

ON SEMICONDUCTOR CORPORATION
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
Revenue	\$ 1,386.6	\$ 1,503.1	\$ 1,377.6
Cost of revenue (exclusive of amortization shown below)	872.9	933.4	860.2
Gross profit	513.7	569.7	517.4
Gross margin	37.0%	37.9%	37.6%
Operating expenses:			
Research and development	151.8	162.2	155.2
Selling and marketing	77.1	82.1	77.8
General and administrative	72.9	74.5	70.9
Amortization of acquisition-related intangible assets	25.7	28.4	27.4
Restructuring, asset impairments and other, net	5.6	(3.7)	0.4
Intangible asset impairment	1.2	3.5	—
Total operating expenses	334.3	347.0	331.7
Operating income	179.4	222.7	185.7
Other income (expense), net:			
Interest expense	(31.7)	(32.9)	(31.5)
Interest income	2.5	2.8	0.9
Licensing income	—	3.7	3.8
Other income (expense)	2.1	(7.6)	(2.0)
Other income (expense), net	(27.1)	(34.0)	(28.8)
Income before income taxes	152.3	188.7	156.9
Income tax provision	(38.2)	(22.7)	(16.4)
Net income	114.1	166.0	140.5
Less: Net income attributable to non-controlling interest	—	(0.4)	(0.9)
Net income attributable to ON Semiconductor Corporation	\$ 114.1	\$ 165.6	\$ 139.6
Net income per common share attributable to ON Semiconductor Corporation:			
Basic	\$ 0.28	\$ 0.40	\$ 0.33
Diluted	\$ 0.27	\$ 0.39	\$ 0.31
Weighted average common shares outstanding:			
Basic	410.6	416.9	425.9
Diluted	417.7	420.0	444.2

ON SEMICONDUCTOR CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions)

	March 29, 2019	December 31, 2018	March 30, 2018
Assets			
Cash and cash equivalents	\$ 939.6	\$ 1,069.6	\$ 924.9
Receivables, net	704.0	686.0	696.9
Inventories	1,225.2	1,225.2	1,160.0
Other current assets	177.9	187.0	185.2
Total current assets	3,046.7	3,167.8	2,967.0
Property, plant and equipment, net	2,585.0	2,549.6	2,336.4
Goodwill	932.5	932.5	916.9
Intangible assets, net	539.5	566.4	600.9
Deferred tax assets	238.2	266.2	333.3
Other assets	222.4	105.1	108.6
Total assets	\$ 7,564.3	\$ 7,587.6	\$ 7,263.1
Liabilities, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 583.3	\$ 671.7	\$ 612.0
Accrued expenses and other current liabilities	603.4	659.1	585.8
Current portion of long-term debt	130.8	138.5	747.2
Total current liabilities	1,317.5	1,469.3	1,945.0
Long-term debt	2,639.0	2,627.6	2,084.4
Deferred tax liabilities	54.1	54.8	57.1
Other long-term liabilities	333.0	241.8	225.1
Total liabilities	4,343.6	4,393.5	4,311.6
ON Semiconductor Corporation stockholders' equity:			
Common stock	5.6	5.6	5.5
Additional paid-in capital	3,722.5	3,702.3	3,615.5
Accumulated other comprehensive loss	(43.7)	(37.9)	(34.4)
Accumulated earnings	1,093.7	979.6	491.7
Less: Treasury stock, at cost	(1,579.9)	(1,478.0)	(1,149.9)
Total ON Semiconductor Corporation stockholders' equity	3,198.2	3,171.6	2,928.4
Non-controlling interest	22.5	22.5	23.1
Total stockholders' equity	3,220.7	3,194.1	2,951.5
Total liabilities and stockholders' equity	\$ 7,564.3	\$ 7,587.6	\$ 7,263.1

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

(in millions)

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
Net income	\$ 114.1	\$ 166.0	\$ 140.5
Adjusted for:			
Licensing income	—	(3.7)	(3.8)
R&D costs related to licensing income	—	—	2.8
Restructuring, asset impairments and other, net	5.6	(3.7)	0.4
Intangible asset impairment	1.2	3.5	—
Interest expense	31.7	32.9	31.5
Interest income	(2.5)	(2.8)	(0.9)
Income tax provision	38.2	22.7	16.4
Net income attributable to non-controlling interest	—	(0.4)	(0.9)
Depreciation and amortization	135.8	136.2	119.9
Amortization of fair market value step-up of inventory	—	0.6	—
Adjustment to contingent consideration	—	—	(2.1)
Actuarial losses on pension plans and other pension benefits	—	5.8	—
Third party acquisition and divestiture related costs	3.3	1.5	0.4
Indemnification gain	(4.9)	—	—
Adjusted EBITDA	<u>322.5</u>	<u>358.6</u>	<u>304.2</u>
Increase (decrease):			
Licensing income	—	3.7	3.8
R&D costs related to licensing income	—	—	(2.8)
Restructuring, asset impairments and other, net	(5.6)	3.7	(0.4)
Interest expense	(31.7)	(32.9)	(31.5)
Interest income	2.5	2.8	0.9
Income tax provision	(38.2)	(22.7)	(16.4)
Net income attributable to non-controlling interest	—	0.4	0.9
Amortization of fair market value step-up of inventory	—	(0.6)	—
Adjustment to contingent consideration	—	—	2.1
Actuarial losses on pension plans and other pension benefits	—	(5.8)	—
Third party acquisition and divestiture related costs	(3.3)	(1.5)	(0.4)
Indemnification gain	4.9	—	—
Loss (gain) on sale or disposal of fixed assets	0.4	(1.2)	1.3
Amortization of debt discount and issuance costs	3.2	3.4	3.3
Share-based compensation expense	19.7	18.9	18.4
Non-cash interest on convertible notes	9.1	9.5	8.7
Change in deferred taxes	29.0	(10.7)	7.5
Other	(4.3)	2.0	(1.2)
Changes in operating assets and liabilities	<u>(170.0)</u>	<u>93.4</u>	<u>(71.9)</u>
Net cash provided by operating activities	<u>\$ 138.2</u>	<u>\$ 421.0</u>	<u>\$ 226.5</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment	\$ (157.0)	\$ (132.0)	\$ (99.5)

ON SEMICONDUCTOR CORPORATION
UNAUDITED RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA AND
NET CASH PROVIDED BY OPERATING ACTIVITIES (Continued)

(in millions)

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
Proceeds from sales of property, plant and equipment	—	30.2	5.6
Deposits utilized (made) for purchase of property, plant and equipment	(10.1)	9.7	(11.6)
Purchase of equity interest and assets, net of cash acquired	—	(4.8)	—
Proceeds from divestiture of business, net of cash transferred	—	1.1	—
Other	—	2.2	—
Net cash used in investing activities	<u>\$ (167.1)</u>	<u>\$ (93.6)</u>	<u>\$ (105.5)</u>
Cash flows from financing activities:			
Proceeds for the issuance of common stock under the ESPP	7.4	\$ 6.3	\$ —
Proceeds from exercise of stock options	0.5	1.3	3.6
Payment of tax withholding for RSUs	(26.1)	(2.4)	(18.8)
Repurchase of common stock	(75.0)	(200.3)	—
Proceeds from debt issuance	4.5	7.1	5.3
Repayment of long-term debt	(12.2)	(18.5)	(135.9)
Payment of finance lease obligations	(0.2)	(0.3)	(1.1)
Dividend to non-controlling shareholder	—	(2.2)	—
Net cash used in financing activities	<u>\$ (101.1)</u>	<u>\$ (209.0)</u>	<u>\$ (146.9)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ 1.6</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>\$ (130.0)</u>	<u>\$ 118.6</u>	<u>\$ (24.3)</u>
Cash, cash equivalents and restricted cash, beginning of period	<u>\$ 1,087.1</u>	<u>\$ 968.5</u>	<u>\$ 966.6</u>
Cash, cash equivalents and restricted cash, end of period	<u>\$ 957.1</u>	<u>\$ 1,087.1</u>	<u>\$ 942.3</u>

ON SEMICONDUCTOR CORPORATION

RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES

(in millions, except per share and percentage data)

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
Reconciliation of GAAP gross profit to non-GAAP gross profit:			
GAAP gross profit	\$ 513.7	\$ 569.7	\$ 517.4
Special items:			
a) Expensing of appraised inventory at fair market value step-up	—	0.6	—
Total special items	—	0.6	—
Non-GAAP gross profit	\$ 513.7	\$ 570.3	\$ 517.4
Reconciliation of GAAP gross margin to non-GAAP gross margin:			
GAAP gross margin	37.0%	37.9 %	37.6%
Special items:			
a) Expensing of appraised inventory at fair market value step-up	—%	— %	—%
Total special items	—%	— %	—%
Non-GAAP gross margin	37.0%	37.9 %	37.6%
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:			
GAAP operating expenses	\$ 334.3	\$ 347.0	\$ 331.7
Special items:			
a) Amortization of acquisition-related intangible assets	(25.7)	(28.4)	(27.4)
b) Restructuring, asset impairments and other, net	(5.6)	3.7	(0.4)
c) Intangible asset impairment	(1.2)	(3.5)	—
d) Third party acquisition and divestiture related costs	(3.3)	(1.5)	(0.4)
e) R&D costs related to licensing income	—	—	(2.8)
Total special items	(35.8)	(29.7)	(31.0)
Non-GAAP operating expenses	\$ 298.5	\$ 317.3	\$ 300.7
Reconciliation of GAAP operating income to non-GAAP operating			
GAAP operating income	\$ 179.4	\$ 222.7	\$ 185.7
Special items:			
a) Expensing of appraised inventory at fair market value step-up	—	0.6	—
b) Amortization of acquisition-related intangible assets	25.7	28.4	27.4
c) Restructuring, asset impairments and other, net	5.6	(3.7)	0.4
d) Intangible asset impairment	1.2	3.5	—
e) Third party acquisition and divestiture related costs	3.3	1.5	0.4
f) R&D costs related to licensing income	—	—	2.8
Total special items	35.8	30.3	31.0
Non-GAAP operating income	\$ 215.2	\$ 253.0	\$ 216.7
Reconciliation of GAAP operating margin to non-GAAP operating margin (operating income / revenue):			
GAAP operating margin	12.9%	14.8 %	13.5%
Special items:			
a) Expensing of appraised inventory at fair market value step-up	—%	— %	—%
b) Amortization of acquisition-related intangible assets	1.9%	1.9 %	2.0%
c) Restructuring, asset impairments and other, net	0.4%	(0.2)%	—%
d) Intangible asset impairment	0.1%	0.2 %	—%
e) Third party acquisition and divestiture related costs	0.2%	0.1 %	—%

ON SEMICONDUCTOR CORPORATION

RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)

(in millions, except per share and percentage data)

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
f) R&D costs related to licensing income	—%	— %	0.2%
Total special items	2.6%	2.0 %	2.2%
Non-GAAP operating margin	15.5%	16.8 %	15.7%
Reconciliation of GAAP income before income taxes to non-GAAP income before income taxes:			
GAAP income before income taxes	\$ 152.3	\$ 188.7	\$ 156.9
Special items:			
a) Expensing of appraised inventory at fair market value step-up	—	0.6	—
b) Amortization of acquisition-related intangible assets	25.7	28.4	27.4
c) Restructuring, asset impairments and other, net	5.6	(3.7)	0.4
d) Intangible asset impairment	1.2	3.5	—
e) Third party acquisition and divestiture related costs	3.3	1.5	0.4
f) R&D costs related to licensing income	—	—	2.8
g) Actuarial losses on pension plans and other pension benefits	—	5.8	—
h) Non-cash interest on convertible notes	9.1	9.5	8.7
i) Indemnification gain	(4.9)	—	—
j) Adjustment to contingent consideration	—	—	(2.1)
k) Licensing income	—	(3.7)	(3.8)
Total special items	40.0	41.9	33.8
Non-GAAP income before income taxes	\$ 192.3	\$ 230.6	\$ 190.7
Reconciliation of GAAP net income attributable to ON Semiconductor Corporation to non-GAAP net income attributable to ON Semiconductor Corporation:			
GAAP net income attributable to ON Semiconductor Corporation	\$ 114.1	\$ 165.6	\$ 139.6
Special items:			
a) Expensing of appraised inventory at fair market value step-up	—	0.6	—
b) Amortization of acquisition-related intangible assets	25.7	28.4	27.4
c) Restructuring, asset impairments and other, net	5.6	(3.7)	0.4
d) Intangible asset impairment	1.2	3.5	—
e) Third party acquisition and divestiture related costs	3.3	1.5	0.4
f) R&D costs related to licensing income	—	—	2.8
g) Actuarial losses on pension plans and other pension benefits	—	5.8	—
h) Non-cash interest on convertible notes	9.1	9.5	8.7
i) Indemnification gain	(4.9)	—	—
j) Adjustment to contingent consideration	—	—	(2.1)
k) Licensing income	—	(3.7)	(3.8)
l) Adjustment of income taxes	23.0	14.5	(2.7)
Total special items	63.0	56.4	31.1
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 177.1	\$ 222.0	\$ 170.7
Adjustment of income taxes:			
Tax adjustment for special items (1)	\$ (8.4)	\$ (8.8)	\$ (7.1)
Other non-GAAP tax adjustment (2)	31.0	36.4	4.4
Non-cash impact of U.S. tax reform (3)	—	35.1	—

ON SEMICONDUCTOR CORPORATION

RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)

(in millions, except per share and percentage data)

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
Impact of U.S. tax method changes	—	(48.2)	—
Tax indemnified by third parties	0.4	—	—
Total adjustment of income taxes	\$ 23.0	\$ 14.5	\$ (2.7)
Reconciliation of GAAP diluted share count to non-GAAP diluted share count:			
GAAP diluted share count	417.7	420.0	444.2
Special items:			
a) Dilutive share count attributable to convertible notes	(3.9)	—	(12.6)
Total special items	(3.9)	—	(12.6)
Non-GAAP diluted share count	413.8	420.0	431.6
Non-GAAP diluted earnings per share:			
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 177.1	\$ 222.0	\$ 170.7
Non-GAAP diluted share count	413.8	420.0	431.6
Non-GAAP diluted earnings per share	\$ 0.43	\$ 0.53	\$ 0.40
Reconciliation of net cash provided by operating activities to free cash flow:			
Net cash provided by operating activities	\$ 138.2	\$ 421.0	\$ 226.5
Special items:			
a) Purchase of property, plant and equipment	(157.0)	(132.0)	(99.5)
Total special items	(157.0)	(132.0)	(99.5)
Free cash flow	\$ (18.8)	\$ 289.0	\$ 127.0

- (1) Tax impact of non-GAAP special items (a-k) is calculated using the federal statutory rate of 21% for all periods presented.
- (2) The income tax adjustment primarily represents the use of the net operating loss, non-cash impact of not asserting indefinite reinvestment on earnings of our foreign subsidiaries, deferred tax expense not affecting taxes payable, and non-cash expense (benefit) related to uncertain tax positions.
- (3) Tax impacts of U.S. tax reform legislation, H.R.1, commonly referred to as the "Tax Cuts and Jobs Act," and related provisional impacts recorded pursuant to Staff Accounting Bulletin (SAB) No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act.

Certain of the amounts in the above tables 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.

	Quarters Ended		
	March 29, 2019	December 31, 2018	March 30, 2018
Cost of revenue	\$ 1.9	\$ 1.9	\$ 1.6
Research and development	3.6	3.7	3.2
Selling and marketing	3.8	3.6	3.2
General and administrative	10.4	9.7	10.4
Total share-based compensation expense	\$ 19.7	\$ 18.9	\$ 18.4