

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	Quarter Ended			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Revenues	\$ 1,261.0	\$ 950.9	\$ 840.3	\$ 3,906.9	\$ 3,495.8
Cost of revenues (exclusive of amortization shown below)	876.5	621.9	560.4	2,610.0	2,302.6
Gross profit	384.5	329.0	279.9	1,296.9	1,193.2
Gross margin	30.5%	34.6%	33.3%	33.2%	34.1%
Operating expenses:					
Research and development	139.8	111.5	91.0	452.3	396.7
Selling and marketing	79.4	56.7	48.3	238.0	204.3
General and administrative	72.2	67.6	45.7	230.3	182.3
Amortization of acquisition-related intangible assets	32.9	24.7	34.6	104.8	135.7
Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
Goodwill and intangible asset impairment	—	—	—	2.2	3.8
Total operating expenses	328.8	282.3	224.4	1,060.8	932.1
Operating income	55.7	46.7	55.5	236.1	261.1
Other income (expense), net:					
Interest expense	(40.9)	(46.7)	(14.9)	(145.3)	(49.7)
Interest income	0.7	1.4	0.3	4.5	1.1
Gain on divestiture of business	—	92.2	—	92.2	—
Loss on modification or extinguishment of debt	—	(6.3)	—	(6.3)	(0.4)
Other	2.7	—	(0.2)	(0.6)	7.7
Other expense, net	(37.5)	40.6	(14.8)	(55.5)	(41.3)
Income before income taxes	18.2	87.3	40.7	180.6	219.8
Income tax benefit (provision)	93.5	(76.7)	14.3	3.9	(10.8)
Net income	111.7	10.6	55.0	184.5	209.0
Less: Net income attributable to non-controlling interest	(0.8)	(0.5)	(0.9)	(2.4)	(2.8)
Net income attributable to ON Semiconductor Corporation	\$ 110.9	\$ 10.1	\$ 54.1	\$ 182.1	\$ 206.2
Net income per common share attributable to ON Semiconductor Corporation:					
Basic	\$ 0.27	\$ 0.02	\$ 0.13	\$ 0.44	\$ 0.49
Diluted	\$ 0.26	\$ 0.02	\$ 0.13	\$ 0.43	\$ 0.48
Weighted average common shares outstanding:					
Basic	417.3	415.8	412.5	415.2	421.2
Diluted	426.9	419.8	416.9	420.0	427.8

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

(in millions)

	December 31, 2016	September 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	\$ 1,028.1	\$ 880.5	\$ 617.6
Receivables, net	629.8	675.1	426.4
Inventories	1,030.2	1,083.1	750.4
Other current assets	181.0	163.7	97.1
Total current assets	2,869.1	2,802.4	1,891.5
Property, plant and equipment, net	2,159.1	2,074.6	1,274.1
Goodwill	930.1	1,000.8	270.6
Intangible assets, net	756.7	778.1	325.8
Deferred tax assets	138.9	50.8	44.5
Other assets	70.5	84.2	63.1
Total assets	<u>\$ 6,924.4</u>	<u>\$ 6,790.9</u>	<u>\$ 3,869.6</u>
Liabilities, Mezzanine Equity, Non-Controlling Interest and Stockholders' Equity			
Accounts payable	\$ 434.0	\$ 407.5	\$ 337.7
Accrued expenses	405.0	429.2	246.2
Deferred income on sales to distributors	109.8	120.6	112.0
Current portion of long-term debt	553.8	540.6	543.4
Total current liabilities	1,502.6	1,497.9	1,239.3
Long-term debt	3,068.5	3,095.7	850.5
Deferred tax liabilities	288.9	248.2	17.3
Other long-term liabilities	186.5	195.1	130.6
Total liabilities	5,046.5	5,036.9	2,237.7
Redeemable 2.625% Notes, Series B	32.9	—	—
Common stock	5.4	5.4	5.3
Additional paid-in capital	3,473.3	3,478.1	3,420.3
Accumulated other comprehensive loss	(50.2)	(38.6)	(42.3)
Accumulated deficit	(527.3)	(638.2)	(709.4)
Less: Treasury stock, at cost	(1,078.0)	(1,076.1)	(1,065.7)
Total ON Semiconductor Corporation stockholders'	1,823.2	1,730.6	1,608.2
Non-controlling interest in consolidated subsidiary	21.8	23.4	23.7
Total stockholders' equity	1,845.0	1,754.0	1,631.9
Total liabilities, mezzanine equity and stockholders'	<u>\$ 6,924.4</u>	<u>\$ 6,790.9</u>	<u>\$ 3,869.6</u>

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

(in millions)

	Quarter Ended			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net income	\$ 111.7	\$ 10.6	\$ 55.0	\$ 184.5	\$ 209.0
Adjusted for:					
Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
Goodwill and intangible asset impairment	—	—	—	2.2	3.8
Interest expense	40.9	46.7	14.9	145.3	49.7
Interest income	(0.7)	(1.4)	(0.3)	(4.5)	(1.1)
Loss on modification or extinguishment of debt	—	6.3	—	6.3	0.4
Gain on sale of available-for-sale securities	—	—	—	—	(5.4)
Income tax (benefit) provision	(93.5)	76.7	(14.3)	(3.9)	10.8
Net income attributable to non-controlling interest	(0.8)	(0.5)	(0.9)	(2.4)	(2.8)
Depreciation and amortization	120.0	83.8	89.8	364.1	357.6
Amortization of fair market value step-up of inventory	55.6	11.9	—	67.5	—
Gain on divestiture of business	—	(92.2)	—	(92.2)	—
Adjustment to contingent consideration	0.8	(1.3)	—	(0.5)	—
Actuarial (gains) losses on pension plans and other pension benefits	10.0	—	(5.0)	10.0	(5.0)
Third party acquisition related costs	3.5	17.8	3.3	25.8	3.5
Adjusted EBITDA*	252.0	180.2	147.3	735.4	629.8
Increase (decrease):					
Restructuring, asset impairments and other, net	(4.5)	(21.8)	(4.8)	(33.2)	(9.3)
Interest expense	(40.9)	(46.7)	(14.9)	(145.3)	(49.7)
Interest income	0.7	1.4	0.3	4.5	1.1
Gain on sale of available-for-sale securities	—	—	—	—	5.4
Income tax benefit (provision)	93.5	(76.7)	14.3	3.9	(10.8)
Net income attributable to non-controlling interest	0.8	0.5	0.9	2.4	2.8
Actuarial gains (losses) on pension plans and other pension benefits	(10.0)	—	5.0	(10.0)	5.0
Amortization of fair market value step-up of inventory	(55.6)	(11.9)	—	(67.5)	—
Third party acquisition related costs	(3.5)	(17.8)	(3.3)	(25.8)	(3.5)
Loss (gain) on sale or disposal of fixed assets	0.9	0.4	0.2	1.5	(3.9)
Amortization of debt discount and issuance costs	4.6	3.4	0.9	12.0	2.8
Write-down of excess inventories	26.1	4.4	14.0	66.2	52.4
Payments for term debt modification	—	(26.4)	—	(26.4)	—
Adjustment to contingent consideration	(0.8)	1.3	—	0.5	—

Non-cash asset impairment charges	0.5	—	—	0.5	0.2
Non-cash share-based compensation expense	14.2	14.2	10.6	56.1	46.9
Non-cash interest on convertible notes	6.4	6.6	6.3	26.0	17.5
Change in deferred taxes	(103.6)	62.3	(9.3)	(38.1)	(9.2)
Other	(1.9)	0.7	2.7	(4.6)	(2.8)
Changes in operating assets and liabilities	50.5	58.6	(13.0)	23.1	(204.1)
Net cash provided by operating activities	<u>\$ 229.4</u>	<u>\$ 132.7</u>	<u>\$ 157.2</u>	<u>581.2</u>	<u>470.6</u>
Cash flows from investing activities:					
Purchases of property, plant and equipment	\$ (49.9)	\$ (35.9)	\$ (66.0)	\$ (210.7)	\$ (270.8)
Proceeds from divestiture of business	—	104.0	—	104.0	—
Proceeds from sales of property, plant and equipment	—	—	0.7	0.4	11.1
Deposits utilized for purchases of property, plant and equipment	(3.1)	(1.3)	(1.6)	(2.2)	(1.4)
Purchase of business, net of cash acquired	(6.8)	(2,277.2)	(21.2)	(2,284.0)	(31.3)
Cash placed in escrow	—	—	21.2	(67.7)	20.4
Cash received from escrow	—	23.8	—	23.8	—
Proceeds from sale of available-for-sale securities	—	—	—	—	5.5
Proceeds from sale of held-to-maturity securities	—	—	0.8	—	2.8
Purchases of held-to-maturity securities	—	—	—	—	(0.8)
Other	—	0.8	—	1.8	—
Net cash used in investing activities	<u>\$ (59.8)</u>	<u>\$ (2,185.8)</u>	<u>\$ (66.1)</u>	<u>\$ (2,434.6)</u>	<u>\$ (264.5)</u>
Cash flows from financing activities:					
Proceeds from issuance of common stock under the employee stock purchase plan	\$ 4.1	\$ 3.9	\$ 3.7	\$ 15.0	\$ 14.6
Proceeds from exercise of stock options	9.8	2.9	2.0	14.9	27.1
Payments of tax withholding for restricted shares	(1.9)	(2.2)	(2.3)	(12.3)	(14.7)
Repurchase of common stock	—	—	(20.0)	—	(348.2)
Proceeds from debt issuance	5.0	2,572.4	8.4	2,586.9	816.5
Purchases of convertible note hedges	—	—	—	—	(108.9)
Proceeds from issuance of warrants	—	—	—	—	52.0
Payments of debt issuance and other financing costs	(0.3)	(3.4)	—	(6.8)	(20.4)
Repayment of long-term debt	(26.2)	(223.6)	(17.1)	(313.8)	(495.5)
Payment of capital lease obligations	(2.7)	(2.8)	(4.8)	(14.9)	(22.3)
Dividend to non-controlling shareholder of consolidated subsidiary	(2.4)	(1.9)	—	(4.3)	—
Net cash provided by (used in) financing activities	<u>\$ (14.6)</u>	<u>\$ 2,345.3</u>	<u>\$ (30.1)</u>	<u>\$ 2,264.7</u>	<u>\$ (99.8)</u>
Effect of exchange rate changes on cash and cash equivalents	\$ (7.4)	\$ 0.2	\$ (0.2)	\$ (0.8)	\$ (0.4)
Net increase in cash and cash equivalents	<u>\$ 147.6</u>	<u>\$ 292.4</u>	<u>\$ 60.8</u>	<u>\$ 410.5</u>	<u>\$ 105.9</u>
Cash and cash equivalents, beginning of period	<u>\$ 880.5</u>	<u>\$ 588.1</u>	<u>\$ 556.8</u>	<u>\$ 617.6</u>	<u>\$ 511.7</u>
Cash and cash equivalents, end of period	<u>\$ 1,028.1</u>	<u>\$ 880.5</u>	<u>\$ 617.6</u>	<u>\$ 1,028.1</u>	<u>\$ 617.6</u>

* 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			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Reconciliation of GAAP gross profit to non-GAAP gross profit:					
GAAP gross profit	\$ 384.5	\$ 329.0	\$ 279.9	\$ 1,296.9	\$ 1,193.2
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits	3.2	—	(0.8)	3.2	(0.8)
b) Expensing of appraised inventory at fair market value step up	55.6	11.9	—	67.5	—
Total special items	58.8	11.9	(0.8)	70.7	(0.8)
Non-GAAP gross profit	<u>\$ 443.3</u>	<u>\$ 340.9</u>	<u>\$ 279.1</u>	<u>\$ 1,367.6</u>	<u>\$ 1,192.4</u>
Reconciliation of GAAP gross margin to non-GAAP gross margin:					
GAAP gross margin	30.5%	34.6%	33.3 %	33.2%	34.1 %
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits	0.3%	—%	(0.1 %)	0.1%	— %
b) Expensing of appraised inventory at fair market value step up	4.4%	1.3%	— %	1.7%	— %
Total special items	4.7%	1.3%	(0.1 %)	1.8%	— %
Non-GAAP gross margin	<u>35.2%</u>	<u>35.9%</u>	<u>33.2 %</u>	<u>35.0%</u>	<u>34.1 %</u>
Reconciliation of GAAP operating expenses to non-GAAP operating					
GAAP operating expenses	\$ 328.8	\$ 282.3	\$ 224.4	\$ 1,060.8	\$ 932.1
Special items:					
a) Amortization of acquisition related intangible assets	(32.9)	(24.7)	(34.6)	(104.8)	(135.7)
b) Actuarial gains (losses) on pension plans and other pension benefits	(6.8)	—	4.2	(6.8)	4.2
c) Restructuring, asset impairments and other, net	(4.5)	(21.8)	(4.8)	(33.2)	(9.3)
d) Goodwill and intangible asset impairments	—	—	—	(2.2)	(3.8)
e) Third party acquisition related costs	(3.5)	(17.8)	(3.3)	(25.8)	(3.5)
Total special items	(47.7)	(64.3)	(38.5)	(172.8)	(148.1)
Non-GAAP operating expenses	<u>\$ 281.1</u>	<u>\$ 218.0</u>	<u>\$ 185.9</u>	<u>\$ 888.0</u>	<u>\$ 784.0</u>

Reconciliation of GAAP operating income to non-GAAP operating income:

GAAP operating income	\$ 55.7	\$ 46.7	\$ 55.5	\$ 236.1	\$ 261.1
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Special items:

a) Actuarial (gains) losses on pension plans and other pension benefits (cost of revenues)	3.2	—	(0.8)	3.2	(0.8)
b) Expensing of appraised inventory at fair market value step up	55.6	11.9	—	67.5	—
c) Amortization of acquisition related intangible assets	32.9	24.7	34.6	104.8	135.7
d) Actuarial (gains) losses on pension plans and other pension benefits (operating expenses)	6.8	—	(4.2)	6.8	(4.2)
e) Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
f) Goodwill and intangible asset impairments	—	—	—	2.2	3.8
g) Third party acquisition related costs	3.5	17.8	3.3	25.8	3.5
Total special items	106.5	76.2	37.7	243.5	147.3
Non-GAAP operating income	\$ 162.2	\$ 122.9	\$ 93.2	\$ 479.6	\$ 408.4

Reconciliation of GAAP operating margin to non-GAAP operating margin (operating income / revenues):

GAAP operating margin	4.4%	4.9%	6.6 %	6.0%	7.5 %
Special items:					
a) Actuarial (gains) losses on pension plans and other pension benefits (cost of revenues)	0.3%	—%	(0.1 %)	0.1%	— %
b) Expensing of appraised inventory at fair market value step up	4.4%	1.3%	— %	1.7%	— %
c) Amortization of acquisition related intangible assets	2.6%	2.6%	4.1 %	2.7%	3.9 %
d) Actuarial (gains) losses on pension plans and other pension benefits (operating expenses)	0.5%	—%	(0.5 %)	0.2%	(0.1 %)
e) Restructuring, asset impairments and other, net	0.4%	2.3%	0.6 %	0.8%	0.3 %
f) Goodwill and intangible asset impairments	—%	—%	— %	0.1%	0.1 %
g) Third party acquisition related costs	0.3%	1.9%	0.4 %	0.7%	0.1 %
Total special items	8.5%	8.0%	4.5 %	6.3%	4.2 %
Non-GAAP operating margin	12.9%	12.9%	11.1 %	12.3%	11.7 %

Reconciliation of GAAP income before income taxes to non-GAAP income before income taxes:

GAAP income before income taxes	18.2	\$ 87.3	\$ 40.7	\$ 180.6	\$ 219.8
Special items:					
a) Actuarial losses (gains) on pension plans and other pension benefits (cost of revenues)	3.2	—	(0.8)	3.2	(0.8)
b) Expensing of appraised inventory at fair market value step up	55.6	11.9	—	67.5	—
c) Amortization of acquisition related intangible assets (operating expenses)	32.9	24.7	34.6	104.8	135.7

d) Actuarial losses (gains) on pension plans and other pension benefits (operating expenses)	6.8	—	(4.2)	6.8	(4.2)
e) Restructuring, asset impairments and other, net	4.5	21.8	4.8	33.2	9.3
f) Goodwill and intangible asset impairments	—	—	—	2.2	3.8
g) Third party acquisition related costs	3.5	17.8	3.3	25.8	3.5
h) Loss on modification or extinguishment of debt	—	6.3	—	6.3	0.4
i) Gain on sale of available-for-sale securities	—	—	—	—	(5.4)
j) Non-cash interest on convertible notes	6.5	6.6	6.3	26.1	17.5
k) Pre-acquisition interest expense, net	—	24.4	—	48.3	—
l) Adjustment to contingent consideration	0.8	(1.3)	—	(0.5)	—
m) Gain on divestiture of business	—	(92.2)	—	(92.2)	—
Total special items	113.8	20.0	44.0	231.5	159.8
Non-GAAP income before income taxes	\$ 132.0	\$ 107.3	\$ 84.7	\$ 412.1	\$ 379.6

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			Year Ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Cost of revenues	\$ 2.0	\$ 2.0	\$ 1.9	\$ 8.0	\$ 7.7
Research and development	2.8	2.9	2.2	11.1	9.2
Selling and marketing	2.6	2.6	1.8	9.8	8.5
General and administrative	6.8	6.7	4.7	27.2	21.5
Total share-based compensation expense	\$ 14.2	\$ 14.2	\$ 10.6	\$ 56.1	\$ 46.9

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, 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 Income Before Income Taxes

The use of non-GAAP income before income taxes 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, 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, actuarial (gains) losses on pension plans and other pension benefits, third party acquisition related costs, 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, 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 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.

Diluted Share Count

In periods when the quarterly average stock price per share exceeds \$18.50, the Non-GAAP diluted share count 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.