

**ON SEMICONDUCTOR CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share and percentage data)

	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue	\$ 2,103.6	\$ 2,192.6	\$ 1,846.1	\$ 8,326.2	\$ 6,739.8
Cost of revenue	1,083.1	1,134.3	1,013.9	4,249.0	4,025.5
Gross profit	1,020.5	1,058.3	832.2	4,077.2	2,714.3
Gross margin	48.5 %	48.3 %	45.1 %	49.0 %	40.3 %
Operating expenses:					
Research and development	136.4	145.4	160.6	600.2	655.0
Selling and marketing	74.2	69.5	70.2	287.9	293.6
General and administrative	97.2	84.9	83.5	343.2	304.8
Amortization of acquisition-related intangible assets	16.1	21.9	24.5	81.2	99.0
Restructuring, asset impairments and other charges, net	(7.7)	40.3	13.1	17.9	71.4
Goodwill and intangible asset impairment	—	271.8	—	386.8	2.9
Total operating expenses	316.2	633.8	351.9	1,717.2	1,426.7
Operating income	704.3	424.5	480.3	2,360.0	1,287.6
Other income (expense), net:					
Interest expense	(27.5)	(23.7)	(32.0)	(94.9)	(130.4)
Interest income	9.1	4.9	0.3	15.5	1.4
Gain (loss) on debt refinancing and prepayment	0.2	—	(2.8)	(7.1)	(29.0)
Gain on divestiture of business	64.9	0.2	—	67.0	10.2
Other income	12.3	0.9	20.4	21.7	18.0
Other income (expense), net	59.0	(17.7)	(14.1)	2.2	(129.8)
Income before income taxes	763.3	406.8	466.2	2,362.2	1,157.8
Income tax provision	(159.0)	(94.9)	(39.8)	(458.4)	(146.6)
Net income	604.3	311.9	426.4	1,903.8	1,011.2
Less: Net income attributable to non-controlling interest	—	—	(0.5)	(1.6)	(1.6)
Net income attributable to ON Semiconductor Corporation	\$ 604.3	\$ 311.9	\$ 425.9	\$ 1,902.2	\$ 1,009.6
Net income per share of common stock attributable to ON Semiconductor Corporation:					
Basic	\$ 1.40	\$ 0.72	\$ 0.99	\$ 4.39	\$ 2.37
Diluted	\$ 1.35	\$ 0.70	\$ 0.96	\$ 4.24	\$ 2.27
Weighted average common shares outstanding:					
Basic	432.2	432.9	431.1	433.2	425.7
Diluted	447.9	448.7	445.3	448.2	443.8

**ON SEMICONDUCTOR CORPORATION**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**

(in millions)

	December 31, 2022	September 30, 2022	December 31, 2021
<b>Assets</b>			
Cash and cash equivalents	\$ 2,919.0	\$ 2,450.2	\$ 1,352.6
Receivables, net	842.3	857.3	809.4
Inventories	1,616.8	1,575.4	1,379.5
Assets held-for-sale	—	135.0	—
Other current assets	351.3	291.5	240.1
Total current assets	5,729.4	5,309.4	3,781.6
Property, plant and equipment, net	3,450.7	2,762.1	2,524.3
Goodwill	1,577.6	1,600.4	1,937.5
Intangible assets, net	359.7	373.8	495.7
Deferred tax assets	376.7	409.9	366.3
Right-of-use financing lease	45.8	46.4	22.3
Other assets	438.6	598.7	498.3
Total assets	\$ 11,978.5	\$ 11,100.7	\$ 9,626.0
<b>Liabilities, Non-controlling Interest and Stockholders' Equity</b>			
Accounts payable	\$ 852.1	\$ 791.7	\$ 635.1
Accrued expenses and other current liabilities	1,047.3	755.1	734.9
Liabilities held-for-sale	—	37.3	—
Current portion of financing lease liabilities	14.2	11.6	12.7
Current portion of long-term debt	147.8	165.3	160.7
Total current liabilities	2,061.4	1,761.0	1,543.4
Long-term debt	3,045.7	3,046.5	2,913.9
Deferred tax liabilities	34.1	30.5	43.2
Long-term financing lease liabilities	23.0	20.6	10.2
Other long-term liabilities	607.3	565.5	510.9
Total liabilities	5,771.5	5,424.1	5,021.6
ON Semiconductor Corporation stockholders' equity:			
Common stock	6.1	6.1	6.0
Additional paid-in capital	4,670.9	4,598.8	4,633.3
Accumulated other comprehensive loss	(23.2)	(23.4)	(40.6)
Accumulated earnings	4,364.4	3,760.1	2,435.1
Less: Treasury stock, at cost	(2,829.7)	(2,685.6)	(2,448.4)
Total ON Semiconductor Corporation stockholders' equity	6,188.5	5,656.0	4,585.4
Non-controlling interest	18.5	20.6	19.0
Total stockholders' equity	6,207.0	5,676.6	4,604.4
Total liabilities and stockholders' equity	\$ 11,978.5	\$ 11,100.7	\$ 9,626.0

**ON SEMICONDUCTOR CORPORATION**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
<b>Cash flows from operating activities:</b>					
Net income	\$ 604.3	\$ 311.9	\$ 426.4	\$ 1,903.8	\$ 1,011.2
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	133.2	139.6	140.3	551.8	596.7
(Gain) loss on sale or disposal of fixed assets	0.5	(16.5)	—	(32.6)	—
Gain on divestiture of businesses	(64.9)	(0.2)	—	(67.0)	(10.2)
(Gain) loss on debt refinancing and prepayment	(0.2)	—	2.8	7.1	29.0
Amortization of debt discount and issuance costs	2.4	2.6	2.7	11.0	10.7
Share-based compensation	24.3	26.9	27.2	100.8	101.3
Non-cash interest on convertible notes	—	—	7.1	—	24.7
Non-cash asset impairment charges	—	11.9	—	18.6	10.8
Goodwill and intangible asset impairment charges	—	271.8	—	386.8	—
Change in deferred tax balances	67.7	(71.3)	22.9	3.1	62.4
Other	(0.5)	(0.7)	1.8	0.1	4.3
Changes in assets and liabilities	(35.5)	326.4	(4.6)	(250.4)	(58.9)
Net cash provided by operating activities	\$ 731.3	\$ 1,002.4	\$ 626.6	\$ 2,633.1	\$ 1,782.0
<b>Cash flows from investing activities:</b>					
Purchase of Property, Plant and Equipment ("PP&E")	\$ (342.0)	\$ (271.1)	\$ (169.6)	\$ (1,005.0)	\$ (444.6)
Deposits and proceeds from sale of PP&E	0.1	20.8	7.4	59.1	14.0
Deposits utilized (made) for purchase of PP&E	22.7	(22.3)	(25.9)	(31.0)	(47.4)
Divestiture of business, net of cash transferred	172.6	—	3.6	263.1	7.0
Purchase of business, net of cash acquired	—	—	(399.4)	(2.4)	(399.4)
Purchase of available-for-sale securities	—	(1.7)	(5.1)	(18.0)	(48.9)
Proceeds from sale or maturity of available-for-sale securities	4.8	10.2	1.4	28.8	4.2
Net cash used in investing activities	\$ (141.8)	\$ (264.1)	\$ (587.6)	\$ (705.4)	\$ (915.1)
<b>Cash flows from financing activities:</b>					
Proceeds for the issuance of common stock under the ESPP	\$ 4.7	\$ 5.7	\$ 5.0	\$ 22.9	\$ 23.5
Payment of tax withholding for RSUs	(10.7)	(4.1)	(4.7)	(78.1)	(38.9)
Repurchase of common stock	(92.9)	(77.2)	—	(259.8)	—
Issuance and borrowings under debt agreements	—	—	—	500.0	787.3
Reimbursement of debt issuance costs	—	—	—	—	2.7
Payment of debt issuance costs	—	—	—	—	(3.8)
Repayment of borrowings under debt agreements	(20.5)	(2.7)	(51.7)	(530.0)	(1,270.5)
Payment for purchase of bond hedges	—	—	—	—	(160.3)
Proceeds from issuance of warrants	—	—	—	—	93.8
Payments related to prior acquisition	(9.2)	—	(0.2)	(9.2)	(3.2)
Payment of finance lease obligations	1.0	(1.6)	—	(11.5)	—
Dividend to non-controlling shareholder	(2.1)	—	—	(4.3)	—
Net cash used in financing activities	\$ (129.7)	\$ (79.9)	\$ (51.6)	\$ (370.0)	\$ (569.4)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	0.8	(0.6)	(0.3)	(2.4)	(1.3)
Net increase (decrease) in cash, cash equivalents and restricted cash	460.6	657.8	(12.9)	1,555.3	296.2
Beginning cash, cash equivalents and restricted cash	2,472.4	1,814.6	1,390.6	1,377.7	1,081.5
Ending cash, cash equivalents and restricted cash	\$ 2,933.0	\$ 2,472.4	\$ 1,377.7	\$ 2,933.0	\$ 1,377.7

**ON SEMICONDUCTOR CORPORATION**  
**RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES**

(in millions, except per share and percentage data)

	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
<b>Reconciliation of GAAP to non-GAAP gross profit:</b>					
GAAP gross profit	\$ 1,020.5	\$ 1,058.3	\$ 832.2	\$ 4,077.2	\$ 2,714.3
Special items:					
a) Non-recurring facility costs	—	—	2.3	—	5.5
b) Impact of business wind down	(3.6)	23.1	—	19.5	—
c) Amortization of acquisition-related intangible assets	1.6	—	—	1.6	—
Total special items	(2.0)	23.1	2.3	21.1	5.5
Non-GAAP gross profit	\$ 1,018.5	\$ 1,081.4	\$ 834.5	\$ 4,098.3	\$ 2,719.8
<b>Reconciliation of GAAP to non-GAAP gross margin:</b>					
GAAP gross margin	48.5 %	48.3 %	45.1 %	49.0 %	40.3 %
Special items:					
a) Non-recurring facility costs	— %	— %	0.1 %	— %	0.1 %
b) Impact of business wind down	(0.2)%	1.1 %	—	0.2 %	—
c) Amortization of acquisition-related intangible assets	0.1 %	— %	— %	0.1 %	— %
Total special items	(0.1)%	1.1 %	0.1 %	0.3 %	0.1 %
Non-GAAP gross margin	48.4 %	49.3 %	45.2 %	49.2 %	40.4 %
<b>Reconciliation of GAAP to non-GAAP operating expenses:</b>					
GAAP operating expenses	\$ 316.2	\$ 633.8	\$ 351.9	\$ 1,717.2	\$ 1,426.7
Special items:					
a) Amortization of acquisition-related intangible assets	(16.1)	(21.9)	(24.5)	(81.2)	(99.0)
b) Restructuring, asset impairments and other, net	7.7	(40.3)	(13.1)	(17.9)	(71.4)
c) Goodwill and intangible asset impairment	—	(271.8)	—	(386.8)	(2.9)
d) Third party acquisition and divestiture related costs	(7.4)	(2.3)	(7.9)	(12.9)	(11.9)
e) Impact of business wind down	—	6.8	—	6.8	—
Total special items	(15.8)	(329.5)	(45.5)	(492.0)	(185.2)
Non-GAAP operating expenses	\$ 300.4	\$ 304.3	\$ 306.4	\$ 1,225.2	\$ 1,241.5
<b>Reconciliation of GAAP to non-GAAP operating income:</b>					
GAAP operating income	\$ 704.3	\$ 424.5	\$ 480.3	\$ 2,360.0	\$ 1,287.6
Special items:					
a) Non-recurring facility costs	—	—	2.3	—	5.5
b) Amortization of acquisition-related intangible assets	17.7	21.9	24.5	82.8	99.0
c) Restructuring, asset impairments and other, net	(7.7)	40.3	13.1	17.9	71.4
d) Goodwill and intangible asset impairment	—	271.8	—	386.8	2.9
e) Third party acquisition and divestiture related costs	7.4	2.3	7.9	12.9	11.9
f) Impact of business wind down	(3.6)	16.3	—	12.7	—
Total special items	13.8	352.6	47.8	513.1	190.7
Non-GAAP operating income	\$ 718.1	\$ 777.1	\$ 528.1	\$ 2,873.1	\$ 1,478.3
<b>Reconciliation of GAAP to non-GAAP operating margin (operating income / revenue):</b>					
GAAP operating margin	33.5 %	19.4 %	26.0 %	28.3 %	19.1 %
Special items:					
a) Non-recurring facility costs	— %	— %	0.1 %	— %	0.1 %
b) Amortization of acquisition-related intangible assets	0.8 %	1.0 %	1.3 %	1.0 %	1.5 %
c) Restructuring, asset impairments and other, net	(0.4)%	1.8 %	0.7 %	0.2 %	1.1 %
d) Goodwill and intangible asset impairment	— %	12.4 %	— %	4.6 %	— %

**ON SEMICONDUCTOR CORPORATION**

**RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)**

(in millions, except per share and percentage data)

	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
e) Third party acquisition and divestiture related costs	0.4 %	0.1 %	0.4 %	0.2 %	0.2 %
f) Impact of business wind down	(0.2)%	0.7 %	— %	0.2 %	— %
Total special items	0.7 %	16.0 %	2.6 %	6.2 %	2.8 %
Non-GAAP operating margin	34.1 %	35.4 %	28.6 %	34.5 %	21.9 %
<b>Reconciliation of GAAP to non-GAAP income before income taxes:</b>					
GAAP income before income taxes	\$ 763.3	\$ 406.8	\$ 466.2	\$ 2,362.2	\$ 1,157.8
Special items:					
a) Non-recurring facility costs	—	—	2.3	—	5.5
b) Amortization of acquisition-related intangible assets	17.7	21.9	24.5	82.8	99.0
c) Restructuring, asset impairments and other, net	(7.7)	40.3	13.1	17.9	71.4
d) Goodwill and intangible asset impairment	—	271.8	—	386.8	2.9
e) Third party acquisition and divestiture related costs	7.4	2.3	7.9	12.9	11.9
f) Impact of business wind down	(3.6)	16.3	—	12.7	—
g) Actuarial gains on pension plans and other pension benefits	(22.0)	—	(22.2)	(22.0)	(16.7)
h) Loss on debt refinancing and prepayment	(0.2)	—	2.8	7.1	29.0
i) Non-cash interest on convertible notes	—	—	7.1	—	24.7
j) Gain on divestiture of businesses	(64.9)	(0.2)	—	(67.0)	(10.2)
Total special items	(73.3)	352.4	35.5	431.2	217.5
Non-GAAP income before income taxes	\$ 690.0	\$ 759.2	\$ 501.7	\$ 2,793.4	\$ 1,375.3
<b>Reconciliation of GAAP to non-GAAP net income attributable to ON Semiconductor Corporation:</b>					
GAAP net income attributable to ON Semiconductor Corporation	\$ 604.3	\$ 311.9	\$ 425.9	\$ 1,902.2	\$ 1,009.6
Special items:					
a) Non-recurring facility costs	—	—	2.3	—	5.5
b) Amortization of acquisition-related intangible assets	17.7	21.9	24.5	82.8	99.0
c) Restructuring, asset impairments and other, net	(7.7)	40.3	13.1	17.9	71.4
d) Goodwill and intangible asset impairment	—	271.8	—	386.8	2.9
e) Third party acquisition and divestiture related costs	7.4	2.3	7.9	12.9	11.9
f) Impact of business wind down	(3.6)	16.3	—	12.7	—
g) Actuarial gains on pension plans and other pension benefits	(22.0)	—	(22.2)	(22.0)	(16.7)
h) Loss on debt refinancing and prepayment	(0.2)	—	2.8	7.1	29.0
i) Non-cash interest on convertible notes	—	—	7.1	—	24.7
j) Gain on divestiture of businesses	(64.9)	(0.2)	—	(67.0)	(10.2)
k) Adjustment of income taxes	49.4	(24.9)	16.6	14.3	58.4
Total special items	(23.9)	327.5	52.1	445.5	275.9
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 580.4	\$ 639.4	\$ 478.0	\$ 2,347.7	\$ 1,285.5
<b>Adjustment of income taxes:</b>					
Tax adjustment for special items (1)	\$ 15.4	\$ (74.0)	\$ (7.5)	\$ (90.6)	\$ (45.7)
Other non-GAAP tax adjustment (2)	34.0	49.1	24.1	104.9	104.1
Total adjustment of income taxes	\$ 49.4	\$ (24.9)	\$ 16.6	\$ 14.3	\$ 58.4
GAAP net income for diluted earnings per share	\$ 604.7	\$ 312.4	\$ 425.9	\$ 1,904.1	\$ 1,009.6
Non-GAAP net income for diluted earnings per share	\$ 580.8	\$ 639.9	\$ 478.0	\$ 2,349.6	\$ 1,285.5

**ON SEMICONDUCTOR CORPORATION**

**RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)**

(in millions, except per share and percentage data)

	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
<b>Reconciliation of GAAP to non-GAAP diluted shares outstanding:</b>					
GAAP diluted shares outstanding	447.9	448.7	445.3	448.2	443.8
Special items:					
a) Less: dilutive shares attributable to convertible notes	(8.0)	(7.9)	(6.9)	(7.0)	(8.6)
Total special items	(8.0)	(7.9)	(6.9)	(7.0)	(8.6)
Non-GAAP diluted shares outstanding	439.9	440.8	438.4	441.2	435.2
<b>Non-GAAP diluted earnings per share:</b>					
Non-GAAP net income attributable to ON Semiconductor Corporation	\$ 580.8	\$ 639.9	\$ 478.0	\$ 2,349.6	\$ 1,285.5
Non-GAAP diluted shares outstanding	439.9	440.8	438.4	441.2	435.2
Non-GAAP diluted earnings per share	\$ 1.32	\$ 1.45	\$ 1.09	\$ 5.33	\$ 2.95
<b>Reconciliation of net cash provided by operating activities to free cash flow:</b>					
Net cash provided by operating activities	\$ 731.3	\$ 1,002.4	\$ 626.6	\$ 2,633.1	\$ 1,782.0
Special items:					
a) Purchase of property, plant and equipment	(342.0)	(271.1)	(169.6)	(1,005.0)	(444.6)
Total special items	(342.0)	(271.1)	(169.6)	(1,005.0)	(444.6)
Free cash flow	\$ 389.3	\$ 731.3	\$ 457.0	\$ 1,628.1	\$ 1,337.4

- (1) Tax impact of non-GAAP special items (a-j) 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.

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.

	(in millions)				
	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Cost of revenue	\$ 3.1	\$ 3.2	\$ 3.8	\$ 12.0	\$ 15.6
Research and development	3.1	4.9	5.8	17.6	24.2
Selling and marketing	4.2	4.1	4.1	16.4	16.6
General and administrative	13.9	14.7	13.5	54.8	44.9
Total share-based compensation	\$ 24.3	\$ 26.9	\$ 27.2	\$ 100.8	\$ 101.3

**ON SEMICONDUCTOR CORPORATION**  
**RECONCILIATION OF GAAP VERSUS NON-GAAP DISCLOSURES (Continued)**

(in millions, except per share and percentage data)

**SUPPLEMENTAL FINANCIAL DATA**

	(in millions)				
	Quarter Ended			Year Ended	
	December 31, 2022	September 30, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Net cash provided by operating activities	\$ 731.3	\$ 1,002.4	\$ 626.6	\$ 2,633.1	\$ 1,782.0
Free cash flow	389.3	731.3	457.0	1,628.1	1,337.4
Cash paid for income taxes	113.7	126.7	23.2	443.2	88.2
Depreciation and amortization	\$ 133.2	\$ 139.6	\$ 140.3	\$ 551.8	\$ 596.7
Less: Amortization of acquisition-related intangible assets	17.7	21.9	24.5	82.8	99.0
Depreciation and amortization (excl. amortization of acquisition-related intangible assets)	\$ 115.5	\$ 117.7	\$ 115.8	\$ 469.0	\$ 497.7

## 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 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, management 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, amortization of acquisition-related intangibles, 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, goodwill and intangible asset impairment charges, 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 Net Income Attributable to onsemi 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, goodwill and intangible asset impairment charges, 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 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

## NON-GAAP MEASURES (Continued)

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.