Silicon Labs Announces Record Revenue for Third Quarter 2016

Exceeds Guidance on Revenue, Gross Margin and EPS

We are executing on our growth strategy targeting the IoT and Infrastructure markets, and are seeing our efforts translate into strong financial results.

AUSTIN, Texas--(BUSINESS WIRE)--Silicon Labs (NASDAQ: SLAB), a leading provider of silicon, software and solutions for a smarter, more connected world, today reported financial results for its third quarter ended October 1, 2016. Revenue in the third quarter established a new record, exceeding the high end of guidance at \$178.1 million, up from \$174.9 million in the second quarter. Third quarter GAAP and non-GAAP earnings per share (EPS) exceeded the high end of guidance at \$0.47 and \$0.77, respectively.

Third Quarter Financial Highlights

- IoT revenue established a new record, increasing to \$81.5 million, or 6.2% sequentially.
- Infrastructure revenue established a new record, increasing to \$38.3 million, or 7.5% sequentially, exclusive of \$5 million of patent sale revenue in the second quarter.
- Broadcast increased to \$40.7 million, or 7.1% sequentially.
- Access revenue declined to \$17.5 million, or 10.0% sequentially.

On a GAAP basis:

- GAAP gross margin was 60.8%.
- GAAP R&D expenses were \$48.4 million.
- GAAP SG&A expenses were \$38.0 million.
- GAAP operating income as a percentage of revenue was 12.2%.
- GAAP diluted earnings per share were \$0.47.

On a non-GAAP basis (results exclude the impact of stock compensation, amortization of acquired intangible assets and certain other items as set forth in the reconciliation tables below):

- Non-GAAP gross margin was 61.0%.
- Non-GAAP R&D expenses were \$39.6 million.
- Non-GAAP SG&A expenses were \$31.4 million.
- Non-GAAP operating income as a percentage of revenue was 21.1%.
- Non-GAAP diluted earnings per share were \$0.77.

Product Highlights

- Acquired <u>Micrium</u>, the leading supplier of real-time operating system (RTOS) software for embedded computing, supporting more than 50 processor architectures and providing a commercial-grade RTOS solution across key embedded markets.
- Launched the MGM111 mesh networking module, leveraging Silicon Labs' multiprotocol Mighty Gecko SoC, ZigBee® and Thread mesh protocol stacks, and Simplicity Studio™ development tools.
- Shipped more than 100 million ZigBee mesh networking devices worldwide to date, reaching a new milestone.
- Released a major update of the award-winning <u>Simplicity Studio</u> software development tools, giving IoT developers more capabilities and easier access to Silicon Labs' full range of IoT products, including its latest multiprotocol wireless SoCs.
- Launched the <u>CP2102N bridge device</u>, a smaller, lower-power offering of Silicon Labs' USBXpress™ family providing a
 highly integrated, turnkey solution for adding USB connectivity to embedded designs.
- Introduced the <u>Si875x</u> isolated gate drivers offering an innovative capability to transfer power across an integrated CMOS isolation barrier, and providing a replacement solution for antiquated electromechanical relays and optocoupler-based solid-state relays in switching applications.
- Launched the <u>Si828x</u> isolated gate driver family targeting industrial and green energy designs requiring state-of-the-art signal isolation technology with superior timing, lower emissions and higher reliability.
- Introduced the <u>Si838x isolator family</u> of high-speed, multi-channel digital isolation products designed to outperform and outlive legacy optocouplers in programmable logic controllers for factory automation.

Business Outlook

The company expects revenue in the fourth quarter to be in the range of \$176 million to \$181 million. Fourth quarter diluted earnings per share are expected to be between \$0.30 and \$0.36 on a GAAP basis, and between \$0.62 and \$0.68 on a non-GAAP basis.

"We are delighted to report record revenue, including five percent sequential and 14 percent year-on-year growth in product revenue," said Tyson Tuttle, CEO of Silicon Labs. "We are executing on our growth strategy targeting the IoT and Infrastructure markets, and are seeing our efforts translate into strong financial results."

Webcast and Conference Call

A conference call discussing the quarterly results will follow this press release at 7:30 a.m. Central time. An audio webcast will be available on Silicon Labs' website (www.silabs.com) under Investor Relations. A replay will be available after the call at the same website listed above or by calling 1 (855) 859-2056 or (404) 537-3406 (international) and entering conference ID 83473959. The replay will be available through November 26, 2016.

About Silicon Labs

Silicon Labs (NASDAQ: SLAB) is a leading provider of silicon, software and solutions for the Internet of Things, Infrastructure, industrial automation, consumer and automotive markets. We solve the electronics industry's toughest problems, providing customers with significant advantages in performance, energy savings, connectivity and design simplicity. Backed by our world-class engineering teams with strong software and mixed-signal design expertise, Silicon Labs empowers developers with the tools and technologies they need to advance quickly and easily from initial idea to final product. www.silabs.com

Forward-Looking Statements

This press release contains forward-looking statements based on Silicon Labs' current expectations. The words "believe," "estimate," "expect," "intend," "anticipate," "plan," "project," "will" and similar phrases as they relate to Silicon Labs are intended to identify such forward-looking statements. These forward-looking statements reflect the current views and assumptions of Silicon Labs and are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are the following: risks that Silicon Labs may not be able to maintain its historical growth; guarterly fluctuations in revenues and operating results; difficulties developing new products that achieve market acceptance; dependence on a limited number of products and customers; intellectual property litigation risks; risks associated with acquisitions and divestitures; product liability risks; difficulties managing our distributors, manufacturers and subcontractors; inventory-related risks; difficulties managing international activities; risks that Silicon Labs may not be able to manage strains associated with its growth; credit risks associated with our accounts receivable; dependence on key personnel; stock price volatility; geographic concentration of manufacturers, assemblers, test service providers and customers in Asia that subjects Silicon Labs' business and results of operations to risks of natural disasters, epidemics, war and political unrest; debt-related risks; capital-raising risks; the competitive and cyclical nature of the semiconductor industry; average selling prices of products may decrease significantly and rapidly; information technology risks; cyber-attacks against our products and our networks; conflict mineral risks and other factors that are detailed in the SEC filings of Silicon Laboratories Inc. Silicon Labs disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. References in this press release to Silicon Labs shall mean Silicon Laboratories Inc.

Note to editors: Silicon Laboratories, Silicon Labs, the "S" symbol, the Silicon Labs logo, Simplicity Studio, and USBXpress are trademarks of Silicon Laboratories Inc. All other product names noted herein may be trademarks of their respective holders.

Silicon Laboratories Inc.
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

| | Three Mon | ths Ended | Nine Months Ended | | |
|------------------------------|-----------------------|---------------------|----------------------|----------------------|--|
| | October 1, October 3, | | October 1, | October 3, | |
| | 2016 | 2015 | 2016 | 2015 | |
| Revenues Cost of revenues | \$178,083 69,880 | \$156,194 62,759 | \$515,016 202,988 | \$484,755 197,523 | |

| Gross margin Operating expenses: | 108,203 | 93,435 | 312,028 | 287,232 |
|---|----------|---------|----------|----------|
| Research and development | 48,437 | 46,483 | 149,118 | 140,805 |
| Selling, general and administrative | 38,034 | 35,729 | 116,716 | 118,989 |
| Operating expenses | 86,471 | 82,212 | 265,834 | 259,794 |
| Operating income | 21,732 | 11,223 | 46,194 | 27,438 |
| Other income (expense): | | | | |
| Interest income | 331 | 186 | 880 | 544 |
| Interest expense | (643) | (687) | (1,939) | (2,160) |
| Other, net | (58) | (280) | (431) | 218 |
| Income before income taxes | 21,362 | 10,442 | 44,704 | 26,040 |
| Provision for income taxes | 1,344 | 467 | 3,319 | 2,112 |
| Net income | \$20,018 | \$9,975 | \$41,385 | \$23,928 |
| Earnings per share: | | | | |
| Basic | \$0.48 | \$0.24 | \$0.99 | \$0.56 |
| Diluted | \$0.47 | \$0.23 | \$0.98 | \$0.55 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 41,614 | 42,331 | 41,673 | 42,522 |
| Diluted | 42,307 | 42,795 | 42,263 | 43,135 |
| | | | | |

Unaudited Reconciliation of GAAP to Non-GAAP Financial Measures (In thousands, except per share data)

| Non-GAAP Income | Three Months Ended |
|-----------------|--------------------|
| Statement Items | October 1, 2016 |

| | | | | | | | | | | Non- | |
|-------------------------------------|-----------|------------|---|----|-------------|--------------|-------------|-------------|-----------|-------|-----|
| | GAAP | GAAP | | St | tock | Intangible | Acquisition | Termination | Non- | GAAP |) |
| | Measure | Percent of | | C | ompensation | Asset | Related | Costs | GAAP | Perce | nt |
| | Weasure | Revenue | | E | kpense | Amortization | Items | Cosis | Measure | of | |
| | | | | | | | | | | Reven | ıue |
| Revenues | \$178,083 | | | | | | | | | | |
| Gross margin | 108,203 | 60.8 | % | \$ | 272 | \$ 130 | \$ | \$ | \$108,605 | 61.0 | % |
| Research and development | 48,437 | 27.2 | % | | 4,580 | 4,257 | | | 39,600 | 22.2 | % |
| Selling, general and administrative | 38,034 | 21.4 | % | | 4,343 | 1,420 | 311 | 552 | 31,408 | 17.7 | % |
| Operating income | 21,732 | 12.2 | % | | 9,195 | 5,807 | 311 | 552 | 37,597 | 21.1 | % |

Non-GAAP Three Months Ended
Earnings Per Share October 1, 2016

| | GAAP | Stock | Intangible | Acquisition | Termination | n Income Tax | Non- |
|----------------------------|----------|--------------------|---------------|-------------|-------------|--------------|----------|
| | Measure | Compensation Asset | | Related | Costs* | Adjustments | GAAP |
| mododie | | Expense* | Amortization* | Items* | | , | Measure |
| Net income | \$20,018 | \$ 9,195 | \$ 5,807 | \$ 311 | \$ 552 | \$ (3,467) | \$32,416 |
| Diluted shares outstanding | 42,307 | | | | | | 42,307 |
| Diluted earnings per share | \$0.47 | | | | | | \$ 0.77 |

^{*} Represents pre-tax amounts

Unaudited Forward-Looking Statements Regarding Business Outlook

| Provinces Outleads | Three Months Ending | | | |
|---|---------------------|----------------|--|--|
| Business Outlook | December 31, 2016 | | | |
| Estimated GAAP diluted earnings per share | High \$ 0.36 | Low \$ 0.30 | | |
| Estimated non-GAAP charges | 0.32 | 0.32 | | |
| Estimated non-GAAP diluted earnings per share | \$ 0.68 | \$ 0.62 | | |

Silicon Laboratories Inc. Condensed Consolidated Balance Sheets (In thousands, except per share data) (Unaudited)

| | October 1, 2016 | January 2, 2016 |
|---|--------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$148,195 | \$114,085 |
| Short-term investments | 131,139 | 128,901 |
| Accounts receivable, net | 84,923 | 73,601 |
| Inventories | 55,051 | 53,895 |
| Prepaid expenses and other current assets | 49,087 | 52,658 |
| Total current assets | 468,395 | 423,140 |
| Long-term investments | 6,980 | 7,126 |
| Property and equipment, net | 130,318 | 131,132 |
| Goodwill | 272,722 | 272,722 |
| Other intangible assets, net | 100,320 | 121,354 |
| Other assets, net | 51,481 | 55,989 |
| Total assets | \$1,030,216 | \$1,011,463 |
| Liabilities and Stockholders' Equity | | |

Current liabilities:

Accounts payable \$39,591 \$42,127

| Current portion of long-term debt | | 10,000 |
|---|---|---|
| Accrued expenses Deferred income on shipments to distributors Income taxes Total current liabilities Long-term debt Other non-current liabilities Total liabilities Commitments and contingencies | 51,561 47,057 5,638 143,847 72,500 26,240 242,587 | 52,131 35,448 2,615 142,321 67,500 40,528 250,349 |
| Stockholders' equity: | | |
| Preferred stock – \$0.0001 par value; 10,000 shares authorized; no shares issued and outstanding | | |
| Common stock – \$0.0001 par value; 250,000 shares authorized; | | |
| 41,651 and 41,727 shares issued and outstanding at October 1, 2016 | 4 | 4 |
| and January 2, 2016, respectively | | |
| Additional paid-in capital Retained earnings Accumulated other comprehensive loss Total stockholders' equity | 6,344 781,890 (609) 787,629 | 13,868 747,749 (507) 761,114 |
| Total liabilities and stockholders' equity | \$1,030,216 | \$1,011,463 |

Silicon Laboratories Inc. Condensed Consolidated Statements of Cash Flows (In thousands) (Unaudited)

| | Niina Mandha Endad | | |
|---|--------------------|------------|--|
| | Nine Months Ende | | |
| | October 1, | October 3, | |
| | 2016 | 2015 | |
| Operating Activities | | | |
| Net income | \$41,385 | \$23,928 | |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation of property and equipment | 9,912 | 9,293 | |
| Amortization of other intangible assets and other assets | 21,461 | 21,686 | |
| Stock-based compensation expense | 30,057 | 30,798 | |
| Income tax benefit (shortfall) from stock-based awards | (1,238) | 1,727 | |
| Excess income tax benefit from stock-based awards | (373) | (2,118) | |
| Deferred income taxes | (1,460) | 1,571 | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (11,322) | 12,097 | |
| Inventories | (1,558) | 2,259 | |
| Prepaid expenses and other assets | 7,404 | 8,409 | |
| Accounts payable | 1,280 | (5,686) | |
| Accrued expenses | 8,930 | (280) | |
| Deferred income on shipments to distributors | 11,573 | (2,825) | |
| Income taxes | 1,459 | (3,413) | |
| Other non-current liabilities | (10,891) | (10,031) | |
| Net cash provided by operating activities | 106,619 | 87,415 | |
| Investing Activities | | | |
| Purchases of available-for-sale investments | (131,741) | (55,433) | |

| Sales and maturities of available-for-sale investments | 129,511 | 136,262 |
|---|---------------------------------------|---|
| Purchases of property and equipment Purchases of other assets Acquisition of business, net of cash acquired Net cash used in investing activities | (8,545) (4,994) (15,769) | (7,281) (5,291) (76,899) (8,642) |
| Financing Activities | | |
| Proceeds from issuance of long-term debt, net | | 81,238 |
| Payments on debt | (5,000) | (92,206) |
| Repurchases of common stock | (40,543) | (71,448) |
| Payment of taxes withheld for vested stock awards | (10,521) | (12,652) |
| Proceeds from the issuance of common stock | 8,451 | 12,575 |
| Excess income tax benefit from stock-based awards | 373 | 2,118 |
| Payment of acquisition-related contingent consideration | (9,500) | (4,464) |
| Net cash used in financing activities | (56,740) | (84,839) |
| Decrease in cash and cash equivalents | 34,110 | (6,066) |
| Cash and cash equivalents at beginning of period | 114,085 | 141,706 |
| Cash and cash equivalents at end of period | \$148,195 | \$135,640 |

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https://news.silabs.com/2016-10-26-Silicon-Labs-Announces-Record-Revenue-for-Third-Quarter-2016