	252,407	278,155
Operating costs and expenses:					

Selling, general and administrative	33,795	39,875	39,587	112,047	114,522
Product development and engineering	26,670	25,553	27,147	79,322	81,425
Intangible amortization	3,770	3,908	6,480	12,821	19,921
Changes in the fair value of contingent earn-out obligations	(152)	) —	(8,519)	) (2,313)	) (9,419)
Total operating costs and expenses	64,083	69,336	64,695	201,877	206,449
Operating income	22,165	15,548	41,867	50,530	71,706
Interest expense	(2,183)	) (2,597)	) (2,355)	) (7,247)	) (6,745)
Non-operating income, net	644	1,213	1,182	2,900	1,914
Investment impairments	—	—	(30,000)	) —	(30,000)
Income before taxes and equity in net gains (losses) of equity method investments	20,626	14,164	10,694	46,183	36,875
Provision (benefit) for taxes	3,379	8,966	(1,454)	) 10,033	(12,882)
Net income before equity in net gains (losses) of equity method investments	17,247	5,198	12,148	36,150	49,757
Equity in net gains (losses) of equity method investments	352	168	17	109	(41)
Net income	\$17,599	\$5,366	\$12,165	\$36,259	\$49,716
Earnings per share:					
Basic	\$0.27	\$0.08	\$0.18	\$0.55	\$0.75
Diluted	\$0.26	\$0.08	\$0.18	\$0.54	\$0.73
Weighted average number of shares used in computing earnings per share:					
Basic	66,387	66,519	66,014	66,337	66,134
Diluted	67,318	67,746	68,731	67,630	68,549

SEMTECH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

October 27, 2019 January 27, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$ 283,057	\$ 312,120
Accounts receivable, net	61,444	79,223
Inventories	70,108	63,679
Prepaid taxes	11,456	8,406
Other current assets	13,966	21,876
Total current assets	440,031	485,304

Non-current assets:

Property, plant and equipment, net	124,111	118,488
Deferred tax assets	17,896	14,362
Goodwill	351,141	351,141
Other intangible assets, net	23,736	36,558
Other assets	82,224	57,028
Total assets	\$ 1,039,139	\$ 1,062,881

LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	\$ 33,724	\$ 43,183
Accrued liabilities	46,781	65,023
Deferred revenue	2,336	3,439
Current portion, long term debt	18,306	18,269
Total current liabilities	101,147	129,914

Non-current liabilities:

Deferred tax liabilities	3,643	3,363
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Long term debt, less current portion	179,111	192,845
Other long-term liabilities	66,266	54,078
Stockholders' equity	688,721	682,681
Noncontrolling interest	251	—
Total liabilities & equity	\$ 1,039,139	\$ 1,062,881

SEMTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS AND
SUPPLEMENTAL INFORMATION

(in thousands)

(unaudited)

	Nine Months Ended		
	October 27, 2019	October 28, 2018	
Net income	\$36,259	\$49,716	
Net cash provided by operations	73,361	136,365	
Net cash used in investing activities	(29,672)	(25,181)	
Net cash used in financing activities	(72,752)	(106,871)	
Net (decrease) increase in cash and cash equivalents	(29,063)	4,313	
Cash and cash equivalents at beginning of period	312,120	307,923	
Cash and cash equivalents at end of period	\$283,057	\$312,236	
	Three Months Ended		
	October 27, 2019	July 28, 2019	October 28, 2018
	Q320	Q220	Q319
Free Cash Flow:			
Cash Flow from Operations	\$33,268	\$33,352	\$51,998
Net Capital Expenditures	(3,516)	(1,635)	(3,107)

Free Cash Flow: \$29,752 \$31,717 \$48,891

SEMTECH CORPORATION
SUPPLEMENTAL INFORMATION: RECONCILIATION OF GAAP TO NON-GAAP
RESULTS

(in thousands, except per share data)

(unaudited)

	Three Months Ended			Nine Months Ended		
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018	
	Q320	Q220	Q319	Q320	Q319	
Gross Margin- GAAP	61.2	% 61.9	% 61.4	% 61.6	% 59.5	%
Share-based compensation	0.4	% 0.3	% 0.3	% 0.4	% 0.3	%
Adjusted Gross Margin (Non-GAAP)	61.6	% 62.2	% 61.7	% 62.0	% 59.8	%

	Three Months Ended			Nine Months Ended		
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018	
	Q320	Q220	Q319	Q320	Q319	
Selling, general and administrative- GAAP	\$33,795	\$39,875	\$39,587	\$112,047	\$114,522	
Share-based compensation	(5,341)	(6,082)	(8,478)	(19,767)	(31,318)	
Transaction and integration related	258	14	(1,454)	(977)	(1,952)	
Restructuring and other reserves	—	(2,571)	(86)	(2,711)	(769)	
Litigation cost, net of recoveries	(205)	(799)	264	(930)	6,346	
Adjusted selling, general and administrative (Non-GAAP)	\$28,507	\$30,437	\$29,833	\$87,662	\$86,829	

	Three Months Ended			Nine Months Ended	
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018
	Q320	Q220	Q319	Q320	Q319
Product development and engineering- GAAP	\$26,670	\$25,553	\$27,147	\$79,322	\$81,425
Share-based compensation	(2,874)	(2,162)	(2,511)	(7,593)	(7,018)
Transaction and integration related	593	(47)	(168)	360	(597)
Restructuring and other reserves	—	—	—	—	252
Litigation cost, net of recoveries	—	—	—	—	(784)
Adjusted product development and engineering (Non-GAAP)	\$24,389	\$23,344	\$24,468	\$72,089	\$73,278

	Three Months Ended			Nine Months Ended			
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018		
	Q320	Q220	Q319	Q320	Q319		
Operating Margin- GAAP	15.7	% 11.3	% 24.1	% 12.3	% 15.3	%	
Share-based compensation	6.2	% 6.3	% 6.6	% 7.0	% 8.4	%	
Intangible amortization	2.7	% 2.8	% 3.7	% 3.1	% 4.3	%	
Transaction and integration related	(0.6 )	)% —	% 1.0	% 0.2	% 0.6)%	
Restructuring and other reserves	—	% 1.9	% 0.1	% 0.7	% 0.1)%	
Litigation cost, net of recoveries	0.1	% 0.6	% (0.2 )	)% 0.2	% (1.2))%	
Changes in the fair value of contingent earn-out obligations	(0.1))% —	% (4.9))% (0.6))% (2.0))%	

Adjusted Operating Margin (Non-GAAP)	24.0	%	22.9	%	30.4	%	22.9	%	25.5	%
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SEMTECH CORPORATION
SUPPLEMENTAL INFORMATION: RECONCILIATION OF GAAP TO NON-GAAP RESULTS (Continued)

(in thousands, except per share data)

(unaudited)

	Three Months Ended			Nine Months Ended	
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018
	Q320	Q220	Q319	Q320	Q319
GAAP net income	\$17,599	\$5,366	\$12,165	\$36,259	\$49,716
Adjustments to GAAP net income:					
Share-based compensation	8,767	8,646	11,466	28,741	39,446
Intangible amortization	3,770	3,908	6,480	12,821	19,921
Transaction and integration related	(851)	) 33	1,622	617	2,549
Restructuring and other reserves	—	2,571	86	2,711	518
Litigation cost, net of recoveries	205	799	(264)	) 930	(5,562)
Changes in the fair value of contingent earn-out obligations	(152)	) —	(8,519)	) (2,313)	) (9,419)
Investment impairments	—	—	30,000	—	30,000
Total Non-GAAP adjustments before taxes	11,739	15,957	40,871	43,507	77,453
Associated tax effect	(1,590)	) 4,314	(9,946)	) (3,780)	) (32,341)
Equity in net (gains) losses of equity method investments	(352)	) (168)	) (17)	) (109)	) 41
Total of supplemental information, net of taxes	9,797	20,103	30,908	39,618	45,153
Non-GAAP net income	\$27,396	\$25,469	\$43,073	\$75,877	\$94,869

Diluted GAAP earnings per share	\$0.26	\$0.08	\$0.18	\$0.54	\$0.73
Adjustments per above	0.15	0.30	0.45	0.58	0.65
Diluted non-GAAP earnings per share	\$0.41	\$0.38	\$0.63	\$1.12	\$1.38

	Three Months Ended			Nine Months Ended	
	October 27, 2019	July 28, 2019	October 28, 2018	October 27, 2019	October 28, 2018
	Q320	Q220	Q319	Q320	Q319
Comcast Warrant*					
Impact on Net Sales	\$—	\$—	\$—	\$—	\$(21,501)
Associated tax effect	—	—	—	—	3,678
Impact on EPS	\$—	\$—	\$—	\$—	\$(0.26)

*In consideration of discussions held with the Securities and Exchange Commission, we will no longer adjust net sales for the impact of the Warrant for any comparable historical periods presented. The Company will instead provide GAAP net sales for historical periods presented and will separately disclose the impact of the Warrant on the financial statement line items impacted by the Warrant.

SEMTECH CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP OUTLOOK

Fourth Quarter of Fiscal Year 2020 Outlook

(in millions, except per share data)

	Q4 FY20 Outlook			
	January 26, 2020			
	Low		High	
Gross Margin—GAAP	60.6	%	61.6	%
Share-based compensation	0.4	%	0.4	%
Adjusted Gross Margin (Non-GAAP)	61.0	%	62.0	%
	Low		High	

Selling, general and administrative—GAAP	\$36.1	\$37.1
Share-based compensation	(8.1)	(8.1)
Adjusted selling, general and administrative (Non-GAAP)	\$28.0	\$29.0
	Low	High
Product development and engineering—GAAP	\$27.3	\$28.3
Share-based compensation	(3.3)	(3.3)
Adjusted product development and engineering (Non-GAAP)	\$24.0	\$25.0
	Low	High
Interest and other expense, net—GAAP	\$2.0	\$2.0
Loss on early extinguishment of debt	(0.5)	(0.5)
Interest and other expense, net (Non-GAAP)	\$1.5	\$1.5
	Low	High
Diluted GAAP earnings per share	\$0.12	\$0.19
Share-based compensation	0.18	0.18
Amortization of acquired intangibles	0.06	0.06
Loss on early extinguishment of debt	0.01	0.01
Associated tax effect	(0.04)	(0.05)
Diluted adjusted earnings per share (Non-GAAP)	\$0.33	\$0.39