

# Exar Corporation

Solutions for a Connected World



## Q2 Fiscal 2015 Earnings Release

November 5, 2014



# Safe Harbor Statement and Notice to Investors

## Forward-Looking Statements

Except for historical information contained herein, this press release and matters discussed on the conference call contain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In particular, the statements regarding the demand for our products and the anticipated trends in our sales and profits are forward-looking statements. The forward-looking statements are dependent on certain risks and uncertainties. Therefore, actual outcomes and results may differ materially from what is expressed herein. The Company urges investors to review in detail the risks and uncertainties and other factors described in its Securities and Exchange Commission, or SEC, filings, including, but not limited to, under the captions "Risk Factors", "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of our public reports filed with the SEC, including our Annual Report on Form 10-K for the fiscal year ended March 30, 2014 and the Quarterly Reports on Form 10-Q for the quarterly period ending June 29, 2014, which are on file with the SEC and are available on our Investor webpage and on the SEC website at [www.sec.gov](http://www.sec.gov). The Company assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

## Generally Accepted Accounting Principles

The Company's non-GAAP measures exclude charges related to stock-based compensation, amortization of acquired intangible assets and inventory step-up, impairment charges, restructuring charges and exit costs, provisions for dispute resolutions, merger and acquisition and related integration costs, the write-down of deferred revenue under business combination accounting, certain income tax benefits and credits, certain warranty charges, net change in the fair value of contingent consideration, and related income tax effects on certain excluded items. The Company excludes these items primarily because they are significant special expense and gain estimates, which management separates for consideration when evaluating and managing business operations. The Company's management uses non-GAAP net income and non-GAAP earnings per share to evaluate its current operating results and financial results and to compare them against historical financial results. Additionally, we disclose below the non-GAAP measure of free cash flow, which is derived from our net cash provided (used) by operations, less purchases of fixed assets and IP, plus proceeds from the sale of IP. Management believes these non-GAAP measures are useful to investors because they are frequently used by securities analysts, investors and other interested parties in evaluating the Company and provides further clarity on its profitability. In addition, the Company believes that providing investors with these non-GAAP measurements enhances their ability to compare the Company's business against that of its many competitors who employ and disclose similar non-GAAP measures. This financial measure may be different from non-GAAP methods of accounting and reporting used by the Company's competitors to the extent their non-GAAP measures include or exclude other items. The presentation of this additional information should not be considered a substitute for net income or net income per diluted share or other measures prepared in accordance with GAAP.



# Q2 Fiscal 2015 Financial Highlights

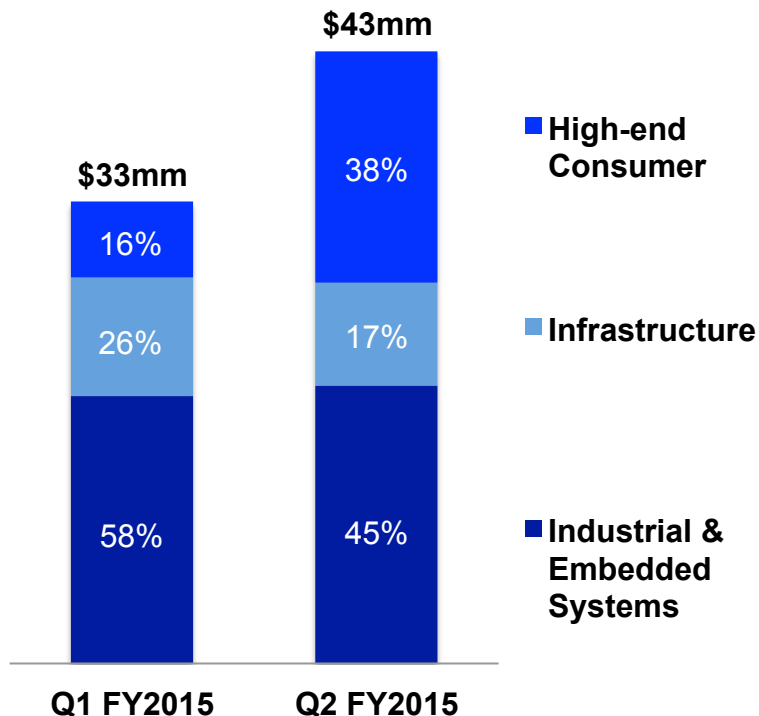
- Record revenue of \$43.3M above original expectations of \$40-43M
  - Revenue grew 33% sequentially
  - Revenue grew 27% year over year
- Non-GAAP GM of 47% at lower end of expected range of 47% to 50%
  - Record non-GAAP gross profit of \$20.3M
- Non-GAAP Op Inc. of \$2.5M at upper end of expected range of \$1.0-3.0M
- Non-GAAP EPS of \$0.05 at upper end of expected range of \$0.02 to \$0.06
- Restructuring and M&A costs resulted in \$4.5M of one-time cash charges
  - Current Headcount 349 with Operations in Silicon Valley; Eatontown, NJ; Hsinchu, Taiwan; Taipei, Taiwan; Seoul, South Korea

# Exar End Markets

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- Industrial & Embedded (I&E)
  - Embedded systems and factory automation
  - Video surveillance
  - Automotive
  - Medical
- High-end Consumer (HeC)
  - Display products for LCDTV and tablets
  - LED lighting
  - Cable modem / set top boxes
- Infrastructure
  - Combination of former Networking & Storage and Comm Infrastructure segments
  - Enterprise hardware: servers, routers, gateways, etc.

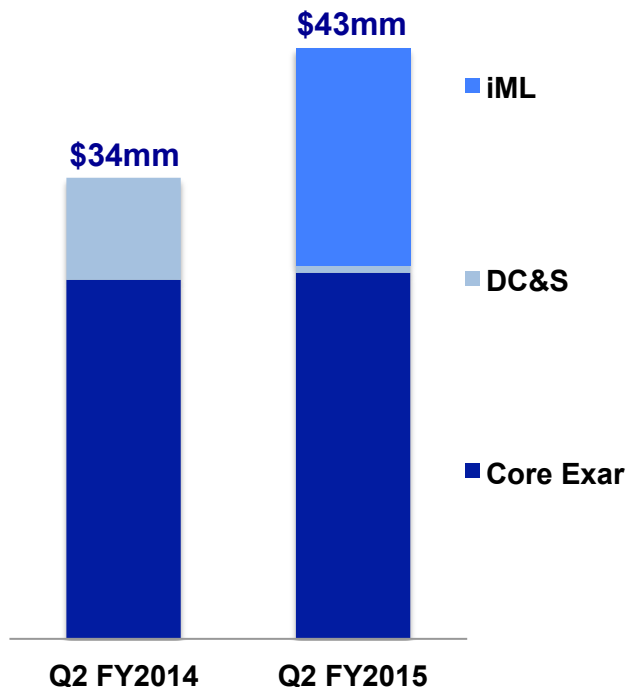
# Q/Q Growth in I&E and HeC Offsets Infrastructure



\* Networking & Storage and Communications Infrastructure are now combined into Infrastructure

- I&E grew 4.2% sequentially
  - Power revenue grew 7% Q/Q
  - Connectivity products grew 7% Q/Q
  - Active Video/Surveillance Pipeline
- HeC above internal expectations
  - Continued strength in LCD TV FPD
  - Tablet design wins accelerating
  - LED lighting considerable growth off low base
- Infrastructure fell 13% sequentially
  - Big data migration to open platforms materially impacting DC&S revenue
  - Active Hadoop Pipeline

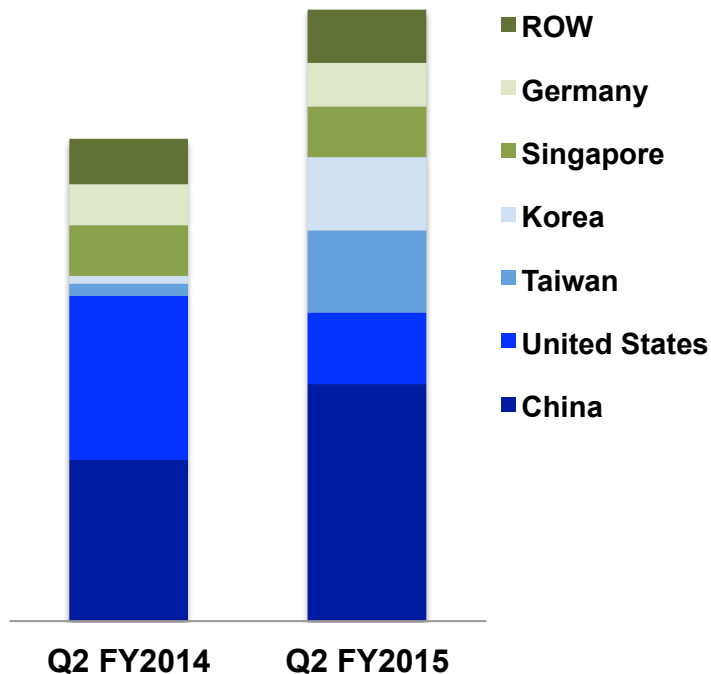
# Q2 Fiscal 2015 Performance vs. Last Year



\* Core Exar includes Connectivity, HPA, Power, AMS and Processor revenue

- Exar total revenue grew 27% Y/Y
- Core Exar revenue grew modestly Y/Y
  - Strength in Connectivity
  - Power gaining traction with new products
  - Video surveillance strong backlog
- iML a major strategic asset
  - Opening up new Asian channel opportunities
  - PMIC integrated display products
  - LED lighting ramping
- Infrastructure dropped 54% Y/Y
  - DC&S suffered setback as big data migrated to open platforms
  - Panther II introduction addresses open system requirements

# Geographic Presence Broadening



- China grew 48% Y/Y
  - iML opened major channel opportunity
  - Cross selling other products into China
- US dropped 57% Y/Y
  - DC&S overstates this drop
  - New product traction in America is strong
- Expanding Asian and European Sales and FAE Presence
  - Added beachheads in Taiwan & Korea
  - Multiple salespeople to be added Germany
  - Opportunity to expand upon momentum

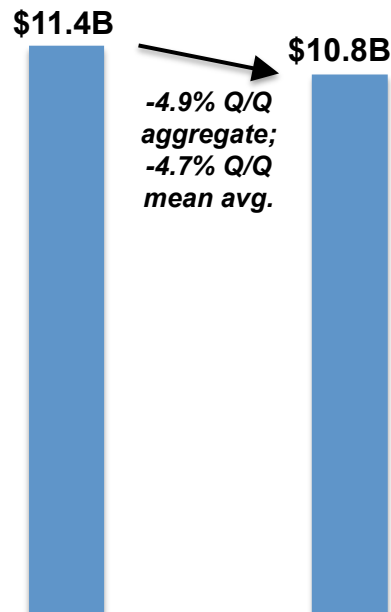
# Strategy for Next Phase of Growth in Fiscal 2016

- Core: Connectivity, Power, HPA & AMS ripe for improvement
  - Invest and/or prune in specific parts and channels organically
  - Inorganically find complementary product opportunities
- Reduced overhead to realign resource allocation
  - Headcount reductions in select areas
  - New hires and open REQs out for incremental salespeople and FAEs
- Systems opportunities remain
  - Invest in surveillance (CVI) as pipeline is active
    - › Product launch in Q3
  - Seek out strategic product lines that augment this area
- DC&S investment dialed down
  - Remains a revenue wild card further out



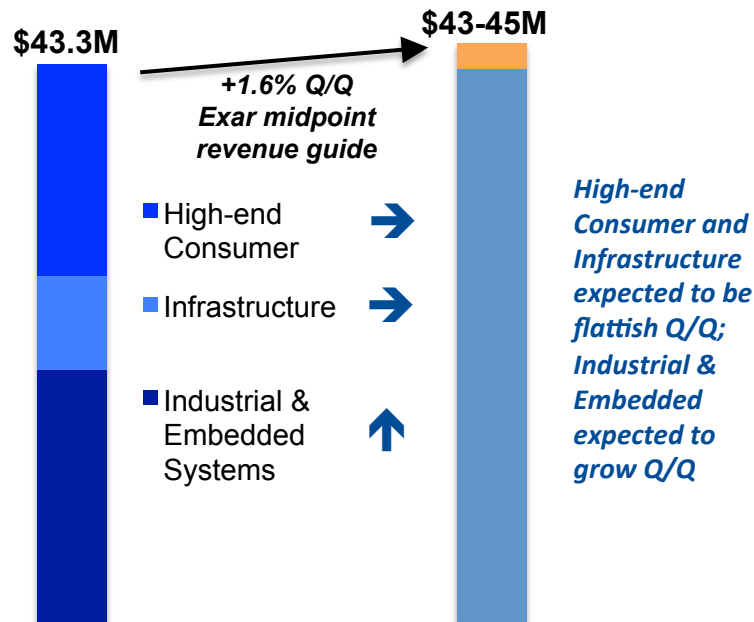
# Q3 Fiscal 2015 Guidance

## Peer Group Revenue Guidance



SepQ 2014 Actual    DecQ 2014 Estimate

## Exar Revenue Guidance & Segment Bias



Q2 FY2015

Q3 FY2015 Guide

\* Peer group consists of CY, FCS, FSL, ISIL, LLTC, MXIM, MCHP, MCRL, MPWR, NXPI, ONNN, PSEM, POWI, SLAB, STM & TXN.



# Exar Highlights and Summary

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- Record revenue and gross profit marks a new milestone
- Core Exar product portfolio is intact with expanding channels
- New cross selling opportunities across multiple products and geographies
- Restructuring provides an opportunity to invest in growth areas
- December FYQ3 revenue expectation of \$43M-\$45M
- December FYQ3 non-GAAP EPS expectation of \$0.04-\$0.06

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# Q & A