

Semtech Announces First Quarter of Fiscal Year 2021 Results

Wednesday, May 27, 2020 08:15:00 PM (GMT)

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 2021, which ended April 26, 2020.

Highlights for the First Fiscal Quarter 2021

- Q1 FY2021 net sales of \$132.7 million
- Q1 FY2021 GAAP EPS of \$0.15 and non-GAAP EPS of \$0.35
- Net bookings grew 22% sequentially led by record bookings for our LoRa®-enabled, 100G data center CDRs and broad-based Protection devices
- Distributor Point of Sale (POS) increased 5% sequentially and represented a new quarterly record
- Cash flow from operations was \$26.1 million or 20% of net sales
- Repurchased approximately 855,000 shares for \$30.0 million during Q1 FY2021

Results on a GAAP basis for the First Fiscal Quarter 2021

- Net sales were \$132.7 million
- GAAP Gross margin was 60.9%
- GAAP SG&A expense was \$34.6 million
- GAAP R&D expense was \$27.6 million
- GAAP Operating margin was 11.9%
- GAAP Net income attributable to common stockholders was \$9.6 million or \$0.15 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 2021 (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 was 61.3%
- Non-GAAP SG&A expense was \$28.4 million
- Non-GAAP R&D expense was \$24.8 million
- Non-GAAP Operating margin was 21.2%
- Non-GAAP Net income attributable to common stockholders was \$23.0 million or \$0.35 per diluted share

Mohan Maheswaran, Semtech's President and Chief Executive Officer, stated, "We are pleased with our strong Q1 results and execution, despite the unexpected disruptions from COVID-19. Our secular growth drivers in the IoT, hyperscale data center, and mobility markets remain intact as evidenced by our record quarterly POS results and strong sequential and year-over-year bookings growth. While we are not immune from macroeconomic headwinds, we believe the greater demands being placed on the global communications infrastructure with the shift to work-from-home and the increasing use of long range sensing platforms, should benefit our targeted markets including the data center, PON, 5G wireless and IoT markets." Maheswaran continued, "The safety of our employees, customers and business partners is paramount and we are confident that our prior investments in IT and Operational infrastructure, along with our fabless model and our ability to generate cash, positions us to continue to successfully execute our plan through an uncertain macro environment."

Second Fiscal Quarter 2021 Outlook

Both the GAAP and non-GAAP second fiscal quarter 2021 outlook below take into account, based on the Company's current estimates, the anticipated, but uncertain, negative impact to the Company of the coronavirus (COVID-19) pandemic on global economic conditions and on the Company's business operations, sales and operating results, as well as export restrictions pertaining to Huawei and certain of its affiliates imposed by the U.S. government. The Company is unable to predict the full impact such challenges may have on its future results of operations.

GAAP Second Fiscal Quarter 2021 Outlook

- Net sales are expected to be in the range of \$138.0 million to \$146.0 million
- GAAP Gross margin is expected to be in the range of 60.8% to 61.6%
- GAAP SG&A expense is expected to be in the range of \$37.0 million to \$38.0 million
- GAAP R&D expense is expected to be in the range of \$27.5 million to \$28.5 million
- GAAP Intangible amortization expense is expected to be approximately \$2.0 million
- GAAP Interest and other expense, net is expected to be approximately \$1.1 million
- GAAP Effective tax rate is expected to be in the range of 15% to 17%
- GAAP Earnings per diluted share are expected to be in the range of \$0.21 to \$0.26
- Fully-diluted share count is expected to be approximately 65.5 million shares
- Share-based compensation is expected to be approximately \$11.5 million, categorized as follows: \$0.5 million cost of sales, \$8.0 million SG&A, and \$3.0 million R&D
- Capital expenditures are expected to be approximately \$9.0 million
- Depreciation expense is expected to be approximately \$5.8 million

Non-GAAP Second Fiscal Quarter 2021 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 61.2% to 62.0%
- Non-GAAP SG&A expense is expected to be in the range of \$28.5 million to \$29.5 million
- Non-GAAP R&D expense is expected to be in the range of \$24.5 million to \$25.5 million
- Non-GAAP Interest and other expense, net is expected to be approximately \$1.1 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 \$0.40 to \$0.44

Correction of Immaterial Errors

During the fourth quarter of fiscal year 2020, management identified certain immaterial errors related to share-based compensation expense of market-based awards granted during fiscal years 2018, 2019 and 2020. The errors resulted from adjustments to the grant date fair value of the market-based awards that were incorrectly accounted for as performance-based awards. The Company concluded that the impact of these errors was immaterial and has corrected its consolidated financial statements for these errors for all prior periods presented in this press release.

Webcast and Conference Call

Semtech will be hosting a conference call today to discuss its first fiscal quarter 2021 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, 2020 at the same website or by calling (877) 660-6853 and entering conference ID 13703857.

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 non-GAAP measures of gross margin, SG&A expenses, R&D expenses, operating margin, effective tax rate, net income attributable to common stockholders and earnings per diluted share exclude the following items, if any:

- Share-based compensation
- Amortization of purchased intangibles, impairments and credit loss reserves
- Restructuring, transaction and other acquisition or disposition-related gains or losses
- Litigation expenses or dispute settlement charges or gains
- Cumulative other reserves associated with historical activity including environmental and pension
- Equity in net gains or losses of equity method investments
- Loss on early extinguishment of debt

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.

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 2020 and the first quarter of fiscal year 2021, 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 2021. 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 2021 outlook; the negative impact of the COVID-19 pandemic on global economic conditions and on the Company's business operations, sales and operating results; 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 and certain of its affiliates; 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 uncertainty surrounding the impact and duration of the COVID-19 pandemic on global economic conditions and on the Company's business and results of operations; export restrictions and laws affecting the Company's trade and investments including with respect to Huawei and certain of its affiliates, and tariffs or the occurrence of trade wars; competitive changes in the marketplace including, but not limited to, the pace of growth or adoption rates of applicable products or technologies; downturns in the business cycle, decreased average selling prices of the Company's products; the Company's reliance on a limited number of suppliers and subcontractors for components and materials; 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; and 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 Asian, European and global economic dynamics. 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 26, 2020, 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>.

Semtech, the Semtech logo and LoRa are registered trademarks or service marks of Semtech Corporation or its subsidiaries.

SMTC-F

SEMTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)
(unaudited)

| | Three Months Ended | | |
|--|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| Net sales | \$132,702 | \$ 138,001 | \$131,354 |
| Cost of sales | 51,941 | 53,724 | 50,079 |
| Gross profit | 80,761 | 84,277 | 81,275 |
| Operating costs and expenses: | | | |
| Selling, general and administrative | 34,600 | 43,032 | 38,972 |
| Product development and engineering | 27,586 | 27,356 | 27,154 |
| Intangible amortization | 2,840 | 3,725 | 5,143 |
| Changes in the fair value of contingent earn-out obligations | (33) | (32) | (2,161) |
| Total operating costs and expenses | 64,993 | 74,081 | 69,108 |
| Operating income | 15,768 | 10,196 | 12,167 |
| Interest expense | (1,559) | (1,859) | (2,467) |
| Non-operating income (expense), net | 423 | (7) | 1,043 |
| Investment impairments and credit loss reserves | (3,630) | (1,211) | — |
| Income before taxes and equity in net losses of equity method investments | 11,002 | 7,119 | 10,743 |
| Provision (benefit) for taxes | 1,359 | 4,190 | (2,416) |
| Net income before equity in net losses of equity method investments | 9,643 | 2,929 | 13,159 |
| Equity in net losses of equity method investments | (11) | — | (411) |
| Net income | 9,632 | 2,929 | 12,748 |
| Net loss attributable to noncontrolling interest | (3) | (5) | — |
| Net income attributable to common stockholders | \$ 9,635 | \$ 2,934 | \$ 12,748 |
| Earnings per share: | | | |
| Basic | \$ 0.15 | \$ 0.04 | \$ 0.19 |
| Diluted | \$ 0.15 | \$ 0.04 | \$ 0.19 |
| Weighted average number of shares used in computing earnings per share: | | | |
| Basic | 65,589 | 66,041 | 66,105 |
| Diluted | 66,174 | 67,051 | 67,976 |

SEMTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

April 26, 2020 **January 26, 2020**

| ASSETS | | | |
|------------------------------------|-----------|------------------|---------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ | 268,947 | \$ 293,324 |
| Accounts receivable, net | | 49,451 | 61,927 |
| Inventories | | 76,933 | 73,010 |
| Prepaid taxes | | 13,543 | 10,718 |
| Other current assets | | 23,430 | 21,757 |
| Total current assets | | 432,304 | 460,736 |
| Non-current assets: | | | |
| Property, plant and equipment, net | | 125,731 | 124,418 |
| Deferred tax assets | | 20,754 | 20,094 |
| Goodwill | | 351,141 | 351,141 |
| Other intangible assets, net | | 17,172 | 20,012 |
| Other assets | | 76,248 | 76,032 |
| Total assets | \$ | 1,023,350 | \$ 1,052,433 |

| LIABILITIES AND EQUITY | | | |
|---------------------------------------|-----------|------------------|---------------------|
| Current liabilities: | | | |
| Accounts payable | \$ | 43,337 | \$ 48,009 |
| Accrued liabilities | | 48,289 | 50,632 |
| Total current liabilities | | 91,626 | 98,641 |
| Non-current liabilities: | | | |
| Deferred tax liabilities | | 3,600 | 3,600 |
| Long term debt | | 190,840 | 194,743 |
| Other long-term liabilities | | 75,567 | 78,249 |
| Stockholders' equity | | 661,474 | 676,954 |
| Noncontrolling interest | | 243 | 246 |
| Total liabilities & equity | \$ | 1,023,350 | \$ 1,052,433 |

SEMTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS AND SUPPLEMENTAL INFORMATION

(in thousands)
(unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | April 26, 2020 | April 28, 2019 |
| Net income | \$ 9,632 | \$ 12,748 |
| Net cash provided by operations | 26,083 | 6,741 |
| Net cash used in investing activities | (11,560) | (15,770) |
| Net cash used in financing activities | (38,900) | (15,789) |
| Net decrease in cash and cash equivalents | (24,377) | (24,818) |
| Cash and cash equivalents at beginning of period | 293,324 | 312,120 |
| Cash and cash equivalents at end of period | \$ 268,947 | \$ 287,302 |

| | Three Months Ended | | |
|---------------------------|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| Free Cash Flow: | | | |
| Cash Flow from Operations | \$ 26,083 | \$ 45,255 | \$ 6,741 |
| Net Capital Expenditures | (7,672) | (2,647) | (15,258) |
| Free Cash Flow: | \$ 18,411 | \$ 42,608 | \$ (8,517) |

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

(in thousands, except per share data)

(unaudited)

| | Three Months Ended | | |
|---|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| Gross Margin—GAAP | 60.9% | 61.1% | 61.9% |
| Share-based compensation | 0.4% | 0.4% | 0.3% |
| Adjusted Gross Margin (Non-GAAP) | 61.3% | 61.5% | 62.2% |

| | Three Months Ended | | |
|--|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| Selling, general and administrative—GAAP | \$34,600 | \$ 43,032 | \$38,972 |
| Share-based compensation | (5,959) | (10,762) | (8,939) |
| Transaction and integration related | (85) | (141) | (1,249) |
| Restructuring and other reserves | — | (1,910) | (140) |
| Litigation cost, net of recoveries | (146) | (410) | 74 |
| Adjusted selling, general and administrative (Non-GAAP) | \$28,410 | \$ 29,809 | \$28,718 |

| | Three Months Ended | | |
|--|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| Product development and engineering—GAAP | \$27,586 | \$ 27,356 | \$27,154 |
| Share-based compensation | (2,890) | (3,282) | (2,612) |
| Transaction and integration related | 87 | 67 | (186) |
| Adjusted product development and engineering (Non-GAAP) | \$24,783 | \$ 24,141 | \$24,356 |

| | Three Months Ended | | |
|--|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| Operating Margin—GAAP | 11.9% | 7.4% | 9.3% |
| Share-based compensation | 7.1% | 10.6% | 9.1% |
| Intangible amortization | 2.1% | 2.7% | 3.9% |
| Transaction and integration related | —% | 0.1% | 1.1% |
| Restructuring and other reserves | —% | 1.4% | 0.1% |
| Litigation cost, net of recoveries | 0.1% | 0.3% | (0.1)% |
| Changes in the fair value of contingent earn-out obligations | —% | —% | (1.6)% |
| Adjusted Operating Margin (Non-GAAP) | 21.2% | 22.5% | 21.8% |

SEMTECH CORPORATION

SUPPLEMENTAL INFORMATION: RECONCILIATION OF GAAP TO NON-GAAP RESULTS (CONTINUED)

(in thousands, except per share data)

(unaudited)

| | Three Months Ended | | |
|---|--------------------|---------------------|-------------------|
| | April 26, 2020 | January 26, 2020 | April 28, 2019 |
| | Q121 | Q420 | Q120 |
| GAAP net income attributable to common stockholders | \$ 9,635 | \$ 2,934 | \$ 12,748 |
| Adjustments to GAAP net income attributable to common stockholders: | | | |
| Share-based compensation | 9,379 | 14,590 | 11,978 |
| Intangible amortization | 2,840 | 3,725 | 5,143 |
| Transaction and integration related | (2) | 74 | 1,435 |
| Restructuring and other reserves | — | 1,910 | 140 |
| Litigation cost, net of recoveries | 146 | 410 | (74) |
| Changes in the fair value of contingent earn-out obligations | (33) | (32) | (2,161) |
| Investment impairments and credit loss reserves | 3,630 | 1,211 | — |
| Loss on early extinguishment of debt | — | 514 | — |
| Total Non-GAAP adjustments before taxes | 15,960 | 22,402 | 16,461 |
| Associated tax effect | (2,572) | 1,474 | (6,608) |
| Equity in net losses of equity method investments | 11 | — | 411 |
| Total of supplemental information, net of taxes | 13,399 | 23,876 | 10,264 |
| Non-GAAP net income attributable to common stockholders | \$ 23,034 | \$ 26,810 | \$ 23,012 |
| Diluted GAAP earnings per share | \$ 0.15 | \$ 0.04 | \$ 0.19 |
| Adjustments per above | 0.20 | 0.36 | 0.15 |
| Diluted non-GAAP earnings per share | \$ 0.35 | \$ 0.40 | \$ 0.34 |

SEMTECH CORPORATION
RECONCILIATION OF GAAP TO NON-GAAP OUTLOOK
Second Quarter of Fiscal Year 2021 Outlook
(in millions, except per share data)

| | Q2 FY21 Outlook | |
|--|------------------------|----------------|
| | July 26, 2020 | |
| | Low | High |
| Gross Margin—GAAP | 60.8% | 61.6% |
| Share-based compensation | 0.4% | 0.4% |
| Adjusted Gross Margin (Non-GAAP) | 61.2% | 62.0% |
| | Low | High |
| Selling, general and administrative—GAAP | \$ 37.0 | \$ 38.0 |
| Share-based compensation | (8.0) | (8.0) |
| Transaction and integration related | (0.5) | (0.5) |
| Adjusted selling, general and administrative (Non-GAAP) | \$ 28.5 | \$ 29.5 |
| | Low | High |
| Product development and engineering—GAAP | \$ 27.5 | \$ 28.5 |
| Share-based compensation | (3.0) | (3.0) |
| Adjusted product development and engineering (Non-GAAP) | \$ 24.5 | \$ 25.5 |
| | Low | High |
| Diluted GAAP earnings per share | \$ 0.21 | \$ 0.26 |
| Share-based compensation | 0.18 | 0.18 |
| Transaction, restructuring, and acquisition related expenses | 0.01 | 0.01 |
| Amortization of acquired intangibles | 0.03 | 0.03 |
| Associated tax effect | (0.03) | (0.04) |
| Diluted adjusted earnings per share (Non-GAAP) | \$ 0.40 | \$ 0.44 |

View source version on businesswire.com: <https://www.businesswire.com/news/home/20200527005863/en/>

--30-- CO/SE

Contact:

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

Copyright Business Wire 2020
1.2

Industries: Technology, Semiconductor, Other Technology
Languages: English
Primary Identifiers: SMTC-US

Related Identifiers: SMTC-US, US816850101

Source: Semtech Corporation

Subjects: Webcast, Conference Call, Earnings