# Silicon Labs Announces First Quarter 2017 Results

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AUSTIN, Texas, April 26, 2017 /PRNewswire/ -- Silicon Labs (NASDAQ: SLAB), a leading provider of silicon, software and solutions for a smarter, more connected world, today reported financial results for its first quarter ended April 1, 2017. Revenue in the first quarter was at the high end of guidance at $179 million, down from $183 million in the fourth quarter. First quarter GAAP and non-GAAP earnings per share (EPS) were $0.36 and $0.63, respectively.

"We are very pleased with our first quarter 2017 financial results, reflecting solid year-on-year growth in revenue and profitability," said Tyson Tuttle, CEO of Silicon Labs. "Our Internet of Things and Infrastructure businesses now represent nearly 70 percent of revenue targeting large, high-quality, sustainable, and growing markets."

**First Quarter Financial Highlights**

- Internet of Things (IoT) revenue established a new record, increasing to $88 million, up 3% sequentially and 24% year-on-year.
- Infrastructure revenue declined to $36 million, down 3% sequentially and up 14% year-on-year.
- Broadcast revenue declined to $37 million, down 8% sequentially and 3% year-on-year.
- Access revenue declined to $18 million, down 8% sequentially and 15% year-on-year.

On a GAAP basis:

- GAAP gross margin was 58.7%.
- GAAP R&D expenses were $52 million.
- GAAP SG&A expenses were $40 million.
- GAAP operating income as a percentage of revenue was 7.1%.
- GAAP diluted earnings per share was $0.36.

On a non-GAAP basis, and excluding the impact of stock compensation, amortization of acquired intangible assets, amortization of interest expense related to convertible notes, and certain other items as set forth in the reconciliation tables below:

- Non-GAAP gross margin was 59.0%.
- Non-GAAP R&D expenses were $42 million.
- Non-GAAP SG&A expenses were $33 million.
- Non-GAAP operating income as a percentage of revenue was 17.3%.
- Non-GAAP diluted earnings per share was $0.63.

**Product Highlights**

- Announced a major expansion of Silicon Labs' EFR32™ Wireless Gecko multiprotocol SoC portfolio, delivering superior RF performance, enhanced cryptography acceleration, larger memory options, on-chip capacitive touch control, and additional low-power peripherals and sensor interfaces.
- Launched the new EFM32™ Jade and Pearl MCUs, offering new security features, larger memory options, peripheral integration, and ultra-low active and sleep mode currents.
- Launched new Micrium® OS and Platform Builder software to help embedded designers simplify IoT system configuration and accelerate development and time to market.

**Business Highlights**

- Completed a private offering of $400 million of 1.375% convertible senior notes.
- Added Gregg Lowe, a veteran of Freescale and Texas Instruments, to Silicon Labs' board of directors.

**Business Outlook**

The company expects revenue in the second quarter to be in the range of $184 million to $189 million, and also estimates the following:

On a GAAP basis:

- GAAP gross margin at 58.8%.
- GAAP operating expenses at approximately $92 million.
- GAAP effective tax rate at 11%.
- GAAP diluted earnings per share between $0.27 and $0.33.

On a non-GAAP basis, and excluding the impact of stock compensation, amortization of acquired intangible assets, amortization of interest expense related to convertible notes, and certain other items as set forth in the reconciliation tables below:

- Non-GAAP gross margin at 59.0%.
- Non-GAAP operating expenses between $74 million and $75 million.
- Non-GAAP effective tax rate at 11.5%.
- Non-GAAP diluted earnings per share between $0.68 and $0.74.

**Webcast and Conference Call**

A conference call discussing the quarterly results will follow this press release at 7:30 a.m. Central time. An audio webcast will be available on Silicon Labs' website (www.silabs.com) under Investor Relations. A replay will be available after the call at the same website listed above or by calling 1 (855) 859-2056 or (404) 537-3406 (international) and entering conference ID 8459893. The replay will be available through May 26, 2017.

**About Silicon Labs**

Silicon Labs (NASDAQ: SLAB) is a leading provider of silicon, software and solutions for a smarter, more connected world. Our award-winning technologies are shaping the future of the Internet of Things, Internet infrastructure, industrial automation, consumer and automotive markets. Our world-class engineering team creates products focused on performance, energy savings, connectivity and simplicity. www.silabs.com

**Forward-Looking Statements**

This press release contains forward-looking statements based on Silicon Labs' current expectations. The words "believe," "estimate," "expect," "intend," "anticipate," "plan," "project," "will" and similar phrases as they relate to Silicon Labs are intended to identify such forward-looking statements. These forward-looking statements reflect the current views and assumptions of Silicon Labs and are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are the following: risks that Silicon Labs may not be able to maintain its historical growth; quarterly fluctuations in revenues and operating results; difficulties developing new products that achieve market acceptance; dependence on a limited number of products and customers; intellectual property litigation risks; risks associated with acquisitions and divestitures; product liability risks; difficulties managing our distributors, manufacturers and subcontractors; inventory-related risks; difficulties managing international activities; risks that Silicon Labs may not be able to manage strains associated with its growth; credit risks associated with our accounts receivable; dependence on key personnel; stock price volatility; geographic concentration of manufacturers, assemblers, test service providers and customers in Asia that subjects Silicon Labs' business and results of operations to risks of natural disasters, epidemics, war and political unrest; debt-related risks; capital-raising risks; the competitive and cyclical nature of the semiconductor industry; average selling prices of products may decrease significantly and rapidly; information technology risks; cyber-attacks against our products and our networks; conflict mineral risks and other factors that are detailed in the SEC filings of Silicon Laboratories Inc.Silicon Labs disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. References in this press release to Silicon Labs shall mean Silicon Laboratories Inc.

*Note to editors: Silicon Laboratories, Silicon Labs, the "S" symbol, the Silicon Labs logo, Micrium, EFM32 and EFR32 are trademarks of Silicon Laboratories Inc. All other product names noted herein may be trademarks of their respective holders.*

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**Condensed Consolidated Statements of Income**

**(In thousands, except per share data)**

**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | **April 1, 2017** | **April 2, 2016** |
| Revenues | $179,028 | $162,025 |
| Cost of revenues | 73,867 | 66,494 |
| Gross margin | 105,161 | 95,531 |
| Operating expenses: | | |
| Research and development | 52,324 | 49,046 |
| Selling, general and administrative | 40,155 | 39,637 |
| Operating expenses | 92,479 | 88,683 |
| Operating income | 12,682 | 6,848 |
| Other income (expense): | | |
| Interest income | 696 | 271 |
| Interest expense | 198 | (655) |
| Other, net | (120) | (391) |
| Income before income taxes | 13,456 | 6,073 |
| Provision (benefit) for income taxes | (1,970) | 265 |
| Net income | $ 15,426 | $ 5,808 |
| Earnings per share: | | |
| Basic | $ 0.37 | $ 0.14 |
| Diluted | $ 0.36 | $ 0.14 |
| Weighted-average common shares outstanding: | | |
| Basic | 42,096 | 41,629 |
| Diluted | 43,030 | 42,199 |

**Unaudited Reconciliation of GAAP to Non-GAAP Financial Measures**

**(In thousands, except per share data)**

**Non-GAAP Income Statement Items**

**Three Months Ended April 1, 2017**

| | GAAP Measure | GAAP Percent of Revenue | Stock Compensation Expense | Intangible Asset Amortization | Acquisition Related Items | Non-GAAP Measure | Non-GAAP Percent of Revenue |
|---|---|---|---|---|---|---|---|
| Revenues | $179,028 | | | | | | |
| Gross margin | 105,161 | 58.7% | $ 258 | $ -- | $ 124 | $105,543 | 59.0% |
| Research and development | 52,324 | 29.2% | 5,246 | 4,897 | 356 | 41,825 | 23.4% |
| Selling, general and administrative | 40,155 | 22.4% | 4,982 | 1,605 | 816 | 32,752 | 18.3% |
| Operating income | 12,682 | 7.1% | 10,486 | 6,502 | 1,296 | 30,966 | 17.3% |

**Non-GAAP Earnings Per Share**

**Three Months Ended April 1, 2017**

| | GAAP Measure | Stock Compensation Expense* | Intangible Asset Amortization* | Acquisition Related Items* | Interest Expense* | Income Tax Adjustments | Non-GAAP Measure |
|---|---|---|---|---|---|---|---|
| Net income | $15,426 | $10,486 | $6,502 | $1,296 | $(1,228) | $(5,212) | $27,270 |
| Diluted shares outstanding | 43,030 | | | | | | 43,030 |
| Diluted earnings per share | $ 0.36 | | | | | | $ 0.63 |

* Represents pre-tax amounts

**Unaudited Forward-Looking Statements Regarding Business Outlook**

**(In millions, except per share data)**

**Business Outlook**

**Three Months Ending July 1, 2017**

| GAAP Measure | Non-GAAP Adjustments | Non-GAAP Measure |
|---|---|---|

| | | | |
|---|---|---|---|
| Gross margin | 58.8% | 0.2% | 59.0% |
| Operating expenses | $92 | $18 | $74 - $75 |
| Effective tax rate | 11.0% | 0.5% | 11.5% |
| Diluted earnings per share - low | $0.27 | $0.41 | $0.68 |
| Diluted earnings per share - high | $0.33 | $0.41 | $0.74 |

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**Condensed Consolidated Balance Sheets**

**(In thousands, except per share data)**

**(Unaudited)**

| | April 1, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 225,399 | $ 141,106 |
| Short-term investments | 396,327 | 153,961 |
| Accounts receivable, net | 75,852 | 74,401 |
| Inventories | 61,308 | 59,578 |
| Prepaid expenses and other current assets | 54,360 | 61,805 |
| Total current assets | 813,246 | 490,851 |
| Long-term investments | 5,257 | 5,196 |
| Property and equipment, net | 130,635 | 129,559 |
| Goodwill | 288,629 | 276,130 |
| Other intangible assets, net | 103,638 | 103,565 |
| Other assets, net | 58,021 | 76,543 |
| Total assets | $1,399,426 | $1,081,844 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |

| | | |
|---|---|---|
| Accounts payable | $ 43,781 | $ 39,577 |
| Accrued expenses | 47,416 | 50,100 |
| Deferred income on shipments to distributors | 49,700 | 45,568 |
| Income taxes | 4,396 | 4,450 |
| Total current liabilities | 145,293 | 139,695 |
| Long-term debt | -- | 72,500 |
| Convertible debt | 332,502 | -- |
| Other non-current liabilities | 42,797 | 42,691 |
| Total liabilities | 520,592 | 254,886 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock - $0.0001 par value; 10,000 shares authorized; no shares issued and outstanding | -- | -- |
| Common stock - $0.0001 par value; 250,000 shares authorized; 42,348 and 41,889 shares issued and outstanding at April 1, 2017 and December 31, 2016, respectively | 4 | 4 |
| Additional paid-in capital | 59,714 | 24,463 |
| Retained earnings | 819,641 | 801,999 |
| Accumulated other comprehensive income (loss) | (525) | 492 |
| Total stockholders' equity | 878,834 | 826,958 |
| Total liabilities and stockholders' equity | $1,399,426 | $1,081,844 |

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**Condensed Consolidated Statements of Cash Flows**

**(In thousands)**

**(Unaudited)**

| | **Three Months Ended** | |
|---|---|---|
| | **April 1, 2017** | **April 2, 2016** |
| **Operating Activities** | | |
| Net income | $ 15,426 | $ 5,808 |

| | | |
|---|---|---|
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation of property and equipment | 3,596 | 3,310 |
| Amortization of other intangible assets and other assets | 6,752 | 7,980 |
| Amortization of debt discount and debt issuance costs | 869 | -- |
| Stock-based compensation expense | 10,486 | 10,344 |
| Income tax benefit (shortfall) from stock-based awards | -- | (1,025) |
| Excess income tax benefit from stock-based awards | -- | (6) |
| Deferred income taxes | (4,059) | (38) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,252) | (990) |
| Inventories | (1,636) | 4,580 |
| Prepaid expenses and other assets | 6,708 | 9,159 |
| Accounts payable | 5,565 | 1,559 |
| Accrued expenses | (3,889) | 6,260 |
| Deferred income on shipments to distributors | 4,038 | 5,558 |
| Income taxes | 945 | 494 |
| Other non-current liabilities | (1,536) | (10,584) |
| Net cash provided by operating activities | 42,013 | 42,409 |
| **Investing Activities** | | |
| Purchases of available-for-sale investments | (267,777) | (44,547) |
| Sales and maturities of available-for-sale investments | 25,595 | 46,654 |
| Purchases of property and equipment | (4,543) | (2,303) |
| Purchases of other assets | (1,446) | (1,107) |
| Acquisition of business, net of cash acquired | (13,658) | -- |
| Net cash used in investing activities | (261,829) | (1,303) |
| **Financing Activities** | | |
| Proceeds from issuance of long-term debt, net | 390,000 | -- |
| Payments on debt | (72,500) | (2,500) |
| Repurchases of common stock | -- | (18,484) |

| | | |
|---|---|---|
| Payment of taxes withheld for vested stock awards | (13,553) | (7,517) |
| Proceeds from the issuance of common stock | 162 | -- |
| Net cash provided by (used in) financing activities | 304,109 | (28,501) |
| Increase in cash and cash equivalents | 84,293 | 12,605 |
| Cash and cash equivalents at beginning of period | 141,106 | 114,085 |
| Cash and cash equivalents at end of period | $225,399 | $126,690 |

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