

ON SEMICONDUCTOR CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Quarters Ended			Nine Months Ended	
	October 1, 2021	July 2, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Revenue	\$ 1,742.1	\$ 1,669.9	\$ 1,317.3	\$ 4,893.7	\$ 3,808.7
Cost of revenue (exclusive of amortization shown below)	1,021.3	1,029.8	876.1	3,011.6	2,590.5
Gross profit	720.8	640.1	441.2	1,882.1	1,218.2
Gross margin	41.4 %	38.3 %	33.5 %	38.5 %	32.0 %
Operating expenses:					
Research and development	154.5	166.3	156.1	494.4	483.2
Selling and marketing	68.4	76.1	65.3	223.4	207.7
General and administrative	75.7	73.2	62.2	221.3	196.3
Amortization of acquisition-related intangible assets	24.7	24.8	29.6	74.5	91.0
Restructuring, asset impairments and other charges, net	(1.7)	17.5	9.0	58.3	58.0
Intangible asset impairment	—	—	—	2.9	1.3
Total operating expenses	321.6	357.9	322.2	1,074.8	1,037.5
Operating income	399.2	282.2	119.0	807.3	180.7
Other income (expense), net:					
Interest expense	(31.9)	(33.1)	(42.2)	(98.4)	(126.6)
Interest income	0.5	0.2	0.9	1.1	4.3
Loss on debt refinancing and prepayment	—	(26.2)	—	(26.2)	—
Gain on divestiture of business	10.2	—	—	10.2	—
Other income (expense)	(5.8)	(1.1)	0.4	(2.4)	(2.3)
Other income (expense), net	(27.0)	(60.2)	(40.9)	(115.7)	(124.6)
Income before income taxes	372.2	222.0	78.1	691.6	56.1
Income tax (provision) benefit	(61.8)	(37.9)	83.1	(106.8)	90.5
Net income	310.4	184.1	161.2	584.8	146.6
Less: Net income attributable to non-controlling interest	(0.7)	—	(0.6)	(1.1)	(1.4)
Net income attributable to ON Semiconductor Corporation	\$ 309.7	\$ 184.1	\$ 160.6	\$ 583.7	\$ 145.2
Net income per common share attributable to ON Semiconductor Corporation:					
Basic	\$ 0.72	\$ 0.43	\$ 0.39	\$ 1.38	\$ 0.35
Diluted	\$ 0.70	\$ 0.42	\$ 0.38	\$ 1.32	\$ 0.35
Weighted average common shares outstanding:					
Basic	430.6	427.7	410.8	423.8	410.5
Diluted	440.7	443.6	418.3	443.1	414.4

ON SEMICONDUCTOR CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions)

	October 1, 2021	July 2, 2021	December 31, 2020
Assets			
Cash and cash equivalents	\$ 1,389.2	\$ 1,091.1	\$ 1,080.7
Receivables, net	720.0	669.1	676.0
Inventories	1,327.6	1,309.3	1,251.4
Other current assets	205.0	160.4	176.0
Total current assets	3,641.8	3,229.9	3,184.1
Property, plant and equipment, net	2,427.8	2,457.8	2,512.3
Goodwill	1,662.7	1,663.4	1,663.4
Intangible assets, net	390.3	416.3	469.0
Deferred tax assets	382.1	429.9	429.0
Other assets	436.0	397.1	410.2
Total assets	<u>\$ 8,940.7</u>	<u>\$ 8,594.4</u>	<u>\$ 8,668.0</u>
Liabilities, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 599.3	\$ 610.2	\$ 572.9
Accrued expenses and other current liabilities	641.8	643.6	570.0
Current portion of long-term debt	203.0	201.3	531.6
Total current liabilities	1,444.1	1,455.1	1,674.5
Long-term debt	2,910.5	2,907.1	2,959.7
Deferred tax liabilities	46.8	49.8	57.3
Other long-term liabilities	394.9	378.0	418.4
Total liabilities	<u>4,796.3</u>	<u>4,790.0</u>	<u>5,109.9</u>
ON Semiconductor Corporation stockholders' equity:			
Common stock	6.0	6.0	5.7
Additional paid-in capital	4,498.5	4,470.3	4,133.1
Accumulated other comprehensive loss	(48.6)	(52.2)	(57.6)
Accumulated earnings	2,009.2	1,699.5	1,425.5
Less: Treasury stock, at cost	<u>(2,341.4)</u>	<u>(2,339.2)</u>	<u>(1,968.2)</u>
Total ON Semiconductor Corporation stockholders' equity	4,123.7	3,784.4	3,538.5
Non-controlling interest	20.7	20.0	19.6
Total stockholders' equity	<u>4,144.4</u>	<u>3,804.4</u>	<u>3,558.1</u>
Total liabilities and stockholders' equity	<u>\$ 8,940.7</u>	<u>\$ 8,594.4</u>	<u>\$ 8,668.0</u>

ON SEMICONDUCTOR CORPORATION
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

	Quarters Ended			Nine Months Ended	
	October 1, 2021	July 2, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Cash flows from operating activities:					
Net income	\$ 310.4	\$ 184.1	\$ 161.2	\$ 584.8	\$ 146.6
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	149.9	153.1	156.2	456.4	471.3
Loss (gain) on sale and disposal of fixed assets	2.0	—	1.1	2.3	(1.8)
Gain on divestiture of business	(10.2)	—	—	(10.2)	—
Loss on debt refinancing and prepayment	—	26.2	—	26.2	—
Amortization of debt discount and issuance costs	2.9	2.7	3.1	8.0	9.1
Share-based compensation	22.7	29.1	17.5	74.1	51.2
Non-cash interest on convertible notes	7.0	6.0	10.1	17.6	29.4
Non-cash asset impairment charges	3.3	1.4	7.0	10.8	14.2
Intangible asset impairment charges	—	—	—	—	1.3
Change in deferred tax balances	44.2	18.5	(136.8)	39.5	(149.1)
Other	0.2	2.0	3.5	0.2	5.3
Changes in assets and liabilities	(83.5)	64.9	(59.5)	(54.3)	(93.6)
Net cash provided by operating activities	<u>\$ 448.9</u>	<u>\$ 488.0</u>	<u>\$ 163.4</u>	<u>\$ 1,155.4</u>	<u>\$ 483.9</u>
Cash flows from investing activities:					
Purchase of Property, Plant and Equipment ("PP&E")	\$ (93.2)	\$ (104.8)	\$ (61.6)	\$ (275.0)	\$ (267.2)
Deposits and proceeds from sale of PP&E	—	6.4	0.6	6.6	1.5
Deposits utilized (made) for purchase of PP&E	(18.7)	(2.4)	1.8	(21.5)	2.3
Divestiture of business, net of cash transferred	3.4	—	—	3.4	—
Purchase of business, net of cash acquired	—	—	—	—	(4.5)
Purchase of available-for-sale securities	(43.8)	—	—	(43.8)	—
Proceeds from sale or maturity of available-for-sale securities	2.8	—	—	2.8	—
Settlement of purchase price from previous acquisition	—	—	—	—	26.0
Net cash used in investing activities	<u>\$ (149.5)</u>	<u>\$ (100.8)</u>	<u>\$ (59.2)</u>	<u>\$ (327.5)</u>	<u>\$ (241.9)</u>
Cash flows from financing activities:					
Proceeds for the issuance of common stock under the ESPP	\$ 6.2	\$ 5.7	\$ 6.4	\$ 18.5	\$ 17.8
Payment of tax withholding for RSUs	(2.2)	(3.5)	(0.5)	(34.2)	(17.1)
Repurchase of common stock	—	—	—	—	(65.4)
Issuance and borrowings under debt agreements	—	787.3	693.0	787.3	1,858.0
Reimbursement of debt issuance costs	—	2.7	—	2.7	—
Payment of debt issuance costs	(0.3)	(3.5)	(2.2)	(3.8)	(2.2)
Repayment of borrowings under debt agreements	(4.1)	(1,060.6)	(1,204.3)	(1,218.8)	(1,264.6)
Payment for purchase of bond hedges	—	(160.3)	—	(160.3)	—
Proceeds from issuance of warrants	—	93.8	—	93.8	—
Payments related to prior acquisition	(0.7)	(0.2)	(2.8)	(3.0)	(8.3)
Net cash provided by (used in) financing activities	<u>\$ (1.1)</u>	<u>\$ (338.6)</u>	<u>\$ (510.4)</u>	<u>\$ (517.8)</u>	<u>\$ 518.2</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(0.2)	—	0.3	(1.0)	0.4
Net increase in cash, cash equivalents and restricted cash	298.1	48.6	(405.9)	309.1	760.6
Beginning cash, cash equivalents and restricted cash	1,092.5	1,043.9	2,060.7	1,081.5	894.2
Ending cash, cash equivalents and restricted cash	<u>\$ 1,390.6</u>	<u>\$ 1,092.5</u>	<u>\$ 1,654.8</u>	<u>\$ 1,390.6</u>	<u>\$ 1,654.8</u>

ON SEMICONDUCTOR CORPORATION

RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES

(in millions, except per share and percentage data)

	Quarters Ended			Nine Months Ended	
	October 1, 2021	July 2, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Reconciliation of GAAP to non-GAAP gross profit:					
GAAP gross profit	\$ 720.8	\$ 640.1	\$ 441.2	\$ 1,882.1	\$ 1,218.2
Special items:					
a) Non-recurring facility costs	2.5	0.7	—	3.2	—
Total special items	2.5	0.7	—	3.2	—
Non-GAAP gross profit	\$ 723.3	\$ 640.8	\$ 441.2	\$ 1,885.3	\$ 1,218.2
Reconciliation of GAAP to non-GAAP gross margin:					
GAAP gross margin	41.4 %	38.3 %	33.5 %	38.5 %	32.0 %
Special items:					
a) Non-recurring facility costs	0.1 %	— %	— %	0.1 %	— %
Total special items	0.1 %	0.1 %	— %	— %	— %
Non-GAAP gross margin	41.5 %	38.4 %	33.5 %	38.5 %	32.0 %
Reconciliation of GAAP to non-GAAP operating expenses:					
GAAP operating expenses	\$ 321.6	\$ 357.9	\$ 322.2	\$ 1,074.8	\$ 1,037.5
Special items:					
a) Amortization of acquisition-related intangible assets	(24.7)	(24.8)	(29.6)	(74.5)	(91.0)
b) Restructuring, asset impairments and other, net	1.7	(17.5)	(9.0)	(58.3)	(58.0)
c) Intangible asset impairment	—	—	—	(2.9)	(1.3)
d) Third party acquisition and divestiture related costs	(2.4)	(1.4)	—	(4.0)	(0.3)
Total special items	(25.4)	(43.7)	(38.6)	(139.7)	(150.6)
Non-GAAP operating expenses	\$ 296.2	\$ 314.2	\$ 283.6	\$ 935.1	\$ 886.9
Reconciliation of GAAP to non-GAAP operating income:					
GAAP operating income	\$ 399.2	\$ 282.2	\$ 119.0	\$ 807.3	\$ 180.7
Special items:					
a) Non-recurring facility costs	2.5	0.7	—	3.2	—
b) Amortization of acquisition-related intangible assets	24.7	24.8	29.6	74.5	91.0
c) Restructuring, asset impairments and other, net	(1.7)	17.5	9.0	58.3	58.0
d) Intangible asset impairment	—	—	—	2.9	1.3
e) Third party acquisition and divestiture related costs	2.4	1.4	—	4.0	0.3
Total special items	27.9	44.4	38.6	142.9	150.6
Non-GAAP operating income	\$ 427.1	\$ 326.6	\$ 157.6	\$ 950.2	\$ 331.3
Reconciliation of GAAP to non-GAAP operating margin <i>(operating income / revenue):</i>					
GAAP operating margin	22.9 %	16.9 %	9.0 %	16.5 %	4.7 %
Special items:					
a) Non-recurring facility costs	0.1 %	— %	— %	0.1 %	— %
b) Amortization of acquisition-related intangible assets	1.4 %	1.5 %	2.2 %	1.5 %	2.4 %
c) Restructuring, asset impairments and other, net	(0.1)%	1.0 %	0.7 %	1.2 %	1.5 %
d) Intangible asset impairment	— %	— %	— %	0.1 %	— %
e) Third party acquisition and divestiture related costs	0.1 %	0.1 %	— %	0.1 %	— %
Total special items	1.6 %	2.7 %	3.0 %	2.9 %	4.0 %
Non-GAAP operating margin	24.5 %	19.6 %	12.0 %	19.4 %	8.7 %
Reconciliation of GAAP to non-GAAP income before income taxes:					
GAAP income before income taxes	\$ 372.2	\$ 222.0	\$ 78.1	\$ 691.6	\$ 56.1
Special items:					
a) Non-recurring facility costs	2.5	0.7	—	3.2	—
b) Amortization of acquisition-related intangible assets	24.7	24.8	29.6	74.5	91.0
c) Restructuring, asset impairments and other, net	(1.7)	17.5	9.0	58.3	58.0
d) Intangible asset impairment	—	—	—	2.9	1.3

ON SEMICONDUCTOR CORPORATION

RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)

(in millions, except per share and percentage data)

	Quarters Ended			Nine Months Ended	
	October 1, 2021	July 2, 2021	October 2, 2020	October 1, 2021	October 2, 2020
e) Third party acquisition and divestiture related costs	2.4	1.4	—	4.0	0.3
f) Loss on debt refinancing and repayment	—	26.2	—	26.2	—
g) Actuarial losses on pension plans and other pension benefits	5.5	—	—	5.5	—
h) Gain on divestiture of a business	(10.2)	—	—	(10.2)	—
i) Non-cash interest on convertible notes	7.0	6.0	10.1	17.6	29.4
Total special items	30.2	76.6	48.7	182.0	180.0
Non-GAAP income before income taxes	\$ 402.4	\$ 298.6	\$ 126.8	\$ 873.6	\$ 236.1
Reconciliation of GAAP to non-GAAP net income attributable to ON Semiconductor Corporation:					
GAAP net income attributable to ON Semiconductor Corporation	\$ 309.7	\$ 184.1	\$ 160.6	\$ 583.7	\$ 145.2
Special items:					
a) Non-recurring facility costs	2.5	0.7	—	3.2	—
b) Amortization of acquisition-related intangible assets	24.7	24.8	29.6	74.5	91.0
c) Restructuring, asset impairments and other, net	(1.7)	17.5	9.0	58.3	58.0
d) Intangible asset impairment	—	—	—	2.9	1.3
e) Third party acquisition and divestiture related costs	2.4	1.4	—	4.0	0.3
f) Loss on debt refinancing and prepayment	—	26.2	—	26.2	—
g) Non-cash interest on convertible notes	7.0	6.0	10.1	17.6	29.4
h) Actuarial losses on pension plans and other pension benefits	5.5	—	—	5.5	—
i) Gain on divestiture of a business	(10.2)	—	—	(10.2)	—
j) Adjustment of income taxes	40.4	15.1	(97.5)	41.7	(120.4)
Total special items	70.6	91.7	(48.8)	223.7	59.6
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 380.3	\$ 275.8	\$ 111.8	\$ 807.4	\$ 204.8
Adjustment of income taxes:					
Tax adjustment for special items (1)	\$ (6.3)	\$ (16.1)	\$ (10.2)	\$ (38.2)	\$ (37.8)
Impact of the Domestication of non-U.S. IP and related effects (2)	—	—	(110.3)	—	(110.3)
Other non-GAAP tax adjustment (3)	46.7	31.2	23.0	79.9	27.7
Total adjustment of income taxes	\$ 40.4	\$ 15.1	\$ (97.5)	\$ 41.7	\$ (120.4)
Reconciliation of GAAP to non-GAAP diluted shares outstanding:					
GAAP diluted shares outstanding	440.7	443.6	418.3	443.1	414.4
Special items:					
a) Less: dilutive shares attributable to convertible notes	(5.0)	(8.6)	(5.7)	(8.9)	(2.3)
Total special items	(5.0)	(8.6)	(5.7)	(8.9)	(2.3)
Non-GAAP diluted shares outstanding	435.7	435.0	412.6	434.2	412.1
Non-GAAP diluted earnings per share:					
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 380.3	\$ 275.8	\$ 111.8	\$ 807.4	\$ 204.8
Non-GAAP diluted shares outstanding	435.7	435.0	412.6	434.2	412.1
Non-GAAP diluted earnings per share	\$ 0.87	\$ 0.63	\$ 0.27	\$ 1.86	\$ 0.50
Reconciliation of net cash provided by operating activities to free cash flow:					
Net cash provided by operating activities	\$ 448.9	\$ 488.0	\$ 163.4	\$ 1,155.4	\$ 483.9
Special items:					
a) Purchase of property, plant and equipment	(93.2)	(104.8)	(61.6)	(275.0)	(267.2)
Total special items	(93.2)	(104.8)	(61.6)	(275.0)	(267.2)
Free cash flow	\$ 355.7	\$ 383.2	\$ 101.8	\$ 880.4	\$ 216.7

ON SEMICONDUCTOR CORPORATION

RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)

(in millions, except per share and percentage data)

- (1) Tax impact of non-GAAP special items (a-i) is calculated using the federal statutory rate of 21% for all periods presented.
- (2) The Company simplified its corporate structure by repatriating the economic rights of its non-U.S. intellectual property to the United States via domestication of certain foreign subsidiaries (the "Domestication"). The Domestication resulted in a benefit from recognizing certain deferred tax assets, net of deferred tax liabilities, of \$60.4 million. Additionally, the Domestication caused the Company to reassess the full valuation allowance recorded against its U.S. state deferred tax assets. As a result, the Company released approximately \$49.9 million of its valuation allowance recorded against its U.S. state deferred tax assets.
- (3) 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.

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

Total share-based compensation related to restricted stock units, stock grant awards and the employee stock purchase plan is included below:

	Quarters Ended			Nine Months Ended	
	October 1, 2021	July 2, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Cost of revenue	\$ 3.6	\$ 4.9	\$ 3.1	\$ 11.8	\$ 8.5
Research and development	5.4	7.3	4.8	18.4	13.2
Selling and marketing	3.7	4.5	3.4	12.5	9.5
General and administrative	10.0	12.4	6.2	31.4	20.0
Total share-based compensation	\$ 22.7	\$ 29.1	\$ 17.5	\$ 74.1	\$ 51.2

SUPPLEMENTAL FINANCIAL DATA

	Quarters Ended			Nine Months Ended	
	October 1, 2021	July 2, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Net cash provided by operating activities	\$ 448.9	\$ 488.0	\$ 163.4	\$ 1,155.4	\$ 483.9
Free cash flow	355.7	383.2	101.8	880.4	216.7
Cash paid for income taxes	21.4	20.9	5.6	65.1	15.5
Depreciation and amortization	\$ 149.9	\$ 153.1	\$ 156.2	\$ 456.4	\$ 471.3
Less: Amortization of acquisition-related intangible assets	24.7	24.8	29.6	74.5	91.0
Depreciation and amortization (excl. amortization of acquisition-related intangible assets)	\$ 125.2	\$ 128.3	\$ 126.6	\$ 381.9	\$ 380.3

NON-GAAP MEASURES

To supplement the consolidated financial results prepared in accordance with GAAP, onsemi uses certain non-GAAP measures, which are adjusted from the most directly comparable GAAP measures 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, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition and divestiture related costs, tax impact of these items and certain other non-recurring items, as necessary. Management does not consider the effects of these items in evaluating the core operational activities of onsemi. Management uses these non-GAAP measures internally to make strategic decisions, forecast future results and evaluate onsemi's current performance. In addition, the Company believes that most analysts covering onsemi use the non-GAAP measures to evaluate onsemi's performance. Given management's and other relevant use of these non-GAAP measures, onsemi believes these measures are important to investors in understanding onsemi'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 onsemi's core business across different time periods. These non-GAAP measures are not prepared in accordance with, and should not be considered alternatives or necessarily superior 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 Revenue

The use of non-GAAP revenue allows management to evaluate, among other things, the revenue from the Company's core businesses and trends across different reporting periods on a consistent basis, independent of special items. In addition, non-GAAP revenue 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 and 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 the Company's revenue generation performance relative to the direct costs of operations of onsemi's core businesses.

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 non-recurring facility costs. 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 and 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 onsemi's core businesses.

Non-GAAP Operating Income and Operating Margin

The use of non-GAAP operating income and operating margin allows management to evaluate, among other things, the operating margin and operating income 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, non-recurring facility costs, amortization and impairments of intangible assets, third party acquisition and divestiture related costs, restructuring charges and certain other special items as necessary. 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 and 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 the Company's revenue generation performance relative to the direct costs of operations of onsemi's core businesses.

NON-GAAP MEASURES (Continued)

Non-GAAP Net Income Attributable to ON Semiconductor and Non-GAAP Diluted Earnings Per Share

The use of non-GAAP net income attributable to onsemi and non-GAAP diluted earnings per share allows management to evaluate the operating results of onsemi's core businesses and trends across different reporting periods on a consistent basis, independent of non-cash items including, generally, the amortization and impairments of intangible assets, expensing of appraised inventory fair market value step-up, non-recurring facility costs, restructuring, gains and losses on debt prepayment, non-cash interest expense, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition and divestiture related costs, tax indemnification by third parties, tax impact of these items and other non-GAAP adjustments and certain other special items, as necessary. In addition, these items 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 and for strategic decision making, preparing budgets, setting targets and forecasting future results. Management presents these non-GAAP financial measures to enable investors and analysts to understand the results of operations of onsemi's core businesses and, to the extent comparable, to compare our results of operations on a more consistent basis against those of other companies in our industry.

Free Cash Flow

The use of free cash flow allows management to evaluate, among other things, the ability of the Company to make interest or principal payments on its debt. Free cash flow is defined as the difference between cash flow from operating activities and capital expenditures disclosed under investing activities in the consolidated statement of cash flows. Free cash flow is not an alternate to cash flow from operating activities as a measure of liquidity. 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 and 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 onsemi's core businesses.

Non-GAAP Diluted Share Count

The use of non-GAAP diluted share count allows management to evaluate, among other things, the potential dilution due to the outstanding stock options and restricted stock units excluding the dilution from the convertible notes that is covered by hedging activity up to a certain threshold. In periods when the quarterly average stock price per share exceeds \$20.72, the non-GAAP diluted share count includes the anti-dilutive impact of the Company's hedge transactions issued concurrently with the 1.625% convertible notes. As such, at an average stock price per share between \$20.72 and \$30.70, the hedging activity offsets the potentially dilutive effect of the 1.625% convertible notes. In periods when the quarterly average stock price per share exceeds \$52.97, the non-GAAP diluted share count includes the anti-dilutive impact of the Company's hedge transactions issued concurrently with the 0% convertible notes. As such, at an average stock price per share between \$52.97 and \$74.34, the hedging activity offsets the potentially dilutive effect of the 0% convertible notes.