

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	Quarter Ended		
	April 1, 2016	December 31, 2015	April 3, 2015
Revenues	\$ 817.2	\$ 840.3	\$ 870.8
Cost of revenues (exclusive of amortization shown below)	541.7	560.4	570.4
Gross profit	275.5	279.9	300.4
Gross margin	33.7%	33.3%	34.5%
Operating expenses:			
Research and development	98.0	91.0	100.4
Selling and marketing	49.2	48.3	53.3
General and administrative	44.5	45.7	46.7
Amortization of acquisition-related intangible assets	23.7	34.6	33.9
Restructuring, asset impairments and other, net	1.7	4.8	(2.3)
Total operating expenses	217.1	224.4	232.0
Operating income	58.4	55.5	68.4
Other income (expense), net:			
Interest expense	(15.6)	(14.9)	(9.2)
Interest income	0.3	0.3	0.3
Other	(1.4)	(0.2)	3.7
Other (expense) income, net	(16.7)	(14.8)	(5.2)
Income before income taxes	41.7	40.7	63.2
Income tax (provision) benefit	(5.3)	14.3	(7.4)
Net income	36.4	55.0	55.8
Less: Net income attributable to non-controlling interest	(0.4)	(0.9)	(0.7)
Net income attributable to ON Semiconductor Corporation	\$ 36.0	\$ 54.1	\$ 55.1
Net income per common share attributable to ON Semiconductor Corporation:			
Basic	\$ 0.09	\$ 0.13	\$ 0.13
Diluted	\$ 0.09	\$ 0.13	\$ 0.13
Weighted average common shares outstanding:			
Basic	412.6	412.5	431.4
Diluted	415.5	416.9	439.9

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

(in millions)

	April 1, 2016	December 31, 2015	April 3, 2015
Assets			
Cash and cash equivalents	\$ 619.5	\$ 617.6	\$ 428.1
Short-term investments	—	—	1.3
Receivables, net	428.2	426.4	454.5
Inventories	759.7	750.4	746.9
Other current assets	94.3	97.1	128.1
Total current assets	1,901.7	1,891.5	1,758.9
Property, plant and equipment, net	1,270.4	1,274.1	1,208.4
Goodwill	270.6	270.6	263.8
Intangible assets, net	302.3	325.8	424.6
Other assets	110.1	107.6	89.8
Total assets	\$ 3,855.1	\$ 3,869.6	\$ 3,745.5
Liabilities, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 305.9	\$ 337.7	\$ 362.5
Accrued expenses	245.2	246.2	282.6
Deferred income on sales to distributors	112.9	112.0	156.0
Current portion of long-term debt	525.4	543.4	212.6
Total current liabilities	1,189.4	1,239.3	1,013.7
Long-term debt	835.1	850.5	949.4
Other long-term liabilities	152.5	147.9	155.2
Total liabilities	2,177.0	2,237.7	2,118.3
ON Semiconductor Corporation stockholders' equity:			
Common stock	5.4	5.3	5.3
Additional paid-in capital	3,437.0	3,420.3	3,317.6
Accumulated other comprehensive loss	(41.3)	(42.3)	(45.8)
Accumulated deficit	(673.4)	(709.4)	(860.5)
Less: Treasury stock, at cost	(1,073.7)	(1,065.7)	(811.0)
Total ON Semiconductor Corporation stockholders'	1,654.0	1,608.2	1,605.6
Non-controlling interest in consolidated subsidiary	24.1	23.7	21.6
Total stockholders' equity	1,678.1	1,631.9	1,627.2
Total liabilities and equity	\$ 3,855.1	\$ 3,869.6	\$ 3,745.5

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA* AND
NET CASH PROVIDED BY OPERATING ACTIVITIES

(in millions)

	Quarter Ended		
	April 1, 2016	December 31, 2015	April 3, 2015
Net income	\$ 36.4	\$ 55.0	\$ 55.8
Adjusted for:			
Restructuring, asset impairments and other, net	1.7	4.8	(2.3)
Interest expense	15.6	14.9	9.2
Interest income	(0.3)	(0.3)	(0.3)
Gain on sale of available-for-sale securities	—	—	(3.4)
Income tax provision (benefit)	5.3	(14.3)	7.4
Net income attributable to non-controlling interest	(0.4)	(0.9)	(0.7)
Depreciation and amortization	80.7	89.8	90.2
Actuarial gains on pension plans and other pension benefits	—	(5.0)	—
Third party acquisition related costs	2.5	3.3	—
Adjusted EBITDA*	141.5	147.3	155.9
Increase (decrease):			
Restructuring, asset impairments and other, net	(1.7)	(4.8)	2.3
Interest expense	(15.6)	(14.9)	(9.2)
Interest income	0.3	0.3	0.3
Gain on sale of available-for-sale securities	—	—	3.4
Income tax provision	(5.3)	14.3	(7.4)
Net income attributable to non-controlling interest	0.4	0.9	0.7
Actuarial gains on pension plans and other pension benefits	—	5.0	—
Third party acquisition related costs	(2.5)	(3.3)	—
Loss (gain) on sale or disposal of fixed assets	(0.1)	0.2	(4.0)
Amortization of debt issuance costs	1.0	0.9	0.3
Write-down of excess inventories	17.9	14.0	17.7
Non-cash share-based compensation expense	11.6	10.6	11.3
Non-cash interest	6.5	6.3	1.8
Change in deferred taxes	1.1	(9.3)	(0.4)
Other	1.5	2.7	(3.0)
Changes in operating assets and liabilities	(41.7)	(13.0)	(86.2)
Net cash provided by operating activities	\$ 114.9	\$ 157.2	\$ 83.5

* Adjusted EBITDA represents net income before interest expense, interest income, provision for income taxes, depreciation and amortization expense and special items. We use the adjusted EBITDA measure for internal managerial evaluation purposes, as a means to evaluate period-to-period comparisons and as a performance metric for the vesting/releasing of certain of our performance-based equity awards. Adjusted EBITDA is a non-GAAP financial measure. Regulation G and other provisions of the securities laws regulate the use of financial measures that are not prepared in accordance with generally accepted accounting principles. We believe this measure provides important supplemental information to investors. However, we do not, and you should not, rely on non-GAAP financial measures alone as measures of our performance.

We believe that non-GAAP financial measures reflect an additional way of viewing aspects of our operations that – when taken together with GAAP results and the reconciliations to corresponding GAAP financial measures that we also provide in our press releases – provide a more complete understanding of factors and trends affecting our business. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with non-GAAP financial measures used by our company or other companies, even if they have similar names.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

ANALYSIS OF GAAP VERSUS NON-GAAP DISCLOSURES

(in millions, except per share and percentage data)

	Quarter Ended		
	April 1, 2016	December 31, 2015	April 3, 2015
Reconciliation of GAAP gross profit to non-GAAP gross profit:			
GAAP gross profit	\$ 275.5	\$ 279.9	\$ 300.4
Special item:			
a) Actuarial gain on pension plans and other pension benefits	—	(0.8)	—
Non-GAAP gross profit	\$ 275.5	\$ 279.1	\$ 300.4
Reconciliation of GAAP gross margin to non-GAAP gross margin:			
GAAP gross margin	33.7%	33.3 %	34.5 %
Special item:			
a) Actuarial gain on pension plans and other pension benefits	—%	(0.1 %)	— %
Non-GAAP gross margin	33.7%	33.2 %	34.5 %
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:			
GAAP operating expenses	\$ 217.1	\$ 224.4	\$ 232.0
Special items:			
a) Amortization of acquisition related intangible	(23.7)	(34.6)	(33.9)
b) Actuarial losses on pension plans and other pension benefits	—	4.2	—
c) Restructuring, asset impairments and other, net	(1.7)	(4.8)	2.3
d) Third party acquisition related costs	(2.5)	(3.3)	—
Total special items	(27.9)	(38.5)	(31.6)
Non-GAAP operating expenses	\$ 189.2	\$ 185.9	\$ 200.4
Reconciliation of GAAP operating income to non-GAAP operating income:			
GAAP operating income	\$ 58.4	\$ 55.5	\$ 68.4
Special items:			
a) Actuarial losses on pension plans and other pension benefits (cost of revenues)	—	(0.8)	—
b) Amortization of acquisition related intangible	23.7	34.6	33.9
c) Actuarial losses on pension plans and other pension benefits (operating expenses)	—	(4.2)	—
d) Restructuring, asset impairments and other, net	1.7	4.8	(2.3)
e) Third party acquisition related costs	2.5	3.3	—
Total special items	27.9	37.7	31.6
Non-GAAP operating income	\$ 86.3	\$ 93.2	\$ 100.0

	Quarter Ended		
	April 1, 2016	December 31, 2015	April 3, 2015
Reconciliation of GAAP operating margin to non-GAAP operating margin (operating income / revenues):			
GAAP operating margin	7.1%	6.6 %	7.9 %
Special items:			
a) Actuarial (gains) pension plans and other pension benefits (cost of revenues)	—%	(0.1 %)	— %
b) Amortization of acquisition related intangible	2.9%	4.1 %	3.9 %
c) Actuarial (gains) on pension plans and other pension benefits (operating expenses)	—%	(0.5 %)	— %
d) Restructuring, asset impairments and other, net	0.2%	0.6 %	(0.3)
e) Third party acquisition related costs	0.3%	0.4 %	— %
Total special items	3.4%	4.5 %	3.6 %
Non-GAAP operating margin	10.6%	11.1 %	11.5 %
Reconciliation of GAAP net income to non-GAAP net income:			
GAAP net income attributable to ON Semiconductor Corporation	\$ 36.0	\$ 54.1	\$ 55.1
Special items:			
a) Actuarial losses on pension plans and other pension benefits (cost of revenues)	—	(0.8)	—
b) Amortization of acquisition related intangible assets (operating expenses)	23.7	34.6	33.9
c) Actuarial losses on pension plans and other pension benefits (operating expenses)	—	(4.2)	—
d) Restructuring, asset impairments and other, net	1.7	4.8	(2.3)
e) Third party acquisition related costs	2.5	3.3	—
f) Gain on sale of available-for-sale securities	—	—	(3.4)
g) Non-cash interest on convertible notes	6.5	6.3	1.8
h) Adjustment to reflect cash taxes	(0.1)	(19.2)	2.0
Total special items	34.3	24.8	32.0
Non-GAAP net income	\$ 70.3	\$ 78.9	\$ 87.1
Non-GAAP net income per share:			
Basic	\$ 0.17	\$ 0.19	\$ 0.20
Diluted	\$ 0.17	\$ 0.19	\$ 0.20
Weighted average common shares outstanding:			
Basic	412.6	412.5	431.4
Diluted	415.5	416.9	439.9

Certain of the amounts in the above table may not total due to rounding of individual amounts.

Total share-based compensation expense, related to the company's stock options, restricted stock units, stock grant awards and employee stock purchase plan is included below.

	Quarter Ended		
	April 1, 2016	December 31,	April 3, 2015
Cost of revenues	\$ 1.9	\$ 1.9	\$ 1.9
Research and development	2.5	2.2	2.3
Selling and marketing	2.1	1.8	2.2
General and administrative	5.1	4.7	4.9
Total share-based compensation expense	<u>\$ 11.6</u>	<u>\$ 10.6</u>	<u>\$ 11.3</u>

Non-GAAP Measures

To supplement the consolidated financial results prepared under GAAP, ON Semiconductor uses non-GAAP measures which are adjusted from the most directly comparable GAAP results to exclude items related to the amortization of intangible assets, amortization of acquisition-related intangibles, expensing of appraised inventory fair market value step-up, inventory valuation adjustments, purchased in-process research and development expenses, restructuring, asset impairments and other, net, goodwill impairment charges, gains and losses on debt prepayment, non-cash interest expense, their related tax effects, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition related costs, and certain other special items, as necessary. Management does not consider these charges in evaluating the core operational activities of ON Semiconductor. Management uses these non-GAAP measures internally to make strategic decisions, forecast future results and evaluate ON Semiconductor's current performance. In addition, we believe that most analysts covering ON Semiconductor use the non-GAAP measures as well. Given management's and other relevant use of these non-GAAP measures, ON Semiconductor believes these measures are important to investors in understanding ON Semiconductor's current and future operating results as seen through the eyes of management. In addition, management believes these non-GAAP measures are useful to investors in enabling them to better assess changes in ON Semiconductor's core business across different time periods. These non-GAAP measures are not in accordance with or an alternative to GAAP financial data and may be different from non-GAAP measures used by other companies. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures, even if they have similar names.

Non-GAAP Gross Profit and Gross Margin

The use of non-GAAP gross profit and gross margin allows management to evaluate, among other things, the gross margin and gross profit of the company's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally speaking, expensing of appraised inventory fair market value step-up and amortization of intangible assets. In addition, it is an important component of management's internal performance measurement and incentive and reward process as it is used to assess the current and historical financial results of the business, for strategic decision making, preparing budgets, obtaining targets, and forecasting future results. Management presents this non-GAAP financial measure to enable investors and analysts to evaluate our revenue generation performance relative to the direct costs of revenue of ON Semiconductor's core businesses.

Non-GAAP Operating Profit and Operating Margin

The use of non-GAAP operating profit and operating margin allows management to evaluate, among other things, the operating margin and operating profit of the company's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally speaking, expensing of appraised inventory fair market value step-up, amortization of intangible assets, third party acquisition related costs, and restructuring charges. In addition, it is an important component of management's internal performance measurement and incentive and reward process as it is used to assess the current and historical financial results of the business, for strategic decision making, preparing budgets, obtaining targets, and forecasting future results.

Management presents this non-GAAP financial measure to enable investors and analysts to evaluate our revenue generation performance relative to the direct costs of operations of ON Semiconductor's core businesses.

Non-GAAP Net Income and Net Income Per Share

The use of non-GAAP net income and net income per share allows management to evaluate the operating results of ON Semiconductor's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally speaking, the amortization of intangible assets, amortization of acquisition-related intangibles, expensing of appraised inventory fair market value step-up, purchased in-process research and development expenses, restructuring, asset impairments and other, net, goodwill impairment charges, gains and losses on debt prepayment, non-cash interest expense, their related tax effects, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition related costs, and certain other special items, as necessary. In addition, they are important components of management's internal performance measurement and incentive and reward process as they are used to assess the current and historical financial results of the business, for strategic decision making, preparing budgets, obtaining targets, and forecasting future results. Management presents these non-GAAP financial measures to enable investors and analysts to understand the results of operations of ON Semiconductor's core businesses and, to the extent comparable, to compare our results of operations on a more consistent basis against that of other companies in our industry. In periods when the quarterly average stock price per share exceeds \$18.50, the Non-GAAP diluted share count and Non-GAAP net income per share includes the anti-dilutive impact of the company's hedge transactions, issued concurrently with the 1.00% Notes. At an average stock price per share between \$18.50 and \$25.96, the hedging activity offsets the potentially dilutive effect of the 1.00% Notes and warrants.