



SEMTECH

Semtech Announces First Quarter of Fiscal Year 2020 Results

May 29, 2019

CAMARILLO, Calif.--(BUSINESS WIRE)--May 29, 2019-- 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 first quarter of fiscal year 2020, which ended April 28, 2019.

Highlights for the First Fiscal Quarter 2020

- Q1 FY2020 net sales of \$131.4 million, and GAAP EPS of \$0.20 and non-GAAP EPS of \$0.34
- Bookings grew 18% sequentially resulting in a Book to Bill greater than 1
- Announced first LoRa Cloud™ Services platform for geolocation
- Record quarterly number of design wins

Results on a GAAP basis for the First Fiscal Quarter 2020

- GAAP Net sales were \$131.4 million
- GAAP Gross margin was 61.9%
- GAAP SG&A expense was \$38.4 million
- GAAP R&D expense was \$27.1 million
- GAAP Operating margin was 9.8%
- GAAP Net income was \$13.3 million or \$0.20 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 First 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 62.2%
- Non-GAAP SG&A expense was \$28.7 million
- Non-GAAP R&D expense was \$24.4 million
- Non-GAAP Operating margin was 21.8%
- Non-GAAP Net income was \$23.0 million or \$0.34 per diluted share

Mohan Maheswaran, Semtech's President and Chief Executive Officer, stated, "We delivered first fiscal quarter 2020 results that were in-line with our expectations. Our bookings grew nicely over the prior quarter, as we saw early signs of improving customer demand in several of our end-markets. Despite near-term uncertainties, our main growth drivers have strong design win momentum and should contribute to revenue growth in the second half of fiscal year 2020."

Second Fiscal Quarter 2020 Outlook

Both the GAAP and non-GAAP second fiscal quarter 2020 outlook below take into account the anticipated impact to the Company, based on its current estimates, of the recently announced 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, and is unable to predict the full impact such restrictions may have on its results of operations.

GAAP Second Fiscal Quarter 2020 Outlook

- Net sales are expected to be in the range of \$128.0 million to \$142.0 million
- GAAP Gross margin is expected to be in the range of 61.6% to 62.2%

- GAAP SG&A expense is expected to be in the range of \$37.4 million to \$38.4 million
- GAAP R&D expense is expected to be in the range of \$26.7 million to \$27.7 million
- GAAP Intangible amortization expense is expected to be approximately \$3.9 million
- GAAP Interest and other expense is expected to be approximately \$1.6 million
- GAAP Effective tax rate is expected to be in the range of 16% to 18%
- GAAP Earnings per diluted share are expected to be in the range of \$0.11 to \$0.20
- Fully-diluted share count is expected to be approximately 68.0 million shares
- Share-based compensation is expected to be approximately \$11.3 million, categorized as follows: \$0.4 million cost of sales, \$8.4 million SG&A, and \$2.5 million R&D
- Capital expenditures are expected to be approximately \$7.0 million
- Depreciation expense is expected to be approximately \$5.9 million

Non-GAAP Second 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 61.9% to 62.5%
- 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 is expected to be approximately \$1.6 million
- Non-GAAP Effective tax rate is expected to be in the range of 15% to 17%
- Non-GAAP Earnings per diluted share are expected to be in the range of \$0.32 to \$0.40

Webcast and Conference Call

Semtech will be hosting a conference call today to discuss its first 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 June 29, 2019 at the same website or by calling (855) 859-2056 and entering conference ID 7237419.

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 second 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. Accordingly, the Company's non-GAAP performance previously reported for the first quarter of fiscal year 2019 will not be comparable to the period presented in the tables below. 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 first and fourth quarters of fiscal year 2019 and first quarter 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 second 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 second 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

(Amounts in thousands - except per share amount)

	Three Months Ended		
	April 28, 2019 Q120	January 27 2019 Q419	April 29 2018 Q119
Net sales	\$ 131,354	\$ 160,006	\$ 130,429
Cost of sales	50,079	61,139	58,960
Gross profit	81,275	98,867	71,469

Operating costs and expenses:			
Selling, general and administrative	38,377	36,875	41,406
Product development and engineering	27,099	28,493	26,199
Intangible amortization	5,143	6,728	6,961
Changes in the fair value of contingent earn-out obligations	(2,161)	-	-
Total operating costs and expenses	68,458	72,096	74,566
Operating income (loss)	12,817	26,771	(3,097)
Interest expense, net	(2,467)	(2,457)	(2,190)
Non-operating income, net	1,043	1,909	190
Income (loss) before taxes and equity in net losses of equity method investments	11,393	26,223	(5,097)
(Benefit) provision for taxes	(2,312)	12,798	(17,510)
Net income before equity in net losses of equity method investments	13,705	13,425	12,413
Equity in net losses of equity method investments	(411)	(85)	(31)
Net income	\$ 13,294	\$ 13,340	\$ 12,382
Earnings per share:			
Basic	\$ 0.20	\$ 0.20	\$ 0.19
Diluted	\$ 0.20	\$ 0.20	\$ 0.18
Weighted average number of shares used in computing earnings per share:			
Basic	66,105	65,525	66,324
Diluted	67,976	68,165	68,195

SEMTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)

	April 28, 2019	January 27, 2019
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 287,302	\$ 312,120
Accounts receivable, net	66,459	79,223
Inventories	73,480	63,679
Prepaid taxes	11,186	8,406
Other current assets	18,620	21,876
Total current assets	457,047	485,304
Non-current assets:		
Property, plant and equipment, net	126,169	118,488
Deferred tax assets	14,365	14,362
Goodwill	351,141	351,141
Other intangible assets, net	31,415	36,558
Other assets	73,273	57,028
Total assets	\$ 1,053,410	\$ 1,062,881
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 40,713	\$ 43,183
Accrued liabilities	39,394	65,023
Deferred revenue	4,942	3,439
Current portion, long term debt	18,281	18,269
Total current liabilities	103,330	129,914
Non-current liabilities:		
Deferred tax liabilities	3,646	3,363
Long term debt, less current portion	188,270	192,845
Other long-term liabilities	62,938	54,078
Stockholders' equity	695,226	682,681
Total liabilities & stockholders' equity	\$ 1,053,410	\$ 1,062,881

SEMTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS AND SUPPLEMENTAL INFORMATION

(Amounts in thousands)

	Three Months Ended	
	April 28, 2019 (Unaudited)	April 29 2018
Net income	\$ 13,294	\$ 12,382
Net cash provided by operating activities	6,741	35,029
Net cash used in investing activities	(15,770)	(8,797)
Net cash used in financing activities	(15,789)	(30,806)
Net decrease in cash and cash equivalents	(24,818)	(4,574)
Cash and cash equivalents at beginning of period	312,120	307,923
Cash and cash equivalents at end of period	\$ 287,302	\$ 303,349

	Three Months Ended		
	April 28, 2019 Q120 (Unaudited)	January 27 2019 Q419 (Unaudited)	April 29 2018 Q119
Free Cash Flow:			
Cash Flow from Operations	\$ 6,741	\$ 47,198	\$ 35,029
Net Capital Expenditures	(15,258)	(4,124)	(4,935)
Free Cash Flow:	\$ (8,517)	\$ 43,074	\$ 30,094

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

(Amounts in thousands - except per share amounts)

	Three Months Ended				
	April 28, 2019 Q120	%	January 27 2019 Q419	%	April 29 2018 Q119
Gross Margin- GAAP	61.9	%	61.8	%	54.8
Share-based compensation	0.3	%	0.3	%	0.3
Adjusted Gross Margin (Non-GAAP)	62.2	%	62.1	%	55.1

	Three Months Ended		
	April 28, 2019 Q120	January 27 2019 Q419	April 29 2018 Q119
Selling, general and administrative- GAAP	\$ 38,377	\$ 36,875	\$ 41,406
Share-based compensation	(8,344)	(10,264)	(11,462)
Transaction and integration related	(1,249)	(41)	(233)
Environmental and other reserves and charges	(140)	(252)	(346)
Litigation cost net of recoveries	74	575	(559)
Adjusted selling, general and administrative (Non-GAAP)	\$ 28,718	\$ 26,893	\$ 28,806

Three Months Ended		
April 28, 2019	January 27 2019	April 29 2018

	Q120	Q419	Q119
Product development and engineering- GAAP	\$ 27,099	\$ 28,493	\$ 26,199
Share-based compensation	(2,557)	(2,121)	(2,225)
Transaction and integration related	(186)	(186)	(294)
Adjusted product development and engineering (Non-GAAP)	\$ 24,356	\$ 26,186	\$ 23,680

	Three Months Ended		
	April 28, 2019	January 27 2019	April 29 2018
	Q120	Q419	Q119
Operating Margin- GAAP	9.8	% 16.7	% -2.4
Share-based compensation	8.6	% 8.1	% 10.7
Intangible amortization	3.9	% 4.2	% 5.3
Transaction and integration related	1.1	% 0.1	% 0.5
Environmental and other reserves and charges	0.1	% 0.2	% 0.3
Litigation cost net of recoveries	-0.1	% -0.4	% 0.4
Changes in the fair value of contingent earn-out obligations	-1.6	% 0.0	% 0.0
Adjusted Operating Margin (Non-GAAP)	21.8	% 28.9	% 14.8

	Three Months Ended		
	April 28, 2019	January 27 2019	April 29 2018
	Q120	Q419	Q119
GAAP net income	\$ 13,294	\$ 13,340	\$ 12,382
Adjustments to GAAP net income:			
Share-based compensation	11,328	12,913	14,015
Intangible amortization	5,143	6,728	6,961
Transaction and integration related	1,435	226	527
Environmental and other reserves and charges	140	252	346
Litigation cost net of recoveries	(74)	(575)	559
Changes in the fair value of contingent earn-out obligations	(2,161)	-	-
Investment gain	-	(1,288)	-
Total Non-GAAP adjustments before taxes	15,811	18,256	22,408
Associated tax effect	(6,504)	5,867	(20,654)
Equity in net losses of equity method investments	411	85	31
Total of supplemental information net of taxes	9,718	24,208	1,785
Non-GAAP net income	\$ 23,012	\$ 37,548	\$ 14,167
Diluted GAAP earnings per share	\$ 0.20	\$ 0.20	\$ 0.18
Adjustments per above	0.14	0.35	0.03
Diluted non-GAAP earnings per share	\$ 0.34	\$ 0.55	\$ 0.21

	Three Months Ended		
	April 28, 2019	January 27 2019	April 29 2018
	Q120	Q419	Q119
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.

Second Quarter of Fiscal Year 2020 Outlook

(Amounts in thousands - except per share amounts)

Q2 FY20 Outlook

July 28,

2019

Low High

Gross Margin- GAAP	61.6 %	62.2 %
Share-based compensation	0.3 %	0.3 %
Adjusted Gross Margin (Non-GAAP)	61.9 %	62.5 %

Low High

Selling, general and administrative- GAAP	\$ 37.4	\$ 38.4
Share-based compensation	(8.4)	(8.4)
Transaction and integration related	(1.0)	(1.0)
Adjusted selling, general and administrative (Non-GAAP)	\$ 28.0	\$ 29.0

Low High

Product development and engineering- GAAP	\$ 26.7	\$ 27.7
Share-based compensation	(2.5)	(2.5)
Transaction and integration related	(0.2)	(0.2)
Adjusted product development and engineering (Non-GAAP)	\$ 24.0	\$ 25.0

Low High

Diluted GAAP earnings per share	\$ 0.11	\$ 0.20
Share-based compensation	0.17	0.17
Transaction, restructuring, and acquisition related expenses	0.02	0.02
Amortization of acquired intangibles	0.06	0.06
Associated Tax Effect	(0.04)	(0.05)
Diluted adjusted earnings per share (Non-GAAP)	\$ 0.32	\$ 0.40

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Source: Semtech Corporation

Sandy Harrison
Semtech Corporation
(805) 480-2004
webir@semtech.com