
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended April 30, 2023
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____
Commission File Number 001-06395

SEMTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-2119684
(I.R.S. Employer
Identification No.)

200 Flynn Road, Camarillo, California, 93012-8790
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (805) 498-2111

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock par value \$0.01 per share | SMTC | The Nasdaq Global Select Market |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, \$0.01 par value per share, outstanding at June 2, 2023: 63,957,748

SEMTECH CORPORATION
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED APRIL 30, 2023

| | |
|--|-----------|
| <u>PART I - FINANCIAL INFORMATION</u> | <u>3</u> |
| <u>ITEM 1. Financial Statements</u> | <u>4</u> |
| <u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>37</u> |
| <u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>48</u> |
| <u>ITEM 4. Controls and Procedures</u> | <u>49</u> |
| <u>PART II – OTHER INFORMATION</u> | <u>50</u> |
| <u>ITEM 1. Legal Proceedings</u> | <u>50</u> |
| <u>ITEM 1A. Risk Factors</u> | <u>50</u> |
| <u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>50</u> |
| <u>ITEM 3. Defaults Upon Senior Securities</u> | <u>50</u> |
| <u>ITEM 4. Mine Safety Disclosures</u> | <u>50</u> |
| <u>ITEM 5. Other Information</u> | <u>50</u> |
| <u>ITEM 6. Exhibits</u> | <u>51</u> |

Unless the context otherwise requires, the use of the terms "Semtech," "the Company," "we," "us" and "our" in this Quarterly Report on Form 10-Q refers to Semtech Corporation and, as applicable, its consolidated subsidiaries. This Quarterly Report on Form 10-Q may contain references to the Company's trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this Quarterly Report on Form 10-Q, including logos, artwork and other visual displays, may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other company.

Special Note Regarding Forward-Looking and Cautionary Statements

This Quarterly Report on Form 10-Q 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 our current expectations, estimates and projections about our 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, future operational performance, the anticipated impact of specific items on future earnings, and our plans, objectives and expectations. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "estimate," "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 inherent risks, costs and uncertainties associated with integrating Sierra Wireless, Inc. successfully and risks of not achieving all or any of the anticipated benefits or the risk that the anticipated benefits may not be fully realized or take longer to realize than expected; the uncertainty surrounding the impact and duration of supply chain constraints and any associated disruptions; future responses to and effects of public health crises; export restrictions and laws affecting the Company's trade and investments and tariffs or the occurrence of trade wars; worldwide economic and political disruptions, including as a result of inflation and the current conflict between Russia and Ukraine; tightening credit conditions related to the United States banking system concerns; 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; and the Company's ability to forecast and achieve anticipated net sales and earnings estimates in light of periodic economic uncertainty; and those factors set forth under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2023 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2023, and under "Risk Factors" in this Quarterly Report on Form 10-Q, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with SEC. 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 statement 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.

In addition to regarding forward-looking statements with caution, you should consider that the preparation of the consolidated financial statements requires us to draw conclusions and make interpretations, judgments, assumptions and estimates with respect to certain factual, legal, and accounting matters. Our consolidated financial statements might have been materially impacted if we had reached different conclusions or made different interpretations, judgments, assumptions or estimates.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEMTECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 30, 2023 | May 1, 2022 |
| Net sales | \$ 236,539 | \$ 202,149 |
| Cost of sales | 122,738 | 71,896 |
| Amortization of acquired technology | 10,855 | 1,048 |
| Total cost of sales | 133,593 | 72,944 |
| Gross profit | 102,946 | 129,205 |
| Operating costs and expenses, net: | | |
| Selling, general and administrative | 58,117 | 43,364 |
| Product development and engineering | 51,827 | 38,789 |
| Intangible amortization | 4,882 | — |
| Total operating costs and expenses, net | 114,826 | 82,153 |
| Operating (loss) income | (11,880) | 47,052 |
| Interest expense | (20,510) | (1,197) |
| Interest income | 1,069 | 364 |
| Non-operating expense, net | (473) | (102) |
| Investment impairments and credit loss reserves, net | (33) | (24) |
| (Loss) income before taxes and equity method (loss) income | (31,827) | 46,093 |
| (Benefit) provision for income taxes | (2,417) | 8,069 |
| Net (loss) income before equity method (loss) income | (29,410) | 38,024 |
| Equity method (loss) income | (7) | 24 |
| Net (loss) income | (29,417) | 38,048 |
| Net loss attributable to noncontrolling interest | (2) | (1) |
| Net (loss) income attributable to common stockholders | \$ (29,415) | \$ 38,049 |
| (Loss) earnings per share: | | |
| Basic | \$ (0.46) | \$ 0.59 |
| Diluted | \$ (0.46) | \$ 0.59 |
| Weighted-average number of shares used in computing (loss) earnings per share: | | |
| Basic | 63,924 | 63,950 |
| Diluted | 63,924 | 64,553 |

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND LOSS
(in thousands)
(unaudited)

| | Three Months Ended | |
|---|---------------------------|--------------------|
| | April 30, 2023 | May 1, 2022 |
| Net (loss) income | \$ (29,417) | \$ 38,048 |
| Other comprehensive (loss) income, net: | | |
| Unrealized loss on foreign currency cash flow hedges, net | (123) | — |
| Reclassifications of realized gain on foreign currency cash flow hedges, net to net (loss) income | (112) | — |
| Unrealized gain on interest rate cash flow hedges, net | 418 | 1,258 |
| Reclassifications of realized (gain) loss on interest rate cash flow hedges, net to net (loss) income | (1,756) | 119 |
| Cumulative translation adjustment | (1,001) | — |
| Change in defined benefit plans, net | (50) | 23 |
| Other comprehensive (loss) income, net | (2,624) | 1,400 |
| Comprehensive (loss) income | (32,041) | 39,448 |
| Comprehensive loss attributable to noncontrolling interest | (2) | (1) |
| Comprehensive (loss) income attributable to common stockholders | <u>\$ (32,039)</u> | <u>\$ 39,449</u> |

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

| | April 30, 2023 | January 29, 2023 |
|--|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 164,198 | \$ 235,510 |
| Accounts receivable, less allowances of \$3,634 and \$3,881, respectively | 145,383 | 161,695 |
| Inventories | 213,234 | 207,704 |
| Prepaid taxes | 11,554 | 6,243 |
| Other current assets | 130,030 | 111,634 |
| Total current assets | 664,399 | 722,786 |
| Non-current assets: | | |
| Property, plant and equipment, net of accumulated depreciation of \$267,192 and \$257,978, respectively | 165,341 | 169,293 |
| Deferred tax assets | 67,490 | 63,783 |
| Goodwill | 1,288,828 | 1,281,703 |
| Other intangible assets, net | 198,784 | 215,102 |
| Other assets | 115,182 | 116,961 |
| TOTAL ASSETS | \$ 2,500,024 | \$ 2,569,628 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 74,407 | \$ 100,676 |
| Accrued liabilities | 192,654 | 253,075 |
| Current portion of long-term debt | 42,695 | 43,104 |
| Total current liabilities | 309,756 | 396,855 |
| Non-current liabilities: | | |
| Deferred tax liabilities | 4,708 | 5,065 |
| Long-term debt | 1,336,636 | 1,296,966 |
| Other long-term liabilities | 115,715 | 114,707 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 78,136,144 issued and 63,957,748 outstanding and 78,136,144 issued and 63,870,851 outstanding, respectively | 785 | 785 |
| Treasury stock, at cost, 14,178,396 shares and 14,265,563 shares, respectively | (575,317) | (577,907) |
| Additional paid-in capital | 477,999 | 471,374 |
| Retained earnings | 828,825 | 858,240 |
| Accumulated other comprehensive income | 736 | 3,360 |
| Total stockholders' equity | 733,028 | 755,852 |
| Noncontrolling interest | 181 | 183 |
| Total equity | 733,209 | 756,035 |
| TOTAL LIABILITIES AND EQUITY | \$ 2,500,024 | \$ 2,569,628 |

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

Three Months Ended April 30, 2023

| | Common Stock | | Treasury Stock, at Cost | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|------------------------------|---------------|-------------------------|----------------------------|-------------------|--|----------------------|-------------------------|-------------------|
| | Number of Shares Outstanding | Amount | | | | | | | |
| Balance at January 29, 2023 | 63,870,581 | \$ 785 | \$ (577,907) | \$ 471,374 | \$ 858,240 | \$ 3,360 | \$ 755,852 | \$ 183 | \$ 756,035 |
| Net loss | — | — | — | — | (29,415) | — | (29,415) | (2) | (29,417) |
| Other comprehensive loss | — | — | — | — | — | (2,624) | (2,624) | — | (2,624) |
| Share-based compensation | — | — | — | 10,820 | — | — | 10,820 | — | 10,820 |
| Treasury stock reissued to settle share-based awards | 87,167 | — | 2,590 | (4,195) | — | — | (1,605) | — | (1,605) |
| Balance at April 30, 2023 | 63,957,748 | \$ 785 | \$ (575,317) | \$ 477,999 | \$ 828,825 | \$ 736 | \$ 733,028 | \$ 181 | \$ 733,209 |

Three Months Ended May 1, 2022

| | Common Stock | | Treasury Stock, at Cost | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|------------------------------|---------------|-------------------------|----------------------------|-------------------|--------------------------------------|----------------------|-------------------------|-------------------|
| | Number of Shares Outstanding | Amount | | | | | | | |
| Balance at January 30, 2022 | 64,098,565 | \$ 785 | \$ (549,942) | \$ 491,956 | \$ 796,860 | \$ (2,075) | \$ 737,584 | \$ 191 | \$ 737,775 |
| Net income | — | — | — | — | 38,049 | — | 38,049 | (1) | 38,048 |
| Other comprehensive income | — | — | — | — | — | 1,400 | 1,400 | — | 1,400 |
| Share-based compensation | — | — | — | 12,103 | — | — | 12,103 | — | 12,103 |
| Repurchase of common stock | (762,093) | — | (50,000) | — | — | — | (50,000) | — | (50,000) |
| Treasury stock reissued to settle share-based awards | 130,461 | — | 3,755 | (7,908) | — | — | (4,153) | — | (4,153) |
| Balance at May 1, 2022 | 63,466,933 | \$ 785 | \$ (596,187) | \$ 496,151 | \$ 834,909 | \$ (675) | \$ 734,983 | \$ 190 | \$ 735,173 |

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | April 30, 2023 | May 1, 2022 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (29,417) | \$ 38,048 |
| <i>Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:</i> | | |
| Depreciation and amortization | 24,523 | 7,668 |
| Amortization of right-of-use assets | 1,635 | 1,140 |
| Investment impairments and credit loss reserves, net | 33 | 24 |
| Accretion of deferred financing costs and debt discount | 1,414 | 121 |
| Deferred income taxes | (3,337) | 1,747 |
| Share-based compensation | 8,404 | 10,893 |
| Loss on disposition of business operations and assets | 19 | 8 |
| Equity method loss (income) | 7 | (24) |
| Corporate-owned life insurance, net | 1,445 | (47) |
| <i>Changes in assets and liabilities:</i> | | |
| Accounts receivable, net | 16,449 | 5,147 |
| Inventories | (5,700) | 712 |
| Other assets | (14,430) | 3,017 |
| Accounts payable | (17,644) | (126) |
| Accrued liabilities | (71,809) | (16,808) |
| Other liabilities | (1,579) | (1,469) |
| Net cash (used in) provided by operating activities | <u>(89,987)</u> | <u>50,051</u> |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (13,977) | (8,315) |
| Purchase of investments | (430) | (2,000) |
| Proceeds from corporate-owned life insurance | — | 2,676 |
| Premiums paid for corporate-owned life insurance | — | (2,676) |
| Net cash used in investing activities | <u>(14,407)</u> | <u>(10,315)</u> |
| Cash flows from financing activities: | | |
| Proceeds from revolving line of credit | 40,000 | 10,000 |
| Deferred financing costs | (4,667) | — |
| Payments for employee share-based compensation payroll taxes | (1,605) | (4,570) |
| Proceeds from exercise of stock options | — | 417 |
| Repurchase of common stock | — | (50,000) |
| Net cash provided by (used in) financing activities | <u>33,728</u> | <u>(44,153)</u> |
| Effect of foreign exchange rate changes on cash and cash equivalents | (646) | — |
| Net decrease in cash and cash equivalents | (71,312) | (4,417) |
| Cash and cash equivalents at beginning of period | 235,510 | 279,601 |
| Cash and cash equivalents at end of period | <u>\$ 164,198</u> | <u>\$ 275,184</u> |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 17,117 | \$ 987 |
| Income taxes paid | \$ 8,662 | \$ 3,347 |
| Non-cash investing and financing activities: | | |
| Accounts payable related to capital expenditures | \$ 3,664 | \$ 3,808 |

The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements.

SEMTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Organization and Basis of Presentation

Nature of Business

Semtech Corporation (together with its consolidated subsidiaries, the "Company" or "Semtech") is a high-performance semiconductor, IoT systems and cloud connectivity service provider. The end customers for the Company's silicon solutions are primarily original equipment manufacturers that produce and sell technology solutions. The Company's IoT module, router, gateway and managed connectivity solutions ship to IoT device makers and enterprises to provide IoT connectivity to end devices.

The Company designs, develops and markets a wide range of products for commercial applications, the majority of which are sold into the infrastructure, high-end consumer and industrial end markets.

Basis of Presentation

The Company reports results on the basis of 52 and 53-week periods and ends its fiscal year on the last Sunday in January. The other quarters generally end on the last Sunday of April, July and October. All quarters consist of 13 weeks except for one 14-week period in the fourth quarter of 53-week years. The first quarters of fiscal years 2024 and 2023 each consisted of 13 weeks.

Principles of Consolidation

The accompanying interim unaudited condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and on the same basis as the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2023 ("Annual Report"). The Company's interim unaudited condensed consolidated statements of operations are referred to herein as the "Statements of Operations," the Company's interim unaudited condensed consolidated balance sheets are referred to herein as the "Balance Sheets," and the Company's interim unaudited condensed consolidated statements of cash flows are referred to herein as the "Statements of Cash Flows." In the opinion of the Company, these interim unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the financial position of the Company for the interim periods presented. All intercompany balances have been eliminated. Because the interim unaudited condensed consolidated financial statements do not include all of the information and notes required by GAAP for a complete set of consolidated financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report. The results reported in these interim unaudited condensed consolidated financial statements should not be regarded as indicative of results that may be expected for any subsequent period or for the entire year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

In fiscal year 2023, the Company reclassified amounts recorded for amortization of acquired technology intangible assets as a component of cost of sales. This was applied retrospectively and resulted in the reclassification of \$1.0 million of amortization of acquired technology intangible assets for the three months ended May 1, 2022, from "Intangible amortization" within "Total operating costs and expenses, net" to "Amortization of acquired technology" within "Total cost of sales" in the Statements of Operations, which also had the impact of reducing gross profit by the same amount. This reclassification did not impact the Company's operating income, net income or earnings per share for any historical periods and also did not impact the Company's Balance Sheets or Statements of Cash Flows.

Note 2: Acquisition

Sierra Wireless, Inc.

On January 12, 2023 (the "Acquisition Date"), the Company completed the acquisition of all of the issued and outstanding common shares of Sierra Wireless, Inc. ("Sierra Wireless") in an all-cash transaction representing a total purchase consideration of approximately \$1.3 billion (the "Sierra Wireless Acquisition"). The results of operations of Sierra Wireless have been included in the Statements of Operations since the Acquisition Date.

The transaction was accounted for as a business combination in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations." The purchase price allocation for the Sierra Wireless Acquisition is preliminary. The Company made an initial allocation of the purchase price at the Acquisition Date based upon its understanding of the fair value of the acquired assets and assumed liabilities based on the information that was currently available. As of April 30, 2023, the measurement period (not to exceed one year) is open; therefore, the assets acquired and liabilities assumed related to the Sierra Wireless Acquisition are subject to adjustment until the end of the measurement period. The Company is in the process of specifically identifying the amounts assigned to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters, income and non-income based taxes, residual goodwill, and the allocation of goodwill to reporting units, and the Company is in the process of reviewing the related third-party valuation. The fair values of acquired intangibles are determined based on estimates and assumptions that are deemed reasonable by the Company. The amounts recorded at the Acquisition Date are preliminary estimates that are subject to change and related accounting adjustments may be materially different as the Company obtains additional information during the post-acquisition measurement period. In the fourth quarter of fiscal year 2023, a preliminary goodwill balance of \$931.4 million was recognized for the excess of the consideration transferred over the net assets acquired and represented the expected revenue and cost synergies of the combined company and assembled workforce. In the first quarter of fiscal year 2024, the Company recorded measurement period adjustments that increased goodwill by \$7.1 million as a result of an adjustment to accrued legal liabilities assumed in the Sierra Wireless Acquisition including a \$12.7 million increase to accrued liabilities and a \$1.8 million increase to long-term liabilities, as well as a \$7.4 million increase to related insurance receivables recorded in other current assets. These measurement period adjustments have been recorded to reflect facts and circumstances that existed as of the Acquisition Date.

The following table provides a summary of the pro forma unaudited consolidated results of operations as if the Sierra Wireless Acquisition had been completed on February 1, 2021 (the first day of fiscal year 2022):

| | <u>Three Months Ended</u> |
|----------------|---------------------------|
| | <u>May 1, 2022</u> |
| | (unaudited) |
| (in thousands) | |
| Total revenues | \$ 375,106 |
| Net loss | \$ (396) |

The unaudited pro forma information presented does not purport to be indicative of the results that would have been achieved had the acquisition been consummated at the beginning of the period presented nor of the results which may occur in the future. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma information does not include any adjustments for any restructuring activities, operating efficiencies or cost savings. The Company ends its fiscal year on the last Sunday in January. Prior to the transaction, Sierra Wireless's fiscal year ended on December 31. To comply with SEC rules and regulations for companies with different fiscal year ends, the pro forma combined financial information has been prepared utilizing periods that differ by up to a month.

Note 3: (Loss) Earnings per Share

The computation of basic and diluted (loss) earnings per share was as follows:

| (in thousands, except per share data) | Three Months Ended | |
|--|--------------------|---------------|
| | April 30, 2023 | May 1, 2022 |
| Net (loss) income attributable to common stockholders | \$ (29,415) | \$ 38,049 |
| Weighted-average shares outstanding—basic | 63,924 | 63,950 |
| Dilutive effect of share-based compensation | — | 603 |
| Weighted-average shares outstanding—diluted | <u>63,924</u> | <u>64,553</u> |
| (Loss) earnings per share: | | |
| Basic | \$ (0.46) | \$ 0.59 |
| Diluted | \$ (0.46) | \$ 0.59 |
| Anti-dilutive shares not included in the above calculations: | | |
| Share-based compensation | 2,129 | 64 |
| Warrants | <u>8,573</u> | <u>—</u> |
| Total anti-dilutive shares | <u>10,702</u> | <u>64</u> |

Basic earnings or loss per share is computed by dividing income or loss available to common stockholders by the weighted-average number of shares of common stock outstanding during the reporting period. Diluted earnings or loss per share incorporates the incremental shares issuable, calculated using the treasury stock method, upon the assumed exercise of non-qualified stock options and the vesting of restricted stock units, market-condition restricted stock units and financial metric-based restricted stock units if certain conditions have been met, but excludes such incremental shares that would have an anti-dilutive effect.

Any dilutive effect of the Warrants (see Note 9, Long-Term Debt) is calculated using the treasury-stock method. During the three months ended April 30, 2023, the Warrants were excluded from diluted shares outstanding because the exercise price exceeded the average market price of the Company's common stock for the reporting period and due to net loss.

Note 4: Share-Based Compensation

Financial Statement Effects and Presentation

Pre-tax share-based compensation was included in the Statements of Operations as follows:

| (in thousands) | Three Months Ended | |
|-------------------------------------|--------------------|------------------|
| | April 30, 2023 | May 1, 2022 |
| Cost of sales | \$ 363 | \$ 775 |
| Selling, general and administrative | 4,502 | 6,132 |
| Product development and engineering | 3,539 | 3,986 |
| Total share-based compensation | <u>\$ 8,404</u> | <u>\$ 10,893</u> |

Restricted Stock Units, Employees

The Company grants restricted stock units to certain employees of which a portion are expected to be settled with shares of the Company's common stock and a portion are expected to be settled in cash. The restricted stock units that are to be settled with shares are accounted for as equity. The grant date for these awards is equal to the measurement date and they are valued as of the measurement date, based on the fair value of the Company's common stock at the grant date, and recognized as share-based compensation expense over the requisite vesting period (typically 3 or 4 years). The restricted stock units that are to be settled in cash are accounted for as liabilities and the value of the awards is re-measured at the end of each reporting period until settlement at the end of the requisite vesting period (typically 3 years). In the three months ended April 30, 2023, the Company granted to certain employees 582,000 restricted stock units that settle in shares with a weighted-average grant date fair value of \$30.16, including 232,635 restricted stock units granted to the Chief Executive Officer that vest quarterly over an 18-month period in connection with his announced retirement from the Company. In the three months ended April 30, 2022, the Company granted to certain employees 9,432 restricted stock units that settle in cash.

Restricted Stock Units, Non-Employee Directors

The Company maintains a compensation program pursuant to which restricted stock units are granted to the Company's directors that are not employed by the Company or any of its subsidiaries. Under the Company's director compensation program, a portion of the restricted stock units granted under the program would be settled in cash and a portion would be settled in shares of the Company's common stock. Restricted stock units awarded under the program are generally scheduled to vest on the earlier of (i) one year after the grant date or (ii) the day immediately preceding the first annual meeting of the Company's stockholders following the grant. The portion of a restricted stock unit award under the program that is to be settled in cash will, subject to vesting, be settled when the director who received the award separates from the board of directors. The portion of a restricted stock unit award under the program that is to be settled in shares of stock will, subject to vesting, be settled promptly following vesting. In the three months ended April 30, 2023, the Company granted to certain non-employee directors 1,776 restricted stock units that settle in cash and 1,776 restricted stock units that settle in shares with a weighted-average grant date fair value of \$21.65.

Total Stockholder Return ("TSR") Market-Condition Restricted Stock Units

The Company grants TSR market-condition restricted stock units (the "TSR Awards") to certain executives of the Company, which are settled in shares and accounted for as equity awards. The TSR Awards have a pre-defined market-condition, which determines the number of shares that ultimately vest, as well as a service condition. The TSR Awards are valued as of the grant date using a Monte Carlo simulation, which takes into consideration the possible outcomes pertaining to the TSR market condition and expense is recognized on a straight-line basis over the requisite service periods and is adjusted for any actual forfeitures.

In the three months ended April 30, 2023, the Company granted 109,107 TSR Awards. The market condition is determined based upon the Company's TSR benchmarked against the TSR of the Russell 3000 Index over one, two and three year performance periods (one-third of the awards vesting each performance period). Generally, the award recipients must be employed for the entire performance period and be an active employee at the time of vesting of the awards. The grant-date fair values per unit of the TSR Awards granted in the three months ended April 30, 2023 for each one, two and three year performance period were \$39.47, \$45.36 and \$49.79, respectively. Under the terms of these awards, assuming the highest performance level of 200% with no cancellations due to forfeitures, the maximum potential number of shares that can be earned in aggregate for the cumulative fiscal years 2024, 2025 and 2026 performance periods would be 218,214 shares.

Financial Metric-Based Restricted Stock Units

The Company grants financial metric-based restricted stock units to certain executives of the Company, which are settled in shares and accounted for as equity awards. These awards have a performance condition in addition to a service condition. The number of vested shares for each performance period is determined based on the Company's attainment of pre-established

revenue and non-GAAP operating income targets for the respective performance period. The vesting for tranches after the initial performance period is dependent on revenue and non-GAAP operating income for the preceding performance period. The financial metric-based restricted stock units are valued as of the measurement date and compensation cost is recognized using the accelerated attribution method over the requisite service period based on the number of shares that are probable of attainment for each fiscal year.

In the three months ended April 30, 2023, the Company granted 109,107 financial metric-based restricted stock units with a weighted-average grant date fair value of \$30.21 that vest over one, two and three year performance periods (one-third of the awards vesting each performance period). Generally, the award recipients must be employed for the entire performance period and be an active employee at the time of vesting of the awards. Under the terms of these awards, assuming the highest performance level of 200% with no cancellations due to forfeitures, the maximum potential number of shares that can be earned in aggregate for the cumulative fiscal years 2024, 2025 and 2026 performance periods would be 218,214 shares.

Note 5: Available-for-sale securities

The following table summarizes the values of the Company's available-for-sale securities:

| (in thousands) | April 30, 2023 | | | January 29, 2023 | | |
|-------------------------------------|----------------|----------------|------------------------------|------------------|----------------|------------------------------|
| | Fair Value | Amortized Cost | Gross Unrealized Gain/(Loss) | Fair Value | Amortized Cost | Gross Unrealized Gain/(Loss) |
| Convertible debt investments | \$ 14,305 | \$ 15,978 | \$ (1,673) | \$ 13,995 | \$ 15,635 | \$ (1,640) |
| Total available-for-sale securities | \$ 14,305 | \$ 15,978 | \$ (1,673) | \$ 13,995 | \$ 15,635 | \$ (1,640) |

The following table summarizes the maturities of the Company's available-for-sale securities:

| (in thousands) | April 30, 2023 | |
|-------------------------------------|----------------|----------------|
| | Fair Value | Amortized Cost |
| Within 1 year | \$ 12,803 | \$ 13,975 |
| After 1 year through 5 years | 1,502 | 2,003 |
| Total available-for-sale securities | \$ 14,305 | \$ 15,978 |

The Company's available-for-sale securities consist of investments in convertible debt instruments issued by privately-held companies. The available-for-sale securities with maturities within one year were included in "Other current assets" and with maturities greater than one year were included in "Other assets" in the Balance Sheets.

Note 6: Fair Value Measurements

The following fair value hierarchy is applied for disclosure of the inputs used to measure fair value and prioritizes the inputs into three levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the assets or liabilities, either directly or indirectly.

Level 3—Unobservable inputs based on the Company's own assumptions, requiring significant management judgment or estimation.

Instruments Measured at Fair Value on a Recurring Basis

The fair values of financial assets and liabilities measured and recorded at fair value on a recurring basis were presented in the Balance Sheets as follows:

| (in thousands) | April 30, 2023 | | | | January 29, 2023 | | | |
|------------------------------------|------------------|-------------|-----------------|------------------|------------------|-------------|-----------------|------------------|
| | Total | (Level 1) | (Level 2) | (Level 3) | Total | (Level 1) | (Level 2) | (Level 3) |
| Financial assets: | | | | | | | | |
| Interest rate swap agreement | \$ 7,024 | \$ — | \$ 7,024 | \$ — | \$ 6,067 | \$ — | \$ 6,067 | \$ — |
| Total return swap contracts | — | — | — | — | 91 | — | 91 | — |
| Convertible debt investments | 14,305 | — | — | 14,305 | 13,995 | — | — | 13,995 |
| Foreign currency forward contracts | 399 | — | 399 | — | 717 | — | 717 | — |
| Total financial assets | \$ 21,728 | \$ — | \$ 7,423 | \$ 14,305 | \$ 20,870 | \$ — | \$ 6,875 | \$ 13,995 |
| Financial liabilities: | | | | | | | | |
| Interest rate swap agreement | 9,126 | — | 9,126 | — | 6,432 | — | 6,432 | — |
| Total return swap contracts | 6 | — | 6 | — | — | — | — | — |
| Total financial liabilities | \$ 9,132 | \$ — | \$ 9,132 | \$ — | \$ 6,432 | \$ — | \$ 6,432 | \$ — |

During the three months ended April 30, 2023, the Company had no transfers of financial assets or liabilities between Level 1, Level 2 or Level 3. As of April 30, 2023 and January 29, 2023, the Company had not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted.

The convertible debt investments are valued utilizing a combination of estimates that are based on the estimated discounted cash flows associated with the debt and the fair value of the equity into which the debt may be converted, all of which are Level 3 inputs.

The following table presents a reconciliation of the changes in convertible debt investments in the three months ended April 30, 2023:

| (in thousands) | |
|----------------------------------|------------------|
| Balance at January 29, 2023 | \$ 13,995 |
| Increase in credit loss reserve | (33) |
| Interest accrued | 343 |
| Balance at April 30, 2023 | \$ 14,305 |

The interest rate swap agreements are measured at fair value using readily available interest rate curves (Level 2 inputs). The fair value of each agreement is determined by comparing, for each settlement, the contract rate to the forward rate and discounting to the present value. Contracts in a gain position are recorded in "Other current assets" and "Other assets" in the Balance Sheets and the value of contracts in a loss position are recorded in "Accrued liabilities" and "Other long-term liabilities" in the Balance Sheets. See Note 17, Derivatives and Hedging Activities, for further discussion of the Company's derivative instruments.

The foreign currency forward contracts are measured at fair value using readily available foreign currency forward and interest rate curves (Level 2 inputs). The fair value of each contract is determined by comparing the contract rate to the forward rate and discounting to the present value. Contracts in a gain position are recorded in "Other current assets" in the Balance Sheets and the value of contracts in a loss position are recorded in "Accrued liabilities" in the Balance Sheets. See Note 17, Derivatives and Hedging Activities, for further discussion of the Company's derivative instruments.

The total return swap contracts are measured at fair value using quoted prices of the underlying investments (Level 2 inputs). The fair values of the total return swap contracts are recognized in the Balance Sheets in "Accrued Liabilities" if the instruments are in a loss position and in "Other Current Assets" if the instruments are in a gain position. See Note 17, Derivatives and Hedging Activities, for further discussion of the Company's derivative instruments.

Instruments Not Recorded at Fair Value

Some of the Company's financial instruments are not measured at fair value, but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents including money market deposits, net receivables, certain other assets, accounts payable, accrued expenses, accrued personnel costs, and other current liabilities. The Company's revolving loans and Term Loans (as defined below) are recorded at cost, which approximates fair value as the debt instruments bear interest at a floating rate. The Notes (as defined below) are carried at face value less unamortized debt issuance costs, with interest expense reflecting the cash coupon plus the amortization of the capitalized issuance costs. The estimated fair values are determined based on the actual bid price of the Notes as of the last business day of the period.

The following table displays the carrying values and fair values of the Notes:

| (in thousands) | Fair Value Hierarchy | April 30, 2023 | | January 29, 2023 | |
|--|----------------------|----------------|------------|------------------|------------|
| | | Carrying Value | Fair Value | Carrying Value | Fair Value |
| 1.625% convertible senior notes due 2027, net ⁽¹⁾ | Level 2 | 308,710 | 264,491 | 308,150 | 345,075 |

⁽¹⁾ The 1.625% convertible senior notes due 2027, net are reflected net of \$10.8 million and \$11.4 million of unamortized debt issuance costs as of April 30, 2023 and January 29, 2023, respectively.

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The Company reduces the carrying amounts of its goodwill, intangible assets, long-lived assets and non-marketable equity securities to fair value when it determines they are impaired.

Investment Impairments and Credit Loss Reserves

The total credit loss reserve for the Company's held-to-maturity debt securities and available-for-sale debt securities was \$4.2 million as of April 30, 2023 and January 29, 2023. Credit loss reserves related to the Company's available-for-sale debt securities and held-to-maturity debt securities with maturities within one year were included in "Other current assets" and with maturities greater than one year were included in "Other assets" in the Balance Sheets.

Note 7: Inventories

Inventories, consisting of material, material overhead, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out) or net realizable value and consisted of the following:

| (in thousands) | April 30, 2023 | January 29, 2023 |
|---|-------------------|-------------------|
| Raw materials and electronic components | \$ 76,556 | \$ 76,919 |
| Work in progress | 91,331 | 88,764 |
| Finished goods | 45,347 | 42,021 |
| Total inventories | <u>\$ 213,234</u> | <u>\$ 207,704</u> |

Note 8: Goodwill and Intangible Assets

Goodwill

The carrying amounts of goodwill by applicable reporting unit were as follows:

| (in thousands) | Signal Integrity | Advanced Protection and Sensing | IoT System | IoT Connected Services | Unallocated | Total |
|-------------------------------|------------------|---------------------------------|------------|------------------------|-------------|--------------|
| Balance at January 29, 2023 | \$ 274,085 | \$ 14,639 | \$ 61,582 | \$ — | \$ 931,397 | \$ 1,281,703 |
| Measurement period adjustment | — | — | — | — | 7,125 | \$ 7,125 |
| Balance at April 30, 2023 | \$ 274,085 | \$ 14,639 | \$ 61,582 | \$ — | \$ 938,522 | \$ 1,288,828 |

Goodwill is not amortized, but is tested for impairment at the reporting unit level using either a qualitative or quantitative assessment on an annual basis during the fourth quarter of each fiscal year, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair market value of the reporting unit (see Note 15 on segment information). As of April 30, 2023, there was no indication of impairment of the Company's goodwill balances.

On January 12, 2023, the Company acquired all of the outstanding equity interests in Sierra Wireless and a preliminary goodwill balance of \$931.4 million was recognized for the excess of the consideration transferred over the net assets acquired and represented the expected revenue and cost synergies of the combined company and assembled workforce. In the first quarter of fiscal year 2024, the Company recorded measurement period adjustments that increased goodwill by \$7.1 million. See Note 2, Acquisition, for further discussion of the Sierra Wireless Acquisition. Goodwill resulting from this transaction has not yet been allocated at the reporting unit level, but will be allocated to the IoT System and IoT Connected Services reporting units when the purchase price allocation is finalized during the measurement period and an analysis has been completed to determine an appropriate allocation based on the relative fair value of each of these reporting units.

Purchased Intangibles

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions, which are amortized over their estimated useful lives:

| (in thousands, except estimated useful life) | Estimated Useful Life | April 30, 2023 | | | January 29, 2023 | | |
|--|-----------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Core technologies | 1-8 years | \$ 175,114 | \$ (32,011) | \$ 143,103 | \$ 175,080 | \$ (21,156) | \$ 153,924 |
| Customer relationships | 1-10 years | 52,381 | (4,776) | 47,605 | 53,000 | (690) | 52,310 |
| Trade name | 2-10 years | 9,000 | (924) | 8,076 | 9,000 | (132) | 8,868 |
| Total finite-lived intangible assets | | \$ 236,495 | \$ (37,711) | \$ 198,784 | \$ 237,080 | \$ (21,978) | \$ 215,102 |

Amortization expense of finite-lived intangible assets was as follows:

| (in thousands) | Three Months Ended | |
|----------------------------|--------------------|-------------|
| | April 30, 2023 | May 1, 2022 |
| Core technologies | \$ 10,855 | \$ 1,048 |
| Customer relationships | 4,090 | — |
| Trade name | 792 | — |
| Total amortization expense | \$ 15,737 | \$ 1,048 |

Amortization expense of finite-lived intangible assets related to core technologies was recorded in "Amortization of acquired technology" within "Total cost of sales" in the Statements of Operations and amortization expense of finite-lived intangible assets related to customer relationships and trade name was recorded in "Intangible amortization" within "Total operating costs and expenses, net" in the Statements of Operations. As of the Acquisition Date, the weighted-average amortization period for the finite-lived intangible assets acquired in the Sierra Wireless Acquisition was 5.3 years, which reflects weighted-average amortization periods of 4.4 years, 7.9 years and 6.2 years for core technologies, customer relationships and trade name, respectively.

Future amortization expense of finite-lived intangible assets is expected as follows:

| (in thousands) | Core Technologies | Customer Relationships | Trade name | Total |
|-------------------------------------|-------------------|------------------------|-----------------|-------------------|
| 2024 (remaining nine months) | \$ 30,620 | \$ 11,762 | \$ 2,375 | \$ 44,757 |
| 2025 | 39,542 | 4,003 | 1,722 | 45,267 |
| 2026 | 32,434 | 4,003 | 500 | 36,937 |
| 2027 | 17,573 | 4,003 | 500 | 22,076 |
| 2028 | 13,562 | 4,003 | 500 | 18,065 |
| Thereafter | 9,372 | 19,831 | 2,479 | 31,682 |
| Total expected amortization expense | <u>\$ 143,103</u> | <u>\$ 47,605</u> | <u>\$ 8,076</u> | <u>\$ 198,784</u> |

Note 9: Long-Term Debt

Long-term debt and the current period interest rates were as follows:

| (in thousands, except percentages) | April 30, 2023 | January 29, 2023 |
|---|----------------|------------------|
| Revolving loans | \$ 190,000 | \$ 150,000 |
| Terms loans | 895,000 | 895,000 |
| 1.625% convertible senior notes due 2027 | 319,500 | 319,500 |
| Total debt | \$ 1,404,500 | \$ 1,364,500 |
| Current portion, net | \$ (42,695) | \$ (43,104) |
| Debt issuance costs | (25,169) | (24,430) |
| Total long-term debt, net of debt issuance costs | \$ 1,336,636 | \$ 1,296,966 |
| Weighted-average effective interest rate ⁽¹⁾ | 5.65 % | 4.84 % |

⁽¹⁾ The revolving loans and Term Loans (as defined below) bear interest at variable rates based on Adjusted Term SOFR or a Base Rate (as defined herein), at the Company's option, plus an applicable margin that varies based on the Company's consolidated leverage ratio. In the first quarter of fiscal year 2024, the Company entered into an interest rate swap agreement with a 2.75 year term to hedge the variability of interest payments on \$150.0 million of debt outstanding on the Term Loans at a fixed Term SOFR rate of 3.58%, plus a variable margin and spread based on the Company's consolidated leverage ratio. In the fourth quarter of fiscal year 2023, the Company entered into an interest rate swap agreement with a 5 year term to hedge the variability of interest payments on \$450.0 million of debt outstanding on the Term Loans at a fixed Term SOFR rate of 3.44%, plus a variable margin and spread based on the Company's consolidated leverage ratio. In the first quarter of fiscal year 2021, the Company entered into an interest rate swap agreement with a 3 year term to hedge the variability of interest payments on the first \$150.0 million of debt outstanding on the Revolving Credit Facility at a fixed LIBOR-referenced rate of 0.73% plus a variable margin and spread based on the Company's consolidated leverage ratio. As of April 30, 2023, the effective interest rate was a weighted-average rate that represented (a) interest on the revolving loans at a floating SOFR rate of 4.88% plus a margin and spread of 2.61% (total floating rate of 7.49%), (b) interest on \$450.0 million of the debt outstanding on the Term Loans at a fixed SOFR rate of 3.44% plus a margin and spread of 2.60% (total fixed rate of 6.04%), (c) interest on \$150.0 million of the debt outstanding on the Terms Loans at a fixed SOFR rate of 3.58% plus a margin and spread of 2.60% (total fixed rate of 6.18%), (d) interest on the remaining debt outstanding on the Term Loans at a floating SOFR rate of 4.88% plus a margin and spread of 2.60% (total floating rate of 7.48%) and (e) interest on the Notes outstanding at a fixed rate of 1.625%. As of January 29, 2023, the effective interest rate was a weighted average-rate that represented (a) interest on the revolving loans at a fixed LIBOR rate of 0.73% plus a margin and spread of 2.36% (total fixed rate of 3.09%) (b) interest on \$450.0 million of the debt outstanding on the Term Loans at a fixed SOFR rate of 3.44% plus a margin and spread of 2.35% (total fixed rate of 5.79%), (c) interest on the remaining debt outstanding on the Term Loans at a floating SOFR rate of 4.43% plus a margin and spread of 2.35% (total floating rate of 6.78%) and (d) interest on the Notes outstanding at a fixed rate of 1.625%.

Credit Agreement

On November 7, 2019, the Company, with certain of its domestic subsidiaries as guarantors, entered into an amended and restated credit agreement (as amended, restated or otherwise modified from time to time, the "Credit Agreement") with the lenders party thereto and HSBC Bank USA, National Association, as administrative agent, swing line lender and letter of credit issuer. In connection with the Sierra Wireless Acquisition, on September 26, 2022, the Company entered into a third amendment and restatement agreement (the "Restatement Agreement"), which became effective at the time of closing of the Sierra Wireless Acquisition, to among other things provide for the partial extension of the revolving commitments under the Credit Agreement and to incur term loans to finance the Sierra Wireless Acquisition and related costs and expenses.

After effectiveness of the Restatement Agreement, the revolving credit facility thereunder (the "Revolving Credit Facility") was \$600.0 million, of which \$195.0 million was scheduled to mature on November 7, 2024 and \$405.0 million was scheduled to mature on January 12, 2028, and the term loans thereunder (the "Term Loans") were outstanding in an aggregate principal amount of \$895.0 million and scheduled to mature on January 12, 2028. Up to \$40.0 million of the Revolving Credit Facility may be used to obtain letters of credit, up to \$25.0 million of the Revolving Credit Facility may be used to obtain swing line loans, and up to \$75.0 million of the Revolving Credit Facility may be used to obtain revolving loans and letters of credit in certain currencies other than U.S. Dollars ("Alternative Currencies"). The proceeds of the Revolving Credit Facility may be used by the Company for capital expenditures, permitted acquisitions, permitted dividends, working capital and general corporate purposes.

No amortization is required with respect to the revolving loans. Prior to the effectiveness of the Second Amendment described below, the Term Loans amortized in equal quarterly installments of 1.25% of the original principal amount thereof, with the balance due at maturity. The Company may voluntarily prepay borrowings at any time and from time to time, without premium or penalty, other than customary "breakage costs" in certain circumstances.

All obligations of the Company under the Credit Agreement are unconditionally guaranteed by all of the Company's direct and indirect domestic subsidiaries, other than certain excluded subsidiaries, including, but not limited to, any domestic subsidiary the primary assets of which consist of equity or debt of non-U.S. subsidiaries, certain immaterial non-wholly-owned domestic subsidiaries and subsidiaries that are prohibited from providing a guarantee under applicable law or that would require governmental approval to provide such guarantee. The Company and the guarantors have also pledged substantially all of their assets to secure their obligations under the Credit Agreement.

On February 24, 2023, the Company entered into the first amendment (the "First Amendment") to the Credit Agreement, in order to, among other things, (i) increase the maximum consolidated leverage ratio covenant for certain test periods as set forth therein, (ii) reduce the minimum consolidated interest coverage ratio covenant for certain test periods as set forth therein, (iii) provide that, during the period that financial covenant relief pursuant to the First Amendment is in effect, the interest rate margin for (1) Term SOFR loans is deemed to be 2.50% and (2) Base Rate loans is deemed to be 1.50% per annum and (iv) make certain other changes as set forth therein.

After the First Amendment but prior to the effectiveness of the Second Amendment described below, interest on loans made under the Credit Agreement in U.S. Dollars accrued, at the Company's option, at a rate per annum equal to (1) the Base Rate (as defined below) plus a margin ranging from 0.25% to 1.25% depending upon the Company's consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the First Amendment was in effect, the margin was deemed to be 1.50% per annum) or (2) Adjusted Term SOFR (as defined in the Credit Agreement, including certain credit spread adjustments) for an interest period to be selected by the Company plus a margin ranging from 1.25% to 2.25% depending upon the Company's consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the First Amendment was in effect, the margin was deemed to be 2.50% per annum) (such margin, the "Applicable Margin"). The "Base Rate" is equal to a fluctuating rate equal to the highest of (a) the Prime Rate (as defined in the Credit Agreement), (b) 0.50% above the NYFRB Rate (as defined in the Credit Agreement) and (c) one-month Adjusted Term SOFR (as defined in the Credit Agreement) plus 1.00%. Interest on loans made under the Revolving Credit Facility in Alternative Currencies accrues at a rate per annum equal to a customary benchmark rate (including, in certain cases, credit spread adjustments) plus the Applicable Margin.

The Credit Agreement contains customary covenants, including limitations on the Company's ability to, among other things, incur indebtedness, create liens on assets, engage in certain fundamental corporate changes, make investments, repurchase stock, pay dividends or make similar distributions, engage in certain affiliate transactions, or enter into agreements that restrict the Company's ability to create liens, pay dividends or make loan repayments. In addition, the Company must comply with financial covenants which, after the First Amendment but prior to the effectiveness of the Second Amendment described below were as follows (unless the covenant relief period under the First Amendment was earlier terminated by the Company):

- maintaining a maximum consolidated leverage ratio, determined as of the last day of each fiscal quarter, of (i) 4.75 to 1.00, for the fiscal quarter ending on or around April 30, 2023, (ii) 5.75 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 5.75 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 5.50 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 4.75 to 1.00 for the fiscal quarter ending on or around April 30, 2024, (vi) 4.50 to 1.00 for the fiscal quarter ending on or around July 31, 2024, and (vii) 3.75 to 1.00 for the fiscal quarter ending on or around October 31, 2024 and each fiscal quarter thereafter subject to increase to 4.25 to 1.00 for the four full consecutive fiscal quarters ending on or after the date of consummation of a permitted acquisition that constitutes a "Material Acquisition" under the Credit Agreement, subject to the satisfaction of certain conditions; and
- maintaining a minimum consolidated interest expense coverage ratio, determined as of the last day of each fiscal quarter, of (i) 2.50 to 1.00 for the fiscal quarter ending on or around April 30, 2023, (ii) 2.25 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 2.00 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 2.25 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 2.50 to 1.00 for the fiscal quarter ending on or around April 30, 2024, and (vi) 3.50 to 1.00 for the fiscal quarter ending on or around July 31, 2024 and each fiscal quarter thereafter.

The Credit Agreement also contains customary provisions pertaining to events of default. If any event of default occurs, the obligations under the Credit Agreement may be declared due and payable, terminated upon written notice to the Company and existing letters of credit may be required to be cash collateralized.

On June 6, 2023, the Company entered into the second amendment (the "Second Amendment") to the Credit Agreement, in order to, among other things, (i) increase the maximum consolidated leverage ratio covenant for certain test periods as set forth therein and described below, (ii) reduce the minimum consolidated interest coverage ratio covenant for certain test periods as set forth therein and described below, (iii) modify the pricing grid applicable to loans under the Credit Agreement during the covenant relief period as set forth therein and described below, (iv) impose a minimum liquidity covenant for certain periods during the covenant relief period as set forth therein and described below, (v) increase the annual amortization in respect of the term loans thereunder to 7.5% per annum for certain periods as set forth therein, (vi) impose an "anti-cash hoarding" condition to the borrowing of revolving loans as set forth therein, (vii) provide that the maturity date for the term loans and revolving loans shall be the day that is 91 days prior to the stated maturity date of the Notes if the Notes have not otherwise been refinanced or extended to at least 91 days after the stated maturity date of the term loans and revolving loans, the aggregate principal amount of non-extended outstanding Notes and certain replacement debt exceeds \$50 million and a minimum liquidity condition is not satisfied, (viii) provide for the reduction of the aggregate revolving commitments thereunder by \$100 million, (ix) require that the Company appoint a financial advisor and (x) make certain other modifications to the mandatory

prepayments (including the imposition of an excess cash flow mandatory prepayment), collateral provisions and covenants (including additional limitations on debt, liens, investments and restricted payments such as dividends) as set forth therein.

After the effectiveness of the Second Amendment, interest on loans made under the Credit Agreement in U.S. Dollars accrues, at the Company's option, at a rate per annum equal to (1) the Base Rate (as defined above) plus a margin ranging from 0.25% to 2.75% depending upon the Company's consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the Second Amendment is in effect, the margin will not be less than 2.25% per annum) or (2) Adjusted Term SOFR (as defined in the Credit Agreement, including certain credit spread adjustments) for an interest period to be selected by the Company plus a margin ranging from 1.25% to 3.75% depending upon the Company's consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the Second Amendment is in effect, the margin will not be less than 3.25% per annum).

After the effectiveness of the Second Amendment, the financial covenants in the Credit Agreement are as follows (unless the covenant relief period under the Second Amendment is earlier terminated by the Company):

- maintaining a maximum consolidated leverage ratio, determined as of the last day of each fiscal quarter, of (i) 4.75 to 1.00, for the fiscal quarter ending on or around April 30, 2023, (ii) 6.80 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 8.17 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 8.58 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 7.26 to 1.00 for the fiscal quarter ending on or around April 30, 2024, (vi) 6.36 to 1.00 for the fiscal quarter ending on or around July 31, 2024, (vii) 5.85 to 1.00 for the fiscal quarter ending on or around October 31, 2024, (viii) 5.77 to 1.00 for the fiscal quarter ending on or around January 31, 2025, and (ix) 3.75 to 1.00 for the fiscal quarter ending on or around April 30, 2025 and each fiscal quarter thereafter subject to increase to 4.25 to 1.00 for the four full consecutive fiscal quarters ending on or after the date of consummation of a permitted acquisition that constitutes a "Material Acquisition" under the Credit Agreement, subject to the satisfaction of certain conditions;
- maintaining a minimum consolidated interest expense coverage ratio, determined as of the last day of each fiscal quarter, of (i) 2.50 to 1.00 for the fiscal quarter ending on or around April 30, 2023, (ii) 2.04 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 1.66 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 1.61 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 1.81 to 1.00 for the fiscal quarter ending on or around April 30, 2024, (vi) 2.07 to 1.00 for the fiscal quarter ending on or around July 31, 2024, (vii) 2.27 to 1.00 for the fiscal quarter ending on or around October 31, 2024, (viii) 2.41 to 1.00 for the fiscal quarter ending on or around January 31, 2025, and (ix) 3.50 to 1.00 for the fiscal quarter ending April 30, 2025 and each fiscal quarter thereafter; and
- until January 31, 2025, maintaining a minimum consolidated liquidity (as further defined in the Credit Agreement but excluding revolving credit commitments scheduled to expire in 2024) of \$150 million as of the last day of each monthly accounting period of the Company.

As of April 30, 2023, the Company was in compliance with the financial covenants in the Credit Agreement.

As of April 30, 2023, the Company had \$190.0 million outstanding under its Revolving Credit Facility and \$895.0 million outstanding under its Term Loans. As of April 30, 2023, the undrawn borrowing capacity under the Revolving Credit Facility was \$410.0 million (\$310.0 million after giving pro forma effect to the reduction of revolving commitments as part of the Second Amendment described above), subject to leverage limitations. After effectiveness of the Second Amendment, \$162.5 million of the Revolving Credit Facility will mature on November 7, 2024 and \$337.5 million of the Revolving Credit Facility will mature on January 12, 2028.

In the first quarter of fiscal year 2024, the Company entered into an interest rate swap agreement with a 2.75 year term to hedge the variability of interest payments on \$150.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.58%, plus a variable margin and spread based on the Company's consolidated leverage ratio.

In the fourth quarter of fiscal year 2023, the Company entered into an interest rate swap agreement with a 5 year term to hedge the variability of interest payments on \$450.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.44%, plus a variable margin and spread based on the Company's consolidated leverage ratio.

In the first quarter of fiscal year 2021, the Company entered into an interest rate swap agreement with a 3 year term to hedge the variability of interest payments on the first \$150.0 million of debt outstanding under the Company's Revolving Credit Facility at a LIBOR-referenced rate of 0.73%, plus a variable margin and spread based on the Company's consolidated leverage ratio. This interest rate swap agreement matured during the first quarter of 2024.

Convertible Senior Notes

On October 12, 2022 and October 21, 2022, the Company issued and sold \$300.0 million and \$19.5 million, respectively, in aggregate principal amount of 1.625% Convertible Senior Notes due 2027 (the "Notes") in a private placement. The Notes were issued pursuant to an indenture, dated October 12, 2022, by and among the Company, the Subsidiary Guarantors (as defined

below) party thereto and U.S. Bank Trust Company, National Association, as trustee (the "Indenture"). The Notes are jointly and severally and fully and unconditionally guaranteed by each of the Company's current and future direct and indirect wholly-owned domestic subsidiaries (the "Subsidiary Guarantors") that guarantee its borrowings under its Credit Agreement. The Notes bear interest at a rate of 1.625% per year, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2023. The Notes will mature on November 1, 2027, unless earlier converted, redeemed or repurchased.

The initial conversion rate of the Notes is 26.8325 shares of the Company's common stock per \$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately \$37.27 per share). The conversion rate is subject to adjustment upon the occurrence of certain events specified in the Indenture but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a Make-Whole Fundamental Change (as defined in the Indenture) or if the Company delivers a Notice of Sale Price Redemption (as defined in the Indenture), the Company will, in certain circumstances, increase the conversion rate by a number of additional shares of common stock as described in the Indenture for a holder who elects to convert its Notes in connection with such Make-Whole Fundamental Change or to convert its Notes called (or deemed called as provided in the Indenture) for redemption in connection with such Notice of Sale Price Redemption, as the case may be.

Prior to the close of business on the business day immediately preceding July 1, 2027, the Notes are convertible at the option of the holders thereof only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on January 29, 2023 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which, for each trading day of that period, the Trading Price (as defined in the Indenture), as determined following a request by a holder of Notes in accordance with the procedures described in the Indenture, per \$1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) if the Company calls such Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the Notes called (or deemed called as provided in the Indenture) for redemption; or (4) upon the occurrence of specified corporate events described in the Indenture. On or after July 1, 2027 until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes, holders of the Notes may convert all or a portion of their Notes, regardless of the foregoing conditions. Upon conversion, the Notes will be settled in cash up to the aggregate principal amount of the Notes to be converted, and in cash, shares of the Company's common stock or any combination thereof, at the Company's option, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the Notes being converted.

The Company may not redeem the Notes prior to November 5, 2025. The Company may redeem for cash all or any portion of the Notes (subject to the limitation described below), at the Company's option, on or after November 5, 2025 and before the 61st scheduled trading day immediately preceding the maturity date if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides the related notice of sale price redemption, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company redeems less than all the outstanding Notes, at least \$75.0 million aggregate principal amount of Notes must be outstanding and not subject to redemption as of the relevant redemption notice date. No sinking fund is provided for the Notes.

Upon the occurrence of a Fundamental Change (as defined in the Indenture) prior to the maturity date of the Notes, holders of the Notes may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the Fundamental Change Repurchase Date (as defined in the Indenture).

Convertible Note Hedge Transactions

On October 6, 2022 and October 19, 2022, the Company entered into privately negotiated convertible note hedge transactions (the "Convertible Note Hedge Transactions") with an affiliate of one of the initial purchasers of the Notes and another financial institution (collectively, the "Counterparties") whereby the Company has the option to purchase the same number of shares of the Company's common stock initially underlying the Notes in the aggregate for approximately \$37.27 per share, which is subject to anti-dilution adjustments substantially similar to those in the Notes. The Convertible Note Hedge Transactions will expire upon the maturity of the Notes, if not earlier exercised. The Convertible Note Hedge Transactions are expected to reduce the potential dilution to the common stock upon the conversion of the Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, in the event that the market price per share of common stock, as measured under the terms of the Convertible Note Hedge Transactions, is greater than the strike

price of the Convertible Note Hedge Transactions, which initially corresponds to the initial conversion price of the Notes, or approximately \$37.27 per share of the common stock. The Convertible Note Hedge Transactions are separate transactions, entered into by the Company with each of the Counterparties, and are not part of the terms of the Notes. Holders of the Notes do not have any rights with respect to the Convertible Note Hedge Transactions. The Company used approximately \$72.6 million of the net proceeds from the offering of the Notes to pay the cost of the Convertible Note Hedge Transactions. The Convertible Note Hedge Transactions are recorded in additional paid-in capital in the Balance Sheets as they do not require classification outside of equity pursuant to ASC 480 and qualify for equity classification pursuant to ASC 815.

Warrant Transactions

On October 6, 2022 and on October 19, 2022, the Company separately entered into privately negotiated warrant transactions (the “Warrants”) with the Counterparties whereby the holders of the Warrants have the option to acquire, collectively, subject to anti-dilution adjustments, approximately 8.6 million shares of the Company’s common stock at an initial strike price of approximately \$51.15 per share. The Warrants were sold in private placements to the Counterparties pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), afforded by Section 4(a)(2) of the Securities Act. If the market price per share of the common stock, as measured under the terms of the Warrants, exceeds the strike price of the Warrants, the Warrants could have a dilutive effect on the common stock, unless the Company elects, subject to certain conditions, to settle the Warrants in cash. The Warrants will expire over a period beginning in February 2028.

The Warrants are separate transactions, entered into by the Company with each of the Counterparties, and are not part of the terms of the Notes. Holders of the Notes do not have any rights with respect to the Warrants. The Company received aggregate proceeds of approximately \$42.9 million from the sale of the Warrants to the Counterparties. The Warrants are recorded in additional paid-in capital in the Balance Sheets as they do not require classification outside of equity pursuant to ASC 480 and qualify for equity classification pursuant to ASC 815.

In combination, the Convertible Note Hedge Transactions and the Warrants synthetically increase the strike price of the conversion option of the Notes from approximately \$37.27 to \$51.15, reducing the dilutive effect of the Notes in exchange for a net cash premium of \$29.7 million.

Interest Expense

Interest expense was comprised of the following components for the periods presented:

| (in thousands) | Three Months Ended | |
|--|--------------------|-----------------|
| | April 30, 2023 | May 1, 2022 |
| Contractual interest | \$ 21,241 | \$ 907 |
| Interest rate swap agreements | (2,145) | 169 |
| Amortization of debt discount and issuance costs | 1,414 | 121 |
| Total interest expense | <u>\$ 20,510</u> | <u>\$ 1,197</u> |

As of April 30, 2023, there were no amounts outstanding under the letters of credit, swing line loans and alternative currency sub-facilities.

Note 10: Income Taxes

The Company's effective tax rate differs from the statutory federal income tax rate of 21% primarily due to the regional mix of income, impact of global intangible low-taxed income ("GILTI"), changes in valuation allowance and research and development ("R&D") tax credits. The Tax Cuts and Jobs Act requires R&D costs incurred for tax years beginning after December 31, 2021 to be capitalized and amortized ratably over five or fifteen years for tax purposes, depending on where the research activities are conducted. The Company has elected to treat GILTI as a period cost and the additional capitalization of R&D costs within GILTI increases the Company's provision for income taxes.

The Company uses a two-step approach to recognize and measure uncertain tax positions ("UTP"). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained in audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (before the federal impact of state items) is as follows:

(in thousands)

| | | |
|---|----|---------------|
| Balance at January 29, 2023 | \$ | 31,471 |
| Additions/(decreases) based on tax positions related to the current fiscal year | | 164 |
| Additions/(decreases) based on tax positions related to the prior fiscal years | | (5) |
| Balance at April 30, 2023 | \$ | <u>31,630</u> |

Included in the balance of gross unrecognized tax benefits at April 30, 2023 and January 29, 2023 are \$12.8 million and \$12.6 million, respectively, of net tax benefits (after the federal impact of state items), that, if recognized, would impact the effective tax rate, prior to consideration of any required valuation allowance.

The liability for UTP is reflected in the Balance Sheets as follows:

(in thousands)

| | April 30, 2023 | January 29, 2023 |
|-----------------------------------|------------------|------------------|
| Deferred tax assets - non-current | \$ 17,429 | \$ 17,446 |
| Other long-term liabilities | 12,813 | 12,641 |
| Total accrued taxes | <u>\$ 30,242</u> | <u>\$ 30,087</u> |

The Company's policy is to include net interest and penalties related to unrecognized tax benefits in the "Provision for income taxes" in the Statements of Operations.

Tax years prior to 2013 (the Company's fiscal year 2014) are generally not subject to examination by the United States ("U.S.") Internal Revenue Service except for items involving tax attributes that have been carried forward to tax years whose statute of limitations remains open. For state returns in the U.S., the Company is generally not subject to income tax examinations for calendar years prior to 2012 (the Company's fiscal year 2013). The Company has a significant tax presence in Switzerland for which Swiss tax filings have been examined through fiscal year 2020. The Company is also subject to routine examinations by various foreign tax jurisdictions in which it operates. The Company believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the outcome of tax examinations cannot be predicted with certainty. If any issues addressed in the Company's tax examinations are resolved in a manner not consistent with the Company's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

The Company's regional income (loss) from continuing operations before taxes and equity in net gains of equity method investments was as follows:

| (in thousands) | Three Months Ended | |
|----------------|--------------------|------------------|
| | April 30, 2023 | May 1, 2022 |
| Domestic | \$ (18,841) | \$ (4,782) |
| Foreign | (12,986) | 50,875 |
| Total | <u>\$ (31,827)</u> | <u>\$ 46,093</u> |

Note 11: Leases

The Company has operating leases for real estate, vehicles, and office equipment, which are accounted for in accordance with ASC 842, "Leases." Real estate leases are used to secure office space for the Company's administrative, engineering, production support and manufacturing activities. The Company's leases have remaining lease terms of up to approximately ten years, some of which include options to extend the leases for up to five years, and some of which include options to terminate the leases within one year.

The components of lease expense were as follows:

| (in thousands) | Three Months Ended | |
|-----------------------|--------------------|-----------------|
| | April 30, 2023 | May 1, 2022 |
| Operating lease cost | \$ 2,149 | \$ 1,446 |
| Short-term lease cost | 609 | 271 |
| Sublease income | (158) | (35) |
| Total lease cost | <u>\$ 2,600</u> | <u>\$ 1,682</u> |

Supplemental cash flow information related to leases was as follows:

| (in thousands) | Three Months Ended | |
|--|--------------------|-------------|
| | April 30, 2023 | May 1, 2022 |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 2,181 | \$ 1,709 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | \$ 13 | \$ 465 |

| | April 30, 2023 |
|---|----------------|
| Weighted-average remaining lease term—operating leases (in years) | 5.88 |
| Weighted-average discount rate on remaining lease payments—operating leases | 6.9 % |

Supplemental balance sheet information related to leases was as follows:

| (in thousands) | April 30, 2023 | January 29, 2023 |
|--|------------------|------------------|
| Operating lease right-of-use assets in "Other assets" | \$ 29,831 | \$ 31,807 |
| Operating lease liabilities in "Accrued liabilities" | \$ 5,977 | \$ 6,209 |
| Operating lease liabilities in "Other long-term liabilities" | 24,583 | 26,484 |
| Total operating lease liabilities | <u>\$ 30,560</u> | <u>\$ 32,693</u> |

Maturities of lease liabilities as of April 30, 2023 are as follows:

| (in thousands) | |
|------------------------------|------------------|
| Fiscal Year Ending: | |
| 2024 (remaining nine months) | \$ 5,931 |
| 2025 | 7,675 |
| 2026 | 6,316 |
| 2027 | 4,688 |
| 2028 | 4,044 |
| Thereafter | 9,090 |
| Total lease payments | 37,744 |
| Less: imputed interest | (7,184) |
| Total | <u>\$ 30,560</u> |

Note 12: Commitments and Contingencies

Legal Matters

In accordance with ASC 450-20, "Loss Contingencies," the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated. The Company also discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if material. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. The Company evaluates, at least quarterly, developments in its legal matters that could affect the amount of liability that has been previously accrued, and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount. The Company may be unable to estimate a possible loss or range of possible loss due to various reasons, including, among others: (i) if the damages sought are indeterminate, (ii) if the proceedings are in early stages, (iii) if there is uncertainty as to the outcome of pending appeals, motions or settlements, (iv) if there are significant factual issues to be determined or resolved, and (v) if there are novel or unsettled legal theories presented. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Because the outcomes of litigation and other legal matters are inherently unpredictable, the Company's evaluation of legal matters or proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. While the consequences of certain unresolved matters and proceedings are not presently determinable, and an estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be reasonably made, an adverse outcome from such proceedings could have a material adverse effect on the Company's earnings in any given reporting period. However, in the opinion of management, after consulting with legal counsel, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on the Company's consolidated financial statements, as a whole. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control.

As such, even though the Company intends to vigorously defend itself with respect to its legal matters, there can be no assurance that the final outcome of these matters will not materially and adversely affect the Company's business, financial condition, operating results, or cash flows.

From time to time, the Company is involved in various claims, litigation, and other legal actions that are normal to the nature of its business, including with respect to intellectual property, contract, product liability, employment, and environmental matters. In the opinion of management, after consulting with legal counsel, any ultimate liability related to current outstanding claims and lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on the Company's consolidated financial statements, as a whole.

On June 14, 2022, Denso Corporation, and several of its affiliates (collectively "Denso"), filed a complaint against Sierra Wireless and several of its affiliates ("Sierra Entities") in the Superior Court of California, County of San Diego. Denso asserts eight causes of action, including claims for breach of express and implied warranties, equitable indemnification, negligent and intentional misrepresentation, unjust enrichment, promissory estoppel, and declaratory judgment, based on an alleged defect related to the GPS week number rollover date. Denso alleges that it incurred in excess of \$84 million in damages and costs to implement a firmware update provided by Sierra Entities' supplier in late 2018, before Sierra Wireless disposed of the automotive business, to address the alleged product defect. Denso filed an amended complaint on September 23, 2022, asserting essentially the same eight causes of action. After briefing on a demurrer and initial discovery, the parties' reached a settlement in principle, delayed hearing on the demurrer motion until August 25, 2023, and are working to finalize a settlement agreement.

On March 25, 2022, Harman Becker Automotive Systems GmbH, and several of its affiliates (collectively "Harman"), filed a complaint against certain Sierra Entities in the District Court of Munich, Germany. Harman asserts claims that the Sierra Entities, in connection with the delivery of certain modules by the Sierra Entities, violated a frame supply agreement, a quality assurance agreement and the United Nations Convention on Contracts for the International Sales of Goods. Harman alleges that it incurred approximately \$16 million in damages and costs, the bulk of which amount related to settling with a customer that had to implement a firmware update provided by Sierra Entities' supplier in late 2018, before Sierra Wireless disposed of the automotive business, to address the alleged product defect. Since the case is at an early stage, at this time, the Company is unable to form a conclusion as to the likelihood of an unfavorable outcome or the amount or range of any possible loss resulting from the alleged claims. The Company intends to defend the claims vigorously.

Environmental Matters

The Company vacated a former facility in Newbury Park, California in 2002, but continues to address groundwater and soil contamination at the site. The Company's efforts to address site conditions have been at the direction of the Los Angeles Regional Water Quality Control Board ("RWQCB"). In October 2013, an order was issued including a scope of proposed additional site work, monitoring, and remediation activities. The Company has been complying with RWQCB orders and

direction, and continues to implement an approved remedial action plan addressing the soil, groundwater, and soil vapor at the site.

The Company has accrued liabilities where it is probable that a loss will be incurred and the cost or amount of loss can be reasonably estimated. Based on the latest determinations by the RWQCB and the most recent actions taken pursuant to the remedial action plan, the Company estimates the total range of probable loss between \$7.9 million and \$9.4 million. To date, the Company has made \$6.2 million in payments towards the remedial action plan. As of April 30, 2023, the estimated range of probable loss remaining was between \$1.7 million and \$3.2 million. Given the uncertainties associated with environmental assessment and the remediation activities, the Company is unable to determine a best estimate within the range of loss. Therefore, the Company has recorded the minimum amount of probable loss and as of April 30, 2023, has a remaining accrual of \$1.7 million related to this matter. These estimates could change as a result of changes in planned remedial actions, further actions from the regulatory agency, remediation technology, and other factors.

Indemnification

The Company has entered into agreements with its current and former executives and directors indemnifying them against certain liabilities incurred in connection with the performance of their duties. The Company's Certificate of Incorporation and Bylaws also contain indemnification obligations with respect to the Company's current directors and employees.

The Company is a party to a variety of agreements in the ordinary course of business under which the Company may be obligated to indemnify a third party with respect to certain matters. The impact on the Company's future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of any claims and whether claims will be made.

Product Warranties

The Company's general warranty policy provides for repair or replacement of defective parts. In some cases, a refund of the purchase price is offered. In certain instances, the Company has agreed to other or additional warranty terms, including indemnification provisions.

The product warranty accrual reflects the Company's best estimate of probable liability under its product warranties. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical experience. Historically, warranty expense and the related accrual has been immaterial to the Company's consolidated financial statements.

Licenses

Under certain license agreements, the Company is committed to make royalty payments based on the sales of products using certain technologies. The Company recognizes royalty obligations as determinable in accordance with agreement terms.

Deferred Compensation

The Company maintains a deferred compensation plan for certain officers and key executives that allows participants to defer a portion of their compensation for future distribution at various times permitted by the plan. This plan provides for a discretionary Company match up to a defined portion of the employee's deferral, with any match subject to a defined vesting schedule.

The Company's liability for the deferred compensation plan is presented below:

| (in thousands) | April 30, 2023 | January 29, 2023 |
|---|------------------|------------------|
| Accrued liabilities | \$ 5,392 | \$ 4,714 |
| Other long-term liabilities | 37,997 | 37,563 |
| Total deferred compensation liabilities under this plan | <u>\$ 43,389</u> | <u>\$ 42,277</u> |

The Company has purchased whole life insurance on the lives of certain current deferred compensation plan participants. This corporate-owned life insurance is held in a grantor trust and is intended to cover a majority of the Company's costs of the deferred compensation plan. The cash surrender value of the corporate-owned life insurance was \$34.2 million and \$33.7 million as of April 30, 2023 and January 29, 2023, respectively, and is included in "Other assets" in the Balance Sheets.

Note 13: Restructuring

From time to time, the Company takes steps to realign the business to focus on high-growth areas, provide customer value and make the Company more efficient. As a result, the Company has re-aligned resources and infrastructure, which resulted in restructuring charges of \$2.1 million in the three months ended April 30, 2023. The Company did not have any restructuring charges during the three months ended May 1, 2022. Restructuring related liabilities are included in "Accrued liabilities" in the Balance Sheets.

Restructuring activity is summarized as follows:

| (in thousands) | One-time employee termination benefits | Other restructuring | Total |
|-----------------------------|---|---------------------|-----------------|
| Balance at January 29, 2023 | \$ 4,027 | \$ 12 | \$ 4,039 |
| Charges | 1,043 | 1,017 | 2,060 |
| Cash payments | (2,457) | (709) | (3,166) |
| Balance at April 30, 2023 | <u>\$ 2,613</u> | <u>\$ 320</u> | <u>\$ 2,933</u> |

Restructuring charges were included in the Statements of Operations as follows:

| (in thousands) | Three Months Ended | |
|-------------------------------------|--------------------|-------------|
| | April 30, 2023 | May 1, 2022 |
| Cost of sales | \$ 497 | \$ — |
| Selling, general and administrative | 337 | — |
| Product development and engineering | 1,226 | — |
| Total restructuring charges | <u>\$ 2,060</u> | <u>\$ —</u> |

Note 14: Concentration of Risk

The following significant customers accounted for at least 10% of the Company's net sales in one or more of the periods indicated:

| (percentage of net sales) | Three Months Ended | |
|---|--------------------|-------------|
| | April 30, 2023 | May 1, 2022 |
| CEAC International Limited | 6 % | 13 % |
| Trend-tek Technology Ltd. (and affiliates) | 5 % | 18 % |
| Frontek Technology Corporation (and affiliates) | 5 % | 15 % |

Outside Subcontractors and Suppliers

The Company relies on a limited number of third-party subcontractors and suppliers for the supply of silicon wafers, chipsets and other electronic components, and for product manufacturing, packaging, testing and certain other tasks. Disruption or termination of supply sources or subcontractors have delayed and could in the future delay shipments and could have a material adverse effect on the Company. Although there are generally alternate sources for these materials and services, qualification of the alternate sources could cause delays sufficient to have a material adverse effect on the Company. A significant amount of the Company's third-party subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in the U.S., Taiwan and China. A significant amount of the Company's assembly and test operations are conducted by third-party contractors in Vietnam, China, Taiwan, Malaysia and Mexico.

Note 15: Segment Information

The Company's Chief Executive Officer functions as the chief operating decision maker ("CODM"). The CODM makes operating decisions and assesses performance based on the Company's major product lines, which represent its operating segments. The Company currently has four operating segments—Signal Integrity, Advanced Protection and Sensing, IoT System, and IoT Connected Services—that represent four separate reportable segments. Each of these reportable segments are each operating segments and reporting units.

Historically, the Company had three operating segments—Signal Integrity, Wireless and Sensing, and Protection—that had been aggregated into two reportable segments identified as the High-Performance Analog Group, which was comprised of the Signal Integrity and Wireless and Sensing operating segments, and the System Protection Group, which was comprised of the Protection operating segment. In the fourth quarter of fiscal year 2023, as a result of organizational restructuring, the proximity sensing business and the power business were moved from the previous Wireless and Sensing operating segment into the newly formed Advanced Protection and Sensing operating segment, which also includes the Protection business. Following this organizational restructuring, the Company determined that Signal Integrity and the revised Wireless and Sensing operating segments were no longer economically similar and as a result the Company has concluded that Signal Integrity should be separately reported as its own reportable segment. Also in the fourth quarter of fiscal year 2023, in conjunction with the Sierra Wireless Acquisition, the Company formed two additional operating segments including the IoT System operating segment, which absorbed the Company's revised Wireless and Sensing operating segment, and the IoT Connected Services operating segment. As a result of the reorganization and the Sierra Wireless Acquisition, the Company has four reportable segments. All prior year information in the tables below has been revised retrospectively to reflect the change to the Company's reportable segments.

The Company's assets are commingled among the various operating segments and the CODM does not use asset information in making operating decisions or assessing performance. Therefore, the Company has not included asset information by reportable segment in the segment disclosures below.

Net sales and gross profit by reportable segment were as follows:

| (in thousands) | Three Months Ended | | | |
|---|--------------------|--------------|-------------------|--------------|
| | April 30, 2023 | | May 1, 2022 | |
| Net sales: | | | | |
| Signal Integrity Products Group | \$ 41,646 | 18 % | \$ 79,302 | 39 % |
| Advanced Sensing and Protection Products Group | 36,057 | 15 % | 72,422 | 36 % |
| IoT System Products Group | 134,576 | 57 % | 50,425 | 25 % |
| IoT Connected Services Group | 24,260 | 10 % | — | — % |
| Total net sales | <u>\$ 236,539</u> | <u>100 %</u> | <u>\$ 202,149</u> | <u>100 %</u> |
| Gross profit: | | | | |
| Signal Integrity Products Group | \$ 25,084 | | \$ 55,865 | |
| Advanced Sensing and Protection Products Group | 19,399 | | 37,129 | |
| IoT System Products Group | 59,123 | | 38,253 | |
| IoT Connected Services Group | 11,163 | | — | |
| Unallocated costs, including share-based compensation and amortization of acquired technology | (11,823) | | (2,042) | |
| Total gross profit | <u>\$ 102,946</u> | | <u>\$ 129,205</u> | |

Information by Sales Channel

| (in thousands, except percentages) | Three Months Ended | | | |
|------------------------------------|--------------------|--------------|-------------------|--------------|
| | April 30, 2023 | | May 1, 2022 | |
| Distributor | \$ 144,274 | 61 % | \$ 179,033 | 89 % |
| Direct | 92,265 | 39 % | 23,116 | 11 % |
| Total net sales | <u>\$ 236,539</u> | <u>100 %</u> | <u>\$ 202,149</u> | <u>100 %</u> |

Generally, the Company does not have long-term contracts with its distributors and most distributor agreements can be terminated by either party with short notice.

Geographic Information

Net sales activity by geographic region was as follows:

| (percentage of total net sales) | Three Months Ended | |
|---------------------------------|--------------------|--------------|
| | April 30, 2023 | May 1, 2022 |
| Asia-Pacific | 54 % | 76 % |
| North America | 31 % | 13 % |
| Europe | 15 % | 11 % |
| | <u>100 %</u> | <u>100 %</u> |

The Company attributes sales to a country based on the ship-to address. The table below summarizes sales activity to countries that represented greater than 10% of total sales for at least one of the periods presented:

| (percentage of total net sales) | Three Months Ended | |
|---------------------------------|--------------------|-------------|
| | April 30, 2023 | May 1, 2022 |
| China (including Hong Kong) | 24 % | 57 % |
| United States | 28 % | 12 % |

Although a large percentage of the Company's products is shipped into the Asia-Pacific region, a significant number of the products produced by these customers and incorporating the Company's semiconductor products are then sold outside this region.

Note 16: Stock Repurchase Program

The Company maintains a stock repurchase program that was initially approved by its Board of Directors in March 2008. The stock repurchase program does not have an expiration date and the Company's Board of Directors has authorized expansion of the program over the years. On March 11, 2021, the Company's Board of Directors approved the expansion of the stock repurchase program by an additional \$350.0 million. As of April 30, 2023, the remaining authorization under the program was \$209.4 million. Under the program, the Company may repurchase its common stock at any time or from time to time, without prior notice, subject to market conditions and other considerations. The Company's repurchases may be made through Rule 10b5-1 and/or Rule 10b-18 or other trading plans, open market purchases, privately negotiated transactions, block purchases or other transactions. To the extent the Company repurchases any shares of its common stock under the program in the future, the Company expects to fund such repurchases from cash on hand and borrowings on its Revolving Credit Facility. The Company has no obligation to repurchase any shares under the program and may suspend or discontinue it at any time.

The following table summarizes activity under the program for the presented periods:

| (in thousands, except number of shares) | Three Months Ended | | | |
|---|--------------------|-------------|-------------|-------------|
| | April 30, 2023 | | May 1, 2022 | |
| | Shares | Amount Paid | Shares | Amount Paid |
| Shares repurchased under the stock repurchase program | — | \$ — | 762,093 | \$ 50,000 |

Note 17: Derivatives and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions and principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company, on a routine basis and in the normal course of business, experiences expenses denominated in Swiss Franc ("CHF"), Canadian Dollar ("CAD") and Great British Pound ("GBP"). Such expenses expose the Company to exchange rate fluctuations between these foreign currencies and the U.S. Dollar ("USD"). The Company occasionally uses derivative financial instruments, in the form of forward contracts, to mitigate a portion of the risk associated with adverse movements in these foreign currency exchange rates during a twelve-month window. Currency forward contracts involve fixing the exchange rate for delivery of a specified amount of foreign currency on a specified date. The Company's accounting treatment for these instruments is based on whether or not the instruments are designated as a hedging instrument. The Company is applying hedge accounting to all foreign currency derivatives and has designated these hedges as cash flow hedges.

The Company's foreign currency forward contracts had the following outstanding balances:

| (in thousands, except number of instruments) | April 30, 2023 | | | January 29, 2023 | | |
|--|-----------------------|---------------------|--------------------|-----------------------|---------------------|--------------------|
| | Number of Instruments | Sell Notional Value | Buy Notional Value | Number of Instruments | Sell Notional Value | Buy Notional Value |
| Sell USD/Buy CAD Forward Contract | 6 | \$ 6,698 | \$ 9,164 | 9 | \$ 9,965 | \$ 13,643 |
| Sell USD/Buy GBP Forward Contract | 12 | \$ 2,548 | £ 2,285 | 18 | \$ 3,801 | £ 3,406 |
| Total | 18 | | | 27 | | |

These contracts have been designated as cash flows hedges and the unrealized gains or losses, net of tax, are recorded as a component of "Accumulated other comprehensive income or loss" ("AOCI") in the Balance Sheets. The effective portions of the cash flow hedges are recorded in AOCI until the hedged item is recognized in either "Selling, general and administrative expense" or "Product development and engineering expense" in the Statements of Operations once the foreign exchange contract matures, offsetting the underlying hedged expenses. Any ineffective portions of the cash flow hedges are recorded in "Non-operating income, net" in the Statements of Operations. The Company presents its derivative assets and liabilities at their gross fair values in the Balance Sheets.

In the first quarter of fiscal year 2024, the Company entered into an interest rate swap agreement with a 2.75 year term to hedge the variability of interest payments on \$150.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.58%, plus a variable margin and spread based on the Company's consolidated leverage ratio.

In the fourth quarter of fiscal year 2023, the Company entered into an interest rate swap agreement with a 5 year term to hedge the variability of interest payments on \$450.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.44%, plus a variable margin and spread based on the Company's consolidated leverage ratio.

In the first quarter of fiscal year 2021, the Company entered into an interest rate swap agreement with a 3 year term to hedge the variability of interest payments on the first \$150.0 million of debt outstanding under the Company's Revolving Credit Facility at a LIBOR-referenced rate of 0.73%, plus a variable margin and spread based on the Company's consolidated leverage ratio. This interest rate swap agreement matured during the first quarter of 2024.

The interest rate swap agreements have been designated as a cash flow hedges and unrealized gains or losses, net of income tax, are recorded as a component of AOCI in the Balance Sheets. As the various settlements are made on a monthly basis, the realized gain or loss on the settlements are recorded in "Interest expense" in the Statements of Operations. The interest rate swap agreements resulted in a realized gain of \$2.1 million for the three months ended April 30, 2023, compared to a realized loss of \$0.2 million for the three months ended May 1, 2022.

The fair values of the Company's instruments that qualify as cash flow hedges in the Balance Sheets were as follows:

| (in thousands) | April 30, 2023 | January 29, 2023 |
|--|-----------------|------------------|
| Interest rate swap agreement | \$ 7,024 | \$ 6,067 |
| Foreign currency forward contracts | 399 | 717 |
| Total other current assets | \$ 7,423 | \$ 6,784 |
| Interest rate swap agreement | 9,126 | 6,432 |
| Total other long-term liabilities | \$ 9,126 | \$ 6,432 |

During fiscal year 2021, the Company entered into an economic hedge program that uses total return swap contracts to hedge the market risk associated with the unfunded portion of the Company's deferred compensation liability. The total return swap contracts generally have a duration of one month and are rebalanced and re-hedged at the end of each monthly term. While the total returns swap contracts are treated as economic hedges, the Company has not designated them as hedges for accounting purposes. The total return swap contracts are measured at fair value and recognized in the Balance Sheets in "Accrued Liabilities" if the instruments are in a loss position and in "Other Current Assets" if the instruments are in a gain position. Unrealized gains and losses, as well as realized gains and losses for settlements, on the total return swap contracts are recognized in "Selling, general and administrative expenses" in the Statements of Operations. As of April 30, 2023, the notional value of the total return swap contracts was \$4.2 million and the fair value resulted in a liability of \$0.01 million. As of January 29, 2023, the notional value of the total return swap contracts was \$5.2 million and the fair value resulted in an asset of \$0.1 million. The total return swap contracts resulted in a net loss recognized in earnings of \$0.1 million for the three months ended April 30, 2023, compared to a net loss recognized in earnings of \$0.4 million for the three months ended May 1, 2022.

Note 18: Subsequent Event

Second Amendment to Restatement Agreement

On June 6, 2023, the Company entered into the Second Amendment to the Credit Agreement, in order to, among other things, (i) increase the maximum consolidated leverage ratio covenant for certain test periods as set forth therein, (ii) reduce the minimum consolidated interest coverage ratio covenant for certain test periods as set forth therein, (iii) modify the pricing grid applicable to loans under the Credit Agreement during the covenant relief period as set forth therein, (iv) impose a minimum liquidity covenant for certain periods during the covenant relief period as set forth therein, (v) increase the annual amortization in respect of the term loans thereunder to 7.5% per annum for certain periods as set forth therein, (vi) impose an “anti-cash hoarding” condition to the borrowing of revolving loans as set forth therein, (vii) provide that the maturity date for the term loans and revolving loans shall be the day that is 91 days prior to the stated maturity date of the Notes if the Notes have not otherwise been refinanced or extended to at least 91 days after the stated maturity date of the term loans and revolving loans, the aggregate principal amount of non-extended outstanding Notes and certain replacement debt exceeds \$50 million and a minimum liquidity condition is not satisfied, (viii) provide for the reduction of the aggregate revolving commitments thereunder by \$100 million, (ix) require that the Company appoint a financial advisor and (x) make certain other modifications to the mandatory prepayments (including the imposition of an excess cash flow mandatory prepayment), collateral provisions and covenants (including additional limitations on debt, liens, investments and restricted payments such as dividends) as set forth therein. See Note 9, Long-Term Debt, for additional information.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with our interim unaudited condensed consolidated financial statements and the accompanying notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report"), "Risk Factors" and "Special Note Regarding Forward-Looking and Cautionary Statements" in this Quarterly Report.

Overview

Semtech Corporation (together with its consolidated subsidiaries, the "Company", "we", "our", or "us") is a high-performance, IoT systems and cloud connectivity service provider. We account for results in four reportable segments—Signal Integrity, Advanced Protection and Sensing, IoT System and IoT Connected Services. Historically, we had three operating segments—Signal Integrity, Wireless and Sensing, and Protection—that had been aggregated into two reportable segments identified as the High-Performance Analog Group, which was comprised of the Signal Integrity and Wireless and Sensing operating segments, and the System Protection Group, which was comprised of the Protection operating segment. In the fourth quarter of fiscal year 2023, as a result of organizational restructuring, the proximity sensing business and the power business were moved from the previous Wireless and Sensing operating segment into the newly formed Advanced Protection and Sensing operating segment, which also includes the Protection business. Following this organizational restructuring, we determined that Signal Integrity and the revised Wireless and Sensing operating segments were no longer economically similar and as a result we concluded that Signal Integrity should be separately reported as its own reportable segment. Also in the fourth quarter of fiscal year 2023, in conjunction with the acquisition of Sierra Wireless, Inc. ("Sierra Wireless") we formed two additional operating segments including the IoT System operating segment, which absorbed our revised Wireless and Sensing operating segment, and the IoT Connected Services operating segment. As a result of the reorganization and the Sierra Wireless Acquisition (as defined below), we have four reportable segments. All prior year information in the tables below has been revised retrospectively to reflect the change to our reportable segments. See Note 15, Segment Information, to our interim unaudited condensed consolidated financial statements for segment information.

Signal Integrity. We design, develop, manufacture and market a portfolio of optical data communications and video transport products used in a wide variety of infrastructure and industrial applications. Our comprehensive portfolio of integrated circuits ("ICs") for data centers, enterprise networks, passive optical networks ("PON"), and wireless base station optical transceivers and high-speed interfaces ranges from 100Mbps to 400Gbps and supports key industry standards such as Fibre Channel, Infiniband, Ethernet, PON and synchronous optical networks. Our video products offer advanced solutions for next generation high-definition broadcast applications, as well as highly differentiated video-over-IP technology for professional audio video applications.

Advanced Protection and Sensing. We design, develop, manufacture and market high-performance protection devices, which are often referred to as transient voltage suppressors ("TVS") and specialized sensing products. TVS devices provide protection for electronic systems where voltage spikes (called transients), such as electrostatic discharge, electrical over stress or secondary lightning surge energy, can permanently damage sensitive ICs. Our portfolio of protection solutions include filter and termination devices that are integrated with the TVS device. Our products provide robust protection while preserving signal integrity in high-speed communications, networking and video interfaces. These products also operate at very low voltage. Our protection products can be found in a broad range of applications including smart phones, LCD and organic light-emitting diode TVs and displays, set-top boxes, monitors and displays, tablets, computers, notebooks, base stations, routers, automobile and industrial systems. Our unique sensing technology enables proximity sensing and advanced user interface solutions for our mobile and consumer products.

IoT System. We design, develop, manufacture and market a portfolio of specialized radio frequency products used in a wide variety of industrial, medical and communications applications. Our wireless products, which include our LoRa® devices and wireless radio frequency technology, feature industry leading and longest range industrial, scientific and medical radio, enabling a lower total cost of ownership and increased reliability. These features make these products particularly suitable for machine-to-machine and IoT applications. We also offer a comprehensive product portfolio of IoT solutions that enable businesses to connect and manage their devices, collect and analyze data, and improve decision-making. The portfolio includes a wide range of modules, gateways, routers, and connected services that are designed to meet the specific needs of different industries and applications. Sierra Wireless' modules are available in a variety of form factors and connectivity options, including LTE-M, NB-IoT and 5G, and can be integrated into an array of devices and systems. Our gateways and routers are designed to provide reliable and secure connectivity for IoT devices, while our connected services enable businesses to manage devices and connectivity so businesses can navigate the complex IoT landscape and realize the full potential of connected devices.

IoT Connected Services. We design, develop, operate and market a portfolio of connected services used in a wide variety of industrial, medical and communications applications. Our connected services include wireless connectivity and cloud-based services for customers to deploy, connect, and operate their end applications. Our services have been purpose-built for IoT

applications and include features such as SIM and subscription management, device and data management, geolocation support, as well as reporting and alerting that can be configured or tailored to a variety of IoT use cases.

Our interim unaudited condensed consolidated balance sheets are referred to herein as the "Balance Sheets" and interim unaudited condensed consolidated statements of operations are referred to herein as the "Statements of Operations."

Our net sales by product line were as follows:

| (in thousands) | Three Months Ended | |
|---------------------------------|--------------------|-------------------|
| | April 30, 2023 | May 1, 2022 |
| Signal Integrity | \$ 41,646 | \$ 79,302 |
| Advanced Protection and Sensing | 36,057 | 72,422 |
| IoT System | 134,576 | 50,425 |
| IoT Connected Services | 24,260 | — |
| Total | \$ 236,539 | \$ 202,149 |

We design, develop, manufacture and market a wide range of products for commercial applications, the majority of which are sold into the infrastructure, high-end consumer and industrial end markets.

Infrastructure: data centers, PON, base stations, optical networks, servers, carrier networks, switches and routers, cable modems, wireless local area network and other communication infrastructure equipment.

High-End Consumer: smartphones, tablets, wearables, desktops, notebooks, and other handheld products, wireless charging, set-top boxes, digital televisions, monitors and displays, digital video recorders and other consumer equipment.

Industrial: IoT applications, analog and digital video broadcast equipment, video-over-IP solutions, automated meter reading, smart grid, wireless charging, medical, security systems, automotive, industrial and home automation and other industrial equipment.

Our end customers for our silicon solutions are primarily original equipment manufacturers that produce and sell technology solutions. Our IoT module, router, gateways and managed connectivity solutions ship to IoT device makers and enterprises to provide IoT connectivity to end devices.

Recent Developments

On May 24, 2023, our board of directors (the "Board" or "Board of Directors") appointed Paul H. Pickle to serve as our President and Chief Executive Officer effective as of a date, after June 8, 2023 and not later than June 30, 2023, to be mutually agreed between Mr. Pickle and the Chair of the Board (with Mr. Pickle's first day of employment in such capacity, the "Transition Date").

On May 24, 2023, the Board also appointed Mr. Pickle as a member of the Board to serve until our calendar 2024 annual meeting of stockholders and until his successor is elected or qualified, or until his earlier death, resignation or removal, with such appointment to be effective on and subject to the occurrence of the Transition Date.

Impact of Macroeconomic Conditions

Inventory levels increased slightly in the first quarter of fiscal year 2024 as the decrease in demand occurred faster than actions could be taken to reduce inventory spend. We expect to see supply constraints ease for some products in the remainder of fiscal year 2024 due to changes in anticipated demand and other macroeconomic conditions. We will continue to take appropriate actions to align inventory levels with current macroeconomic conditions and customer demand profiles. In addition, the prices to obtain raw materials and convert them into the necessary inventory have continued to increase in certain cases due to inflationary pressures and supply chain shortages and prices may continue to increase.

Factors Affecting Our Performance

Most of our sales to customers are made on the basis of individual customer purchase orders. Many customers include cancellation provisions in their purchase orders. We rely on orders received and shipped within the same quarter for a portion of our sales. Orders received and shipped in the first quarters of fiscal years 2024 and 2023 were 18% and 1% of net sales, respectively. In the prior year period, as a result of macro conditions where demand was exceeding supply and we were seeing global shortages, lead times expanded, resulting in fewer orders being shipped and received in the same quarter. Sales made directly to customers during the first quarters of fiscal years 2024 and 2023 were 39% and 11% of net sales, respectively. The remaining 61% and 89% of net sales were made through independent distributors. The lower direct sales in the prior year period was due to customers electing to leverage the value of distribution to better manage their supply chain.

Our business relies on foreign-based entities. A significant amount of our third-party subcontractors and suppliers, including third-party foundries that supply silicon wafers, are located in foreign countries or territories including Taiwan and China. A

significant amount of our assembly and test operations are conducted by third-party contractors located in foreign countries or territories including Vietnam, China, Taiwan, Malaysia and Mexico. Foreign sales constituted approximately 72% and 88% of our net sales during the first quarter of fiscal years 2024 and 2023, respectively. Approximately 54% and 76% of our sales during the first quarters of fiscal years 2024 and 2023, respectively, were to customers located in the Asia-Pacific region. The remaining foreign sales were primarily to customers in Europe and North America. Doing business in foreign locations also subjects us to export restrictions and trade laws, which may limit our ability to sell to certain customers.

We use several metrics as indicators of future potential growth. The indicators that we believe best correlate to potential future sales growth are design wins and new product releases. There are many factors that may cause a design win or new product release to not result in sales, including a customer decision not to go to system production, a change in a customer's perspective regarding a product's value or a customer's product failing in the end market. As a result, although a design win or new product introduction is an important step towards generating future sales, it does not necessarily result in us being awarded business or receiving a purchase commitment.

Inflationary factors have not had a significant effect on our performance over the past several years. A significant increase in inflation would affect our future performance if we were unable to pass these higher costs on to our customers.

Results of Operations

The following table sets forth, for the periods indicated, our interim unaudited condensed consolidated statements of operations expressed as a percentage of net sales.

| | Three Months Ended | |
|---|--------------------|---------------|
| | April 30, 2023 | May 1, 2022 |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 51.9 % | 35.6 % |
| Amortization of acquired technology | 4.6 % | 0.5 % |
| Total cost of sales | 56.5 % | 36.1 % |
| Gross profit | 43.5 % | 63.9 % |
| Operating costs and expenses, net: | | |
| Selling, general and administrative | 24.6 % | 21.5 % |
| Product development and engineering | 21.9 % | 19.2 % |
| Intangible amortization | 2.1 % | — % |
| Total operating costs and expenses, net | 48.5 % | 40.6 % |
| Operating (loss) income | (5.0)% | 23.3 % |
| Interest expense | (8.7)% | (0.6)% |
| Interest income | 0.5 % | 0.2 % |
| Non-operating expense, net | (0.2)% | (0.1)% |
| Investment impairments and credit loss reserves, net | — % | — % |
| (Loss) income before taxes and equity method (loss) income | (13.5)% | 22.8 % |
| (Benefit) provision for income taxes | (1.0)% | 4.0 % |
| Net (loss) income before equity method (loss) income | (12.4)% | 18.8 % |
| Equity method (loss) income | — % | — % |
| Net (loss) income | (12.4)% | 18.8 % |
| Net loss attributable to noncontrolling interest | — % | — % |
| Net (loss) income attributable to common stockholders | (12.4)% | 18.8 % |
| <i>Percentages may not add precisely due to rounding.</i> | | |

Our regional mix of income or loss before taxes and equity method income or loss was as follows:

| (in thousands) | Three Months Ended | |
|----------------|--------------------|------------------|
| | April 30, 2023 | May 1, 2022 |
| Domestic | \$ (18,841) | \$ (4,782) |
| Foreign | (12,986) | 50,875 |
| Total | <u>\$ (31,827)</u> | <u>\$ 46,093</u> |

Domestic performance includes higher levels of share-based compensation compared to foreign operations.

Comparison of the Three Months Ended April 30, 2023 and May 1, 2022

Net Sales

The following table summarizes our net sales by major end market:

| (in thousands, except percentages) | Three Months Ended | | | | |
|------------------------------------|--------------------|--------------|-------------------|--------------|--------|
| | April 30, 2023 | | May 1, 2022 | | Change |
| | Net Sales | % Net Sales | Net Sales | % Net Sales | |
| Infrastructure | \$ 39,000 | 16 % | \$ 76,194 | 37 % | (49)% |
| High-End Consumer | 21,594 | 9 % | 47,826 | 24 % | (55)% |
| Industrial | 175,945 | 75 % | 78,129 | 39 % | 125 % |
| Total | <u>\$ 236,539</u> | <u>100 %</u> | <u>\$ 202,149</u> | <u>100 %</u> | 17 % |

Net sales for the first quarter of fiscal year 2024 were \$236.5 million, an increase of 17.0% compared to \$202.1 million for the first quarter of fiscal year 2023. We experienced a decrease of \$37.2 million in net sales from our infrastructure end market for the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023, primarily driven by an approximately \$18 million decrease in PON sales, an approximately \$10 million decrease in data center sales and an approximately \$6 million decrease in wireless infrastructure sales. Net sales from our high-end consumer end market decreased \$26.2 million for the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 primarily driven by an approximately \$20 million decrease in TVS consumer product sales and an approximately \$4 million decrease in our proximity sensing product sales. Net sales from our industrial end market increased \$97.8 million during the first quarter of fiscal year 2024 versus the same period in the prior year primarily due to the Sierra Wireless Acquisition driven by approximately \$80 million in module sales, approximately \$32 million in router sales and approximately \$23 million in managed connectivity sales, partially offset by an approximately \$27 million decrease in LoRa-enabled product sales, an approximately \$3 million decrease in broadcast sales, an approximately \$3 million decrease in sales from our high reliability discrete diodes and assemblies business, which was divested in May 2022, and lower industrial automation and automotive sales.

Based on booking trends and our backlog entering the quarter, we estimate net sales for the second quarter of fiscal year 2024 to be between \$233.0 million and \$243.0 million. The range of guidance reflects continued uncertainty regarding macro-related events discussed above.

The following table summarizes our net sales by reportable segment:

| (in thousands, except percentages) | Three Months Ended | | | | |
|--|--------------------|--------------|-------------------|--------------|--------|
| | April 30, 2023 | | May 1, 2022 | | Change |
| | Net Sales | % Net Sales | Net Sales | % Net Sales | |
| Signal Integrity Products Group | \$ 41,646 | 18 % | \$ 79,302 | 39 % | (47)% |
| Advanced Protection and Sensing Products Group | 36,057 | 15 % | 72,422 | 36 % | (50)% |
| IoT System Products Group | 134,576 | 57 % | 50,425 | 25 % | 167 % |
| IoT Connected Services Group | 24,260 | 10 % | — | — % | 100 % |
| Total | <u>\$ 236,539</u> | <u>100 %</u> | <u>\$ 202,149</u> | <u>100 %</u> | 17 % |

Net sales from our Signal Integrity Products Group decreased \$37.7 million in the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 primarily driven by an approximately \$18 million decrease in PON sales, an approximately \$10 million decrease in data center sales, an approximately \$6 million decrease in wireless infrastructure sales and an approximately \$3 million decrease in broadcast sales. Net sales from our Advanced Protection and Sensing Products Group decreased \$36.4 million in the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 primarily driven by an approximately \$20 million decrease in TVS consumer product sales, an approximately \$8 million decrease in industrial automation and automotive sales, an approximately \$4 million decrease in our proximity sensing product sales and an approximately \$3 million decrease in sales from our high reliability discrete diodes and assemblies business, which was divested in May 2022. Net sales from our IoT System Products Group increased \$84.2 million primarily due to the Sierra Wireless Acquisition driven by approximately \$80 million in module sales and approximately \$32 million in router sales, partially offset by an approximately \$27 million decrease in LoRa-enabled product sales. Net sales from our IoT Connected Services Group was \$24.3 million including approximately \$23 million from managed connectivity sales and approximately \$1 million from IoT application sales.

Gross Profit

The following table summarizes our gross profit and gross margin by reportable segment:

| (in thousands, except percentages) | Three Months Ended | | | |
|---|--------------------|--------------|-------------------|--------------|
| | April 30, 2023 | | May 1, 2022 | |
| | Gross Profit | Gross Margin | Gross Profit | Gross Margin |
| Signal Integrity Products Group | \$ 25,084 | 60.2 % | \$ 55,865 | 70.4 % |
| Advanced Protection and Sensing Products Group | 19,399 | 53.8 % | 37,129 | 51.3 % |
| IoT System Products Group | 59,123 | 43.9 % | 38,253 | 75.9 % |
| IoT Connected Services Group | 11,163 | 46.0 % | — | — % |
| Unallocated costs, including share-based compensation and amortization of acquired technology | (11,823) | | (2,042) | |
| Total | <u>\$ 102,946</u> | 43.5 % | <u>\$ 129,205</u> | 63.9 % |

In the first quarter of fiscal year 2024, gross profit decreased \$26.3 million to \$102.9 million from \$129.2 million in the first quarter of fiscal year 2023. This decrease was primarily the result of an approximately \$10 million increase in amortization of acquired technology related to the Sierra Wireless Acquisition, a \$30.8 million decrease from our Signal Integrity Products Group, which experienced lower sales due to softer demand, and a \$17.7 million decrease from our Advanced Protection and Sensing Products Group, which experienced lower sales due to softer demand, partially offset by a \$20.9 million increase from our IoT System Products Group and \$11.2 million from our IoT Connected Services Group due to the Sierra Wireless Acquisition.

Our gross margin was 43.5% in the first quarter of fiscal year 2024, compared to 63.9% in the first quarter of fiscal year 2023. Gross margin in our Signal Integrity Products Group was 60.2% in the first quarter of fiscal year 2024, compared to 70.4% in the first quarter of fiscal year 2023, primarily due to an unfavorable product mix driven by lower PON sales. Gross margin in our Advanced Protection and Sensing Products Group was 53.8% in the first quarter of fiscal year 2024, compared to 51.3% in the first quarter of fiscal year 2023, reflecting a favorable product mix driven by lower consumer sales. Gross margin in our IoT System Products Group was 43.9% in the first quarter of fiscal year 2024, compared to 75.9% in the first quarter of fiscal year 2023, reflecting an unfavorable product mix driven by lower LoRa-enabled products. Gross margin in our IoT Connected Services Group was 46.0% in the first quarter of fiscal year 2024.

The majority of our manufacturing is outsourced, resulting in relatively low fixed manufacturing costs and variable costs that highly correlate with volume. For the second quarter of fiscal year 2024, we expect our gross margins to be in the range of 42.6% to 44.8%.

Operating Costs and Expenses, net

| (in thousands, except percentages) | Three Months Ended | | | | Change |
|---|--------------------|-------|------------------|-------|--------|
| | April 30, 2023 | | May 1, 2022 | | |
| Selling, general and administrative | \$ 58,117 | 51 % | \$ 43,364 | 53 % | 34 % |
| Product development and engineering | 51,827 | 45 % | 38,789 | 47 % | 34 % |
| Intangible amortization | 4,882 | 4 % | — | — % | 100 % |
| Total operating costs and expenses, net | <u>\$ 114,826</u> | 100 % | <u>\$ 82,153</u> | 100 % | 40 % |

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased \$14.8 million in the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 primarily as a result of a \$6.1 million increase in staffing-related costs due to higher headcount resulting from the Sierra Wireless Acquisition, which was net of a \$1.6 million reduction in share-based compensation caused by the impact of the lower closing stock price as of period-end on the cash-settled awards, and \$5.4 million of transaction and integration expenses related to the Sierra Wireless Acquisition and a \$1.4 million increase in depreciation expense.

Product Development and Engineering Expenses

Product development and engineering expenses increased \$13.0 million in the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 primarily as a result of a \$8.6 million increase in staffing-related costs due to higher headcount resulting from the Sierra Wireless Acquisition, a \$1.5 million increase in depreciation expense and a \$1.2 million increase in restructuring costs.

Intangible Amortization

Intangible amortization increased by \$4.9 million in the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 primarily due to intangibles acquired in the Sierra Wireless Acquisition related to customer relationships and trade name. Amortization of acquired technology intangibles is reflected in cost of sales.

Interest Expense

Interest expense, including amortization of debt discounts and issuance costs, was \$20.5 million and \$1.2 million for the first quarters of fiscal years 2024 and 2023. The increase in the first quarter of fiscal year 2024 compared to the first quarter of fiscal year 2023 was primarily due to additional debt instruments entered into during fiscal year 2023 related to financing for the Sierra Wireless Acquisition.

Investment Impairments and Credit Loss Reserves, net

During the first quarter of fiscal year 2024, investment impairments and credit loss reserves, net totaled a loss of \$0.03 million primarily due to adjustments to our credit loss reserve for our available-for-sale debt securities, and we did not record any impairments on our non-marketable equity investments. During the first quarter of fiscal year 2023, investment impairments and credit loss reserves totaled a loss of \$0.02 million due to adjustments to our credit loss reserve for our available-for-sale debt securities, and we did not record any impairments on our non-marketable equity investments.

Provision for Income Taxes

We recorded an income tax benefit of \$2.4 million in the first quarter of fiscal year 2024, compared to income tax expense of \$8.1 million in the first quarter of fiscal year 2023. The effective tax rates for the first quarters of fiscal years 2024 and 2023 were 7.6% and 17.5%, respectively. The effective tax rates in the first quarters of fiscal years 2024 and 2023 differ from the statutory federal income tax rate of 21% primarily due to a regional mix of income, changes in valuation allowance, impact of global intangible low-taxed income ("GILTI") and research and development ("R&D") credits. The Tax Cuts and Jobs Act ("Tax Act") requires R&D costs incurred for tax years beginning after December 31, 2021 to be capitalized and amortized ratably over five or fifteen years for tax purposes, depending on where the research activities are conducted. We have elected to treat GILTI as a period cost and the additional capitalization of R&D costs within GILTI increases our provision for income taxes.

We receive a tax benefit from a tax holiday that was granted in Switzerland. The tax holiday commenced on January 30, 2017, and was effective for five years (the "Initial Term"). Since we met certain staffing targets, the holiday has been extended for an additional five years. The maximum benefit under this tax holiday is CHF 500.0 million of cumulative after tax profit, which equates to a maximum potential tax savings of CHF 44.0 million. Once the extended term of the tax holiday expires or we achieve the maximum benefit, our effective tax rate could be negatively impacted if we are unable to negotiate an extension or expansion of the tax holiday. The Swiss Tax Reform that was enacted during fiscal year 2020 reduces the Swiss Cantonal tax rate, which further increases the benefit of our Tax Holiday.

As a global organization, we are subject to audit by taxing authorities in various jurisdictions. To the extent that an audit, or the closure of a statute of limitations, results in adjusting our reserves for uncertain tax positions, our effective tax rate could experience extreme volatility since any adjustment would be recorded as a discrete item in the period of adjustment.

For further information on the effective tax rate and the Tax Act's impact, see Note 10, Income Taxes, to our interim unaudited condensed consolidated financial statements.

Liquidity and Capital Resources

Our capital requirements depend on a variety of factors including, but not limited to, the rate of increase or decrease in our existing business base; the success, timing and amount of investment required to bring new products to market; sales growth or decline; potential acquisitions; the general economic environment in which we operate; and our ability to generate cash flow from operations.

We believe that our cash on hand, cash available from future operations and available borrowing capacity under our Revolving Credit Facility (as defined below) are sufficient to meet liquidity requirements for at least the next 12 months, including funds needed for our material cash requirements. As of April 30, 2023, we had \$164.2 million in cash and cash equivalents and \$410.0 million of undrawn capacity on our Revolving Credit Facility (\$310.0 million after giving pro forma effect to the reduction of revolving commitments as part of the Second Amendment described below), subject to leverage limitations. Over the longer-term, we believe our strong cash generating business model will provide adequate liquidity to fund our normal operations, which have minimal capital intensity.

To the extent that we enter into acquisitions or strategic partnerships, we may be required to raise additional capital through debt issuances or equity offerings. While we have not had issues securing favorable financing historically, there is no assurance that we will be able to refinance or secure additional capital at favorable terms, or at all, in the future.

A meaningful portion of our capital resources, and the liquidity they represent, are held by our foreign subsidiaries. As of April 30, 2023, our foreign subsidiaries held approximately \$119.7 million of cash and cash equivalents, compared to \$151.4 million at January 29, 2023. Our liquidity may be impacted by fluctuating exchange rates. For additional information on exchange rates, see Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

In connection with the enactment of the Tax Act, all historic and current foreign earnings are taxed in the U.S. Depending on the jurisdiction, these foreign earnings are potentially subject to a withholding tax, if repatriated. As of April 30, 2023, our historical undistributed earnings of our foreign subsidiaries are intended to be permanently reinvested outside of the U.S. With the enactment of the Tax Act, all post-1986 previously unremitted earnings for which no U.S. deferred tax liability had been accrued were subject to U.S. tax. Notwithstanding the U.S. taxation of these amounts, we have determined that none of our current foreign earnings will be permanently reinvested. If we needed to remit all or a portion of our historical undistributed earnings to the U.S. for investment in our domestic operations, any such remittance could result in increased tax liabilities and a higher effective tax rate. Determination of the amount of the unrecognized deferred tax liability on these unremitted earnings is not practicable.

We expect our future cash uses will be for capital expenditures, repurchases of our common stock, debt repayment and potentially, acquisitions and other investments that support achievement of our business strategies. We expect to fund those cash requirements through our cash from operations and borrowings against our Revolving Credit Facility (as defined below).

Credit Agreement

On November 7, 2019, we, with certain of our domestic subsidiaries as guarantors, entered into an amended and restated credit agreement (as amended, restated or otherwise modified from time to time, the "Credit Agreement") with the lenders party thereto and HSBC Bank USA, National Association, as administrative agent, swing line lender and letter of credit issuer. In connection with the acquisition of Sierra Wireless ("Sierra Wireless Acquisition"), on September 26, 2022, we entered into a third amendment and restatement agreement (the "Restatement Agreement"), which became effective at the time of closing of the Sierra Wireless Acquisition, to among other things provide for the partial extension of the revolving commitments under the Credit Agreement and to incur term loans to finance the Sierra Wireless Acquisition and related costs and expenses.

After effectiveness of the Restatement Agreement, the revolving credit facility thereunder (the "Revolving Credit Facility") was \$600.0 million, of which \$195.0 million was scheduled to mature on November 7, 2024 and \$405.0 million was scheduled to mature on January 12, 2028, and the term loans thereunder (the "Term Loans") were outstanding in an aggregate principal amount of \$895.0 million and scheduled to mature on January 12, 2028. Up to \$40.0 million of the Revolving Credit Facility may be used to obtain letters of credit, up to \$25.0 million of the Revolving Credit Facility may be used to obtain swing line loans, and up to \$75.0 million of the Revolving Credit Facility may be used to obtain revolving loans and letters of credit in certain currencies other than U.S. Dollars ("Alternative Currencies"). The proceeds of the Revolving Credit Facility may be used by us for capital expenditures, permitted acquisitions, permitted dividends, working capital and general corporate purposes.

No amortization is required with respect to the revolving loans. Prior to the effectiveness of the Second Amendment described below, the Term Loans amortized in equal quarterly installments of 1.25% of the original principal amount thereof, with the balance due at maturity. We may voluntarily prepay borrowings at any time and from time to time, without premium or penalty, other than customary "breakage costs" in certain circumstances.

All of our obligations under the Credit Agreement are unconditionally guaranteed by all of our direct and indirect domestic subsidiaries, other than certain excluded subsidiaries, including, but not limited to, any domestic subsidiary the primary assets of which consist of equity or debt of non-U.S. subsidiaries, certain immaterial non-wholly-owned domestic subsidiaries and subsidiaries that are prohibited from providing a guarantee under applicable law or that would require governmental approval to provide such guarantee. We and our guarantors have also pledged substantially all of their assets to secure their obligations under the Credit Agreement.

On February 24, 2023, we entered into the first amendment (the "First Amendment") to the Credit Agreement, in order to, among other things, (i) increase the maximum consolidated leverage ratio covenant for certain test periods as set forth therein, (ii) reduce the minimum consolidated interest coverage ratio covenant for certain test periods as set forth therein, (iii) provide that, during the period that financial covenant relief pursuant to the First Amendment is in effect, the interest rate margin for (1) Term SOFR loans is deemed to be 2.50% and (2) Base Rate (as defined below) loans is deemed to be 1.50% per annum and (iv) make certain other changes as set forth therein.

After the First Amendment but prior to the effectiveness of the Second Amendment described below, interest on loans made under the Credit Agreement in U.S. Dollars accrued, at our option, at a rate per annum equal to (1) the Base Rate (as defined below) plus a margin ranging from 0.25% to 1.25% depending upon our consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the First Amendment was in effect, the margin was deemed to be 1.50% per annum) or (2) Adjusted Term SOFR (as defined in the Credit Agreement, including certain credit spread adjustments) for an interest period to be selected by us plus a margin ranging from 1.25% to 2.25% depending upon our consolidated leverage ratio

(except that, during the period that financial covenant relief pursuant to the First Amendment was in effect, the margin was deemed to be 2.50% per annum) (such margin, the "Applicable Margin"). The "Base Rate" is equal to a fluctuating rate equal to the highest of (a) the Prime Rate (as defined in the Credit Agreement), (b) 0.50% above the NYFRB Rate (as defined in the Credit Agreement) and (c) one-month Adjusted Term SOFR (as defined in the Credit Agreement) plus 1.00%. Interest on loans made under the Revolving Credit Facility in Alternative Currencies accrues at a rate per annum equal to a customary benchmark rate (including, in certain cases, credit spread adjustments) plus the Applicable Margin.

The Credit Agreement contains customary covenants, including limitations on our ability to, among other things, incur indebtedness, create liens on assets, engage in certain fundamental corporate changes, make investments, repurchase stock, pay dividends or make similar distributions, engage in certain affiliate transactions, or enter into agreements that restrict our ability to create liens, pay dividends or make loan repayments. In addition, we must comply with financial covenants which, after the First Amendment but prior to the effectiveness of the Second Amendment described below were as follows (unless the covenant relief period under the First Amendment was earlier terminated by us):

- maintaining a maximum consolidated leverage ratio, determined as of the last day of each fiscal quarter, of (i) 4.75 to 1.00, for the fiscal quarter ending on or around April 30, 2023, (ii) 5.75 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 5.75 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 5.50 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 4.75 to 1.00 for the fiscal quarter ending on or around April 30, 2024, (vi) 4.50 to 1.00 for the fiscal quarter ending on or around July 31, 2024, and (vii) 3.75 to 1.00 for the fiscal quarter ending on or around October 31, 2024 and each fiscal quarter thereafter subject to increase to 4.25 to 1.00 for the four full consecutive fiscal quarters ending on or after the date of consummation of a permitted acquisition that constitutes a "Material Acquisition" under the Credit Agreement, subject to the satisfaction of certain conditions; and
- maintaining a minimum consolidated interest expense coverage ratio, determined as of the last day of each fiscal quarter, of (i) 2.50 to 1.00 for the fiscal quarter ending on or around April 30, 2023, (ii) 2.25 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 2.00 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 2.25 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 2.50 to 1.00 for the fiscal quarter ending on or around April 30, 2024, and (vi) 3.50 to 1.00 for the fiscal quarter ending on or around July 31, 2024 and each fiscal quarter thereafter.

The Credit Agreement also contains customary provisions pertaining to events of default. If any event of default occurs, the obligations under the Credit Agreement may be declared due and payable, terminated upon written notice to us and existing letters of credit may be required to be cash collateralized.

On June 6, 2023, we entered into the second amendment (the "Second Amendment") to the Credit Agreement, in order to, among other things, (i) increase the maximum consolidated leverage ratio covenant for certain test periods as set forth therein and described below, (ii) reduce the minimum consolidated interest coverage ratio covenant for certain test periods as set forth therein and described below, (iii) modify the pricing grid applicable to loans under the Credit Agreement during the covenant relief period as set forth therein and described below, (iv) impose a minimum liquidity covenant for certain periods during the covenant relief period as set forth therein and described below, (v) increase the annual amortization in respect of the term loans thereunder to 7.5% per annum for certain periods as set forth therein, (vi) impose an "anti-cash hoarding" condition to the borrowing of revolving loans as set forth therein, (vii) provide that the maturity date for the term loans and revolving loans shall be the day that is 91 days prior to the stated maturity date of the Notes if the Notes have not otherwise been refinanced or extended to at least 91 days after the stated maturity date of the term loans and revolving loans, the aggregate principal amount of non-extended outstanding Notes and certain replacement debt exceeds \$50 million and a minimum liquidity condition is not satisfied, (viii) provide for the reduction of the aggregate revolving commitments thereunder by \$100 million, (ix) require that we appoint a financial advisor and (x) make certain other modifications to the mandatory prepayments (including the imposition of an excess cash flow mandatory prepayment), collateral provisions and covenants (including additional limitations on debt, liens, investments and restricted payments such as dividends) as set forth therein.

After the effectiveness of the Second Amendment, interest on loans made under the Credit Agreement in U.S. Dollars accrues, at our option, at a rate per annum equal to (1) the Base Rate (as defined above) plus a margin ranging from 0.25% to 2.75% depending upon our consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the Second Amendment is in effect, the margin will not be less than 2.25% per annum) or (2) Adjusted Term SOFR (as defined in the Credit Agreement, including certain credit spread adjustments) for an interest period to be selected by us plus a margin ranging from 1.25% to 3.75% depending upon our consolidated leverage ratio (except that, during the period that financial covenant relief pursuant to the Second Amendment is in effect, the margin will not be less than 3.25% per annum).

After the effectiveness of the Second Amendment, the financial covenants in the Credit Agreement are as follows (unless the covenant relief period under the Second Amendment is earlier terminated by us):

- maintaining a maximum consolidated leverage ratio, determined as of the last day of each fiscal quarter, of (i) 4.75 to 1.00, for the fiscal quarter ending on or around April 30, 2023, (ii) 6.80 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 8.17 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 8.58 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 7.26 to 1.00 for the fiscal quarter ending on or around April 30, 2024, (vi) 6.36 to 1.00 for the fiscal quarter ending on or around July 31, 2024, (vii) 5.85 to 1.00 for the fiscal quarter ending on or around October 31, 2024, (viii) 5.77 to 1.00 for the fiscal quarter ending on or around January 31, 2025, and (ix) 3.75 to 1.00 for the fiscal quarter ending on or around April 30, 2025 and each fiscal quarter thereafter subject to increase to 4.25 to 1.00 for the four full consecutive fiscal quarters ending on or after the date of consummation of a permitted acquisition that constitutes a "Material Acquisition" under the Credit Agreement, subject to the satisfaction of certain conditions;
- maintaining a minimum consolidated interest expense coverage ratio, determined as of the last day of each fiscal quarter, of (i) 2.50 to 1.00 for the fiscal quarter ending on or around April 30, 2023, (ii) 2.04 to 1.00 for the fiscal quarter ending on or around July 31, 2023, (iii) 1.66 to 1.00 for the fiscal quarter ending on or around October 31, 2023, (iv) 1.61 to 1.00 for the fiscal quarter ending on or around January 31, 2024, (v) 1.81 to 1.00 for the fiscal quarter ending on or around April 30, 2024, (vi) 2.07 to 1.00 for the fiscal quarter ending on or around July 31, 2024, (vii) 2.27 to 1.00 for the fiscal quarter ending on or around October 31, 2024, (viii) 2.41 to 1.00 for the fiscal quarter ending on or around January 31, 2025, and (ix) 3.50 to 1.00 for the fiscal quarter ending April 30, 2025 and each fiscal quarter thereafter; and
- until January 31, 2025, maintaining a minimum consolidated liquidity (as further defined in the Credit Agreement but excluding revolving credit commitments scheduled to expire in 2024) of \$150 million as of the last day of each of our monthly accounting period.

As of April 30, 2023, we were in compliance with the financial covenants in our Credit Agreement.

As of April 30, 2023, we had \$190.0 million outstanding under our Revolving Credit Facility and \$895.0 million outstanding under our Term Loans. As of April 30, 2023, the undrawn borrowing capacity under the Revolving Credit Facility was \$410.0 million (\$310.0 million after giving pro forma effect to the reduction of revolving commitments as part of the Second Amendment described above), subject to leverage limitations. After effectiveness of the Second Amendment, \$162.5 million of our Revolving Credit Facility will mature on November 7, 2024 and \$337.5 million of our Revolving Credit Facility will mature on January 12, 2028.

In the first quarter of fiscal year 2024, we entered into an interest rate swap agreement with a 2.75 year term to hedge the variability of interest payments on \$150.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.58%, plus a variable margin and spread based on our consolidated leverage ratio.

In the fourth quarter of fiscal year 2023, we entered into an interest rate swap agreement with a 5 year term to hedge the variability of interest payments on \$450.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.44%, plus a variable margin and spread based on our consolidated leverage ratio.

In the first quarter of fiscal year 2021, we entered into an interest rate swap agreement with a 3 year term to hedge the variability of interest payments on the first \$150.0 million of debt outstanding under the Revolving Credit Facility at a LIBOR-referenced rate of 0.73%, plus a variable margin and spread based on our consolidated leverage ratio. This interest rate swap agreement matured during the first quarter of 2024.

In the first three months of fiscal year 2024, we borrowed \$40.0 million on our Revolving Credit Facility. In the first three months of fiscal year 2023, we borrowed \$10.0 million on our Revolving Credit Facility.

Convertible Senior Notes

As discussed above, on October 6, 2022 and October 21, 2022, we issued and sold \$300 million and \$19.5 million, respectively, in aggregate principal amount of the Notes in a private placement. The Notes were issued pursuant to an indenture, dated October 12, 2022, by and among us, the subsidiary guarantors party thereto ("Subsidiary Guarantors") and U.S. Bank Trust Company, National Association, as trustee. The Notes bear interest at a rate of 1.625% per year, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2023. The Notes will mature on November 1, 2027, unless earlier converted, redeemed or repurchased. The Notes were initially issued pursuant to an exemption from the registration requirements of the Securities Act afforded by Section 4(a)(2) of the Securities Act.

We used approximately \$72.6 million of the net proceeds from the Notes to pay for the cost of the Convertible Note Hedge Transactions, after such cost was partially offset by approximately \$42.9 million of proceeds to us from the sale of Warrants in connection with the issuance of the Notes, all as described in Note 9, Long-Term Debt to our interim unaudited condensed consolidated financial statements. The Convertible Note Hedge Transactions and Warrants transactions are indexed to, and potentially settled in, our common stock and the net cost of \$29.7 million has been recorded as a reduction to additional paid-in capital in the consolidated statement of shareholders' equity. We used the remaining net proceeds to fund a portion of the consideration in the Sierra Wireless Acquisition and to pay related fees and expenses. For additional information on the

Convertible Note Hedge Transactions and the Warrants, see Note 9, Long-Term Debt to our interim unaudited condensed consolidated financial statements.

Expected Uses of Liquidity

Capital Expenditures and Research and Development

We incur significant expenditures in order to fund the development, design and manufacture of new products. We intend to continue to focus on those areas that have shown potential for viable and profitable market opportunities, which may require additional investment in equipment and the hiring of additional design and application engineers aimed at developing new products. Certain of these expenditures, particularly the addition of design engineers, do not generate significant payback in the short-term. We plan to finance these expenditures with cash generated by our operations and our existing cash balances.

Purchases under our Stock Repurchase Program

We currently have in effect a stock repurchase program that was initially approved by our Board of Directors in March 2008. On March 11, 2021, our Board of Directors approved the expansion of the stock repurchase program by an additional \$350.0 million. This program represents one of our principal efforts to return value to our stockholders. Under the program, we may repurchase our common stock at any time or from time to time, without prior notice, subject to market conditions and other considerations. Our repurchases may be made through Rule 10b5-1 and/or Rule 10b-18 or other trading plans, open market purchases, privately negotiated transactions, block purchases or other transactions.

We did not repurchase any shares of our common stock under the program in the first three months of fiscal year 2024. In the first three months of fiscal year 2023, we repurchased 762,093 shares under the program for \$50.0 million. As of April 30, 2023, the remaining authorization under the program was \$209.4 million. To the extent we repurchase any shares of our common stock under the program in the future, we expect to fund such repurchases from cash on hand and borrowings on our Revolving Credit Facility. We have no obligation to repurchase any shares under the program and may suspend or discontinue it at any time.

Working Capital

Working capital, defined as total current assets less total current liabilities including the current portion of long-term debt, fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may increase as we purchase additional manufacturing materials and increase production. In addition, our working capital may be affected by potential acquisitions and transactions involving our debt instruments. Although investments made to fund working capital will reduce our cash balances, these investments are necessary to support business and operating initiatives. Our working capital, excluding cash and cash equivalents, was \$190.4 million and \$90.4 million as of April 30, 2023 and January 29, 2023, respectively. Our working capital, including cash and cash equivalents, was \$354.6 million and \$325.9 million as of April 30, 2023 and January 29, 2023, respectively.

Other than as disclosed above, there have been no material changes to our cash requirements from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023.

Cash Flows

One of our primary goals is to improve the cash flows from our existing business activities. Additionally, we will continue to seek to maintain or improve our existing business performance and deploy our accumulated cash balances in the most effective manner through alternatives such as capital expenditures, and potentially, acquisitions and other investments that support achievement of our business strategies. Acquisitions may be made for either cash or stock consideration, or a combination of both.

In summary, our cash flows for each period were as follows:

| (in thousands) | Three Months Ended | |
|--|--------------------|-------------------|
| | April 30, 2023 | May 1, 2022 |
| Net cash (used in) provided by operating activities | \$ (89,987) | \$ 50,051 |
| Net cash used in investing activities | (14,407) | (10,315) |
| Net cash provided by (used in) financing activities | 33,728 | (44,153) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (646) | — |
| Net decrease in cash and cash equivalents | <u>\$ (71,312)</u> | <u>\$ (4,417)</u> |

Operating Activities

Net cash provided by or used in operating activities is driven by net income or loss adjusted for non-cash items and fluctuations in operating assets and liabilities.

Operating cash flows for the first three months of fiscal year 2024 compared to the first three months of fiscal year 2023 were unfavorably impacted by transaction and integration costs related to the Sierra Wireless Acquisition, higher annual bonus payments related to increased headcount, restructuring costs and a \$6.4 million incremental increase in inventory spend, and were favorably impacted by a 17.0% increase in net sales.

Investing Activities

Net cash used in investing activities is primarily attributable to capital expenditures, purchases of investments and premiums paid for corporate-owned life insurance, offset by proceeds from corporate-owned life insurance.

Capital expenditures were \$14.0 million for the first three months of fiscal year 2024, compared to \$8.3 million for the first three months of fiscal year 2023. In the first three months of fiscal years 2024 and 2023, we made significant investments to update and expand our production capabilities.

In the first three months of fiscal year 2024, we paid \$0.4 million for strategic investments, including investments in companies that are enabling the LoRa® and LoRaWAN® -based ecosystem, compared to \$2.0 million of strategic investments in the first three months of fiscal year 2023.

In the first three months of fiscal year 2023, we received \$2.7 million of proceeds from a corporate-owned life death benefit, which included a \$1.6 million gain. All \$2.7 million of the proceeds were re-invested into our corporate-owned life insurance policy in order to provide substantive coverage for our deferred compensation liability.

Financing Activities

Net cash provided by financing activities is primarily attributable to proceeds from our Revolving Credit Facility, offset by repurchases of outstanding common stock, deferred financing costs and payments related to employee share-based compensation payroll taxes.

In the first three months of fiscal year 2024, we paid \$1.6 million for employee share-based compensation payroll taxes. In the first three months of fiscal year 2023, we paid \$4.6 million for employee share-based compensation payroll taxes and received proceeds of \$0.4 million from the exercise of stock options. We do not directly control the timing of the exercise of stock options. Such exercises are independent decisions made by grantees and are influenced most directly by the stock price and the expiration dates of stock option awards. Such proceeds are difficult to forecast, resulting from several factors that are outside our control. We believe that such proceeds will remain a nominal source of cash in the future.

Critical Accounting Estimates

Our critical accounting estimates are disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 29, 2023. There have been no significant changes to our policies during the three months ended April 30, 2023. For a discussion of recent accounting pronouncements, see Note 1, Organization and Basis of Presentation to our interim unaudited condensed consolidated financial statements.

Available Information

General information about us can be found on our website at www.semtech.com. The information on our website is for informational purposes only and should not be relied on for investment purposes. The information on our website is not incorporated by reference into this Quarterly Report and should not be considered part of this or any other report filed with the Securities Exchange Commission ("SEC").

We make available free of charge, either by direct access on our website or by a link to the SEC website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our reports filed with, or furnished to, the SEC are also available directly at the SEC's website at www.sec.gov.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to a variety of market risks, including commodity risk and the risks related to foreign currency, interest rates and market performance that are discussed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended January 29, 2023. Many of the factors that can have an impact on our market risk are external to us, and so we are unable to fully predict them.

Market Conditions

A deterioration of global economic conditions can impact demand for our products which could result in changes in customer order patterns, including order cancellations, and changes in the level of inventory held by vendors.

Commodity Risk

We are subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are incorporated into our end products or used by our suppliers to process our end products. Increased commodity prices are passed on to us in the form of higher prices from our suppliers, either in the form of general price increases or a commodity surcharge. Although we generally deal with our suppliers on a purchase order basis rather than on a long-term contract basis, we generally attempt to obtain firm pricing for volumes consistent with planned production. Our gross margins may decline if we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset the increased cost. We do not enter into formal hedging arrangements to mitigate against commodity risk.

Foreign Currency Risk

Our foreign operations expose us to the risk of fluctuations in foreign currency exchange rates against our functional currencies and we may economically hedge this risk with foreign currency contracts (such as currency forward contracts). Gains or losses on these balances are generally offset by corresponding losses or gains on the related hedging instruments. As of April 30, 2023, our largest foreign currency exposures were from the Canadian Dollar, Swiss Franc and Great British Pound.

We considered the historical trends in foreign currency exchange rates and determined that it is reasonably possible that adverse changes in foreign exchange rates of 10% for all currencies could be experienced in the near-term. These reasonably possible adverse changes were applied to our total monetary assets and liabilities denominated in currencies other than our functional currency as of the end of our first quarter of fiscal year 2024. The adverse impact these changes would have had (after taking into account balance sheet hedges only) on our income before taxes is \$1.5 million.

Interest rate and credit risk

We are subject to interest rate risk in connection with the portion of the outstanding debt under our Credit Agreement that bears interest at a variable rate as of April 30, 2023.

In the first quarter of fiscal year 2024, we entered into an interest rate swap agreement with a 2.75 year term to hedge the variability of interest payments on \$150.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.58%, plus a variable margin and spread based on our consolidated leverage ratio.

In the fourth quarter of fiscal year 2023, we entered into an interest rate swap agreement with a 5 year term to hedge the variability of interest payments on \$450.0 million of debt outstanding on the Term Loans at a Term SOFR rate of 3.44%, plus a variable margin and spread based on our consolidated leverage ratio.

In the first quarter of fiscal year 2021, we entered into an interest rate swap agreement with a 3 year term to hedge the variability of interest payments on the first \$150.0 million of debt outstanding under the Revolving Credit Facility at a LIBOR-referenced rate of 0.73%, plus a variable margin and spread based on our consolidated leverage ratio. This interest rate swap agreement matured during the first quarter of 2024.

Based upon our \$485.0 million of unhedged outstanding indebtedness as of April 30, 2023, the adverse impact a one percentage point increase in Term SOFR would have on our interest expense is \$4.9 million.

Interest rates also affect our return on excess cash and investments. As of April 30, 2023, we had \$164.2 million of cash and cash equivalents. A majority of our cash and cash equivalents generate interest income based on prevailing interest rates. Interest income, net of reserves, generated by our investments and cash and cash equivalents was \$1.1 million in the first quarter of fiscal year 2024. A significant change in interest rates would impact the amount of interest income generated from our cash and investments. It would also impact the market value of our investments.

Our investments are primarily subject to credit risk. Our investment guidelines prescribe credit quality, permissible investments, diversification, and duration restrictions. These restrictions are intended to limit risk by restricting our investments to high quality debt instruments with relatively short-term durations. Our investment strategy limits investment of new funds and maturing securities to U.S. Treasury, Federal agency securities, high quality money market funds and time deposits with our principal commercial banks. Outside of these investment guidelines, we also invest in a limited amount of debt securities in privately held companies that we view as strategic to our business. For example, many of these investments are in companies that are enabling the LoRa® and LoRaWAN® -based ecosystem.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds, have in the past and may in the future lead to market-wide liquidity problems. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. We maintain cash held in deposit at financial institutions in the U.S. These deposits are insured by the FDIC in an amount up to \$250,000 for any depositor. To the extent we hold cash deposits in amounts that exceed the FDIC insurance limitation, we may incur a loss in the event of a failure of any of the financial institutions where we maintain deposits. There can be no assurance that our deposits in excess of the FDIC or other comparable insurance limits will be backstopped by the U.S. or any applicable foreign government in the future or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a future failure or liquidity crisis. In addition, if any of our partners or parties with whom we conduct business are unable to access funds due to the status of their financial institution, such parties' ability to pay their obligations to us or to enter into new commercial arrangements requiring additional payments to us could be adversely affected. Management believes we are not exposed to significant risk due to the financial position of the depository institution, but will continue to monitor regularly and adjust, if needed, to mitigate risk. We have established guidelines regarding diversification of our investments and their maturities, which are designed to maintain principal and maximize liquidity. To date, we have not experienced any losses associated with this credit risk and continue to believe that this exposure is not significant.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), which are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on that evaluation, our CEO and CFO concluded that, our disclosure controls and procedures were effective as of April 30, 2023.

Changes in Internal Controls

As of April 30, 2023, there were no changes to our internal control over financial reporting that occurred during the fiscal quarter then ended that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

Information about our material legal proceedings is set forth in [Note 12, Commitments and Contingencies](#) to the interim unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report and incorporated by reference herein.

ITEM 1A. Risk Factors

Please carefully consider and evaluate all of the information in this Quarterly Report and the risk factors set forth below and in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023. If any of these risks actually occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline.

The risk factors associated with our business have not materially changed as compared to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended January 29, 2023.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

None.

Issuer Purchase of Equity Securities

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

On June 6, 2023, we entered into the Second Amendment to the Credit Agreement, in order to, among other things, (i) increase the maximum consolidated leverage ratio covenant for certain test periods as set forth therein, (ii) reduce the minimum consolidated interest coverage ratio covenant for certain test periods as set forth therein, (iii) modify the pricing grid applicable to loans under the Credit Agreement during the covenant relief period as set forth therein, (iv) impose a minimum liquidity covenant for certain periods during the covenant relief period as set forth therein, (v) increase the annual amortization in respect of the term loans thereunder to 7.5% per annum for certain periods as set forth therein, (vi) impose an “anti-cash hoarding” condition to the borrowing of revolving loans as set forth therein, (vii) provide that the maturity date for the term loans and revolving loans shall be the day that is 91 days prior to the stated maturity date of the Notes if the Notes have not otherwise been refinanced or extended to at least 91 days after the stated maturity date of the term loans and revolving loans, the aggregate principal amount of non-extended outstanding Notes and certain replacement debt exceeds \$50 million and a minimum liquidity condition is not satisfied, (viii) provide for the reduction of the aggregate revolving commitments thereunder by \$100 million, (ix) require that we appoint a financial advisor, and (x) make certain other modifications to the mandatory prepayments (including the imposition of an excess cash flow mandatory prepayment), collateral provisions and covenants (including additional limitations on debt, liens, investments and restricted payments such as dividends) as set forth therein. See Note 9, Long-Term Debt to our interim unaudited condensed consolidated financial statements.

The foregoing description is qualified in its entirety by reference to the Second Amendment, which is filed herewith as Exhibit 10.5 and incorporated herein by reference.

ITEM 6. Exhibits

Documents that are not physically filed with this report are incorporated herein by reference to the location indicated.

| Exhibit No. | Description | Location |
|-------------|--|--|
| 3.1 | Restated Certificate of Incorporation of Semtech Corporation | Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended October 26, 2023 |
| 3.2 | Amended and Restated Bylaws of Semtech Corporation | Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended, October 30, 2022 |
| 10.1 | First Amendment to Third Amended and Restated Credit Agreement, dated as of February 24, 2023, by and among Semtech Corporation, the subsidiary guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and certain lenders party thereto | Exhibit 10.2 to our Annual Report on Form 10-K for the year ended January 29, 2023 |
| 10.2 | Transition and Retirement Agreement, dated March 14, 2023, between Mohan Maheswaran and Semtech Corporation | Exhibit 10.1 to our Current Report on Form 8-K filed on March 16, 2023 |
| 10.3 | Cooperation Agreement, dated as of March 17, 2023, between Semtech Corporation and Lion Point Master, LP, Lion Point Capital, LP, Lion Point Capital GP, LLC, Lion Point Holdings GP, LLC and Didric Cederholm | Exhibit 10.1 to our Current Report on Form 8-K filed on March 20, 2023 |
| 10.4 | Employment Agreement, dated May 25, 2023, between Paul H. Pickle and Semtech Corporation | Exhibit 10.1 to our Current Report on Form 8-K filed on May 30, 2023 |
| 10.5 | Second Amendment to Third Amended and Restated Credit Agreement, dated as of June 6, 2023, by and among Semtech Corporation, the subsidiary guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and certain lenders party thereto | Filed herewith |
| 31.1 | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended | Filed herewith |
| 31.2 | Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended | Filed herewith |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 32.1 is being furnished and shall not be deemed "filed") | Furnished herewith |
| 32.2 | Certification of the Chief Financial Officer Pursuant 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 32.2 is being furnished and shall not be deemed "filed") | Furnished herewith |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2023, formatted in Inline XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income and Loss, (iii) Consolidated Balance Sheets (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flow and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags. | |
| 104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2023, formatted in Inline XBRL (included as Exhibit 101). | |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMTECH CORPORATION

Registrant

Date: June 7, 2023

/s/ Mohan R. Maheswaran

Mohan R. Maheswaran

President and Chief Executive Officer

(Principal Executive Officer; Duly Authorized Officer)

Date: June 7, 2023

/s/ Emeka N. Chukwu

Emeka N. Chukwu

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)