



Exar Corporation
Q2 Fiscal 2017 Financial Results

November 2, 2016

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, including statements regarding the sale of the Company’s iML subsidiary to Beijing E-Town Chipone Technology Co., Ltd., including the expected timing of the closing of that transaction and the expected gain to be recognized by the Company from that transaction, and the Company’s financial outlook expectations for the third quarter ending January 1, 2017. 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. Therefore, actual outcomes and results may differ materially from what is expressed herein. For a discussion of these risks and uncertainties, the Company urges investors to review in detail the risks and uncertainties and other factors described in its Securities and Exchange Commission (SEC) filings, including, but not limited to, the “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 filed with the SEC on May 27, 2016 and our Form 10-Q filed with the SEC on August 10, 2016, and available on our Investor webpage and on the SEC website at www.sec.gov.

Generally Accepted Accounting Principles

The Company’s non-GAAP measures exclude charges related to stock-based compensation, amortization of acquired intangible assets, impairment charges, initial gain upon closing sale-leaseback of our corporate headquarters, restructuring charges and exit costs which include costs for personnel whose positions have been eliminated as part of a restructuring or are in the process of being eliminated as part of the discontinuation of a product line, severance costs associated with the former CEO, accruals for and proceeds received from dispute resolutions and patent litigation, merger and acquisition and related integration costs, certain income tax benefits and credits, 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 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 fixed assets and 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.

Unless otherwise indicated, all non-GAAP financial results exclude the financial results of the iML Display business which the Company is in the process of divesting, and are presented in the GAAP results as discontinued operations.

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 competitors who employ and disclose similar non-GAAP measures. However, the manner in which we calculate these non-GAAP financial measures 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 material limitation associated with the use of the non-GAAP financial measures is that the non-GAAP measures may not reflect the full economic impact of Exar’s activities. Accordingly, investors are cautioned not to place undue reliance on non-GAAP information. 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.

Investors should refer to the reconciliation of Non-GAAP Results to GAAP Results, which is contained in our press release.

Q2FY17 Earnings Call

- **Ryan Benton**
Chief Executive Officer
- **James Lougheed**
SVP World-wide Sales & Marketing
- **Keith Tainsky**
Chief Financial Officer

Exar's Vision: Exar strives to be the most responsive analog and mixed-signal solutions provider by leveraging our broad portfolio, experience, and IP to enable the world's leading electronic manufacturers to connect and power their next generation products in target markets where operational excellence and reliability are valued.



Exar Corporation Q2FY17 Earnings Call

Agenda

Introduction and
Opening Remarks

Sales & Marketing
Update

Q&A

Financial
Review

Concluding
Remarks



Q2FY17 Earnings Call

Introduction and Opening Remarks

Ryan Benton
Chief Executive Officer

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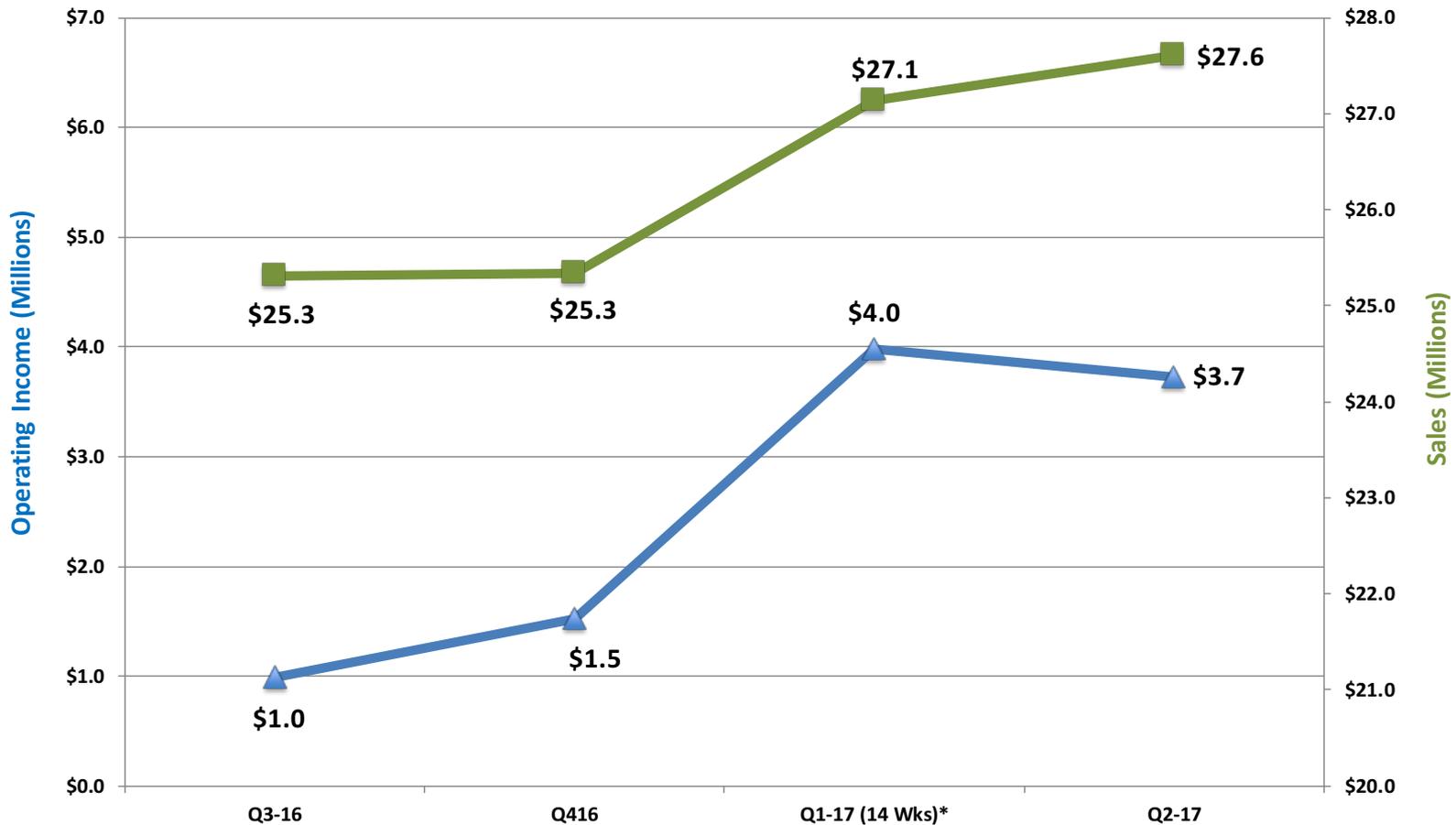
We Are Continuing to Execute

- ✓ **Exar Continuing Operations Executed as Planned Q2-17**
 - ✓ Revenue grew 2% sequentially and 10% on a per week basis sequentially.*
 - ✓ Advanced Revenue was flat and grew 7% sequentially on a per week basis.*
 - ✓ Continued Hiring in Asia Centers of Excellence for Operations and Engineering.
 - ✓ EPS flat sequentially at \$0.08 despite one less work week.
 - ✓ Cash balance of \$96.4M at end of Q2.
- ✓ **The Sale of iML is on Schedule**
 - ✓ CFIUS Approval Received in the US.
 - ✓ Taiwan Approval Received.
 - ✓ Expected to Close within a few weeks.
 - ✓ Estimated \$45 - 50 million gain (to be recorded as discontinued operations).

* Q1-17 had 14 calendar weeks. Q2-17 had the customary 13 weeks.



Sales and Non-GAAP Operating Income (Continuing Operations)



* Q1-17 had 14 calendar weeks. Q2-17 had the customary 13 weeks.



Q2FY17 Earnings Call



Financial Review

Keith Tainsky
Chief Financial Officer



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Financial Highlights (Continuing Operations)

	Q2FY17 (Sept-16)	Q1FY17* (June-16)	Q/Q Change		Q3FY17 Guidance (Dec-16)	Quarterly Target Model
Revenue	\$27.6M	\$27.1M	2%	↑	\$27.1M +/- \$0.5M	\$40M
GM%	51.9%	51.8%	7 bps	↑	52.5% +/- 1%	55%
Opex.	\$10.6M	\$10.1M	5%	↑	\$10.8M +/- \$0.2M	35%
Oper. Income	\$3.7M	\$4.0M	(6%)	↓	\$2.8M to \$4.3M	20%
EPS	\$0.08	\$0.08	(3%)	↓	\$0.06 to \$0.08	\$0.15

Q2-FY17 Comments

- **Quarterly Revenue** up 10% on per week basis (14 wk to 13 wk), driven by increase in industrial & automotive markets.
- **Quarterly Gross Margin** was flat as continued realization of COGS reductions was offset by less favorable product mix.
- **OPEX** included annual merit increases, additional headcount, and increased rent expense from sale-leaseback of Fremont facility.

* Q1 Fiscal Year 2017 included 14 weeks, as opposed to 13 weeks.

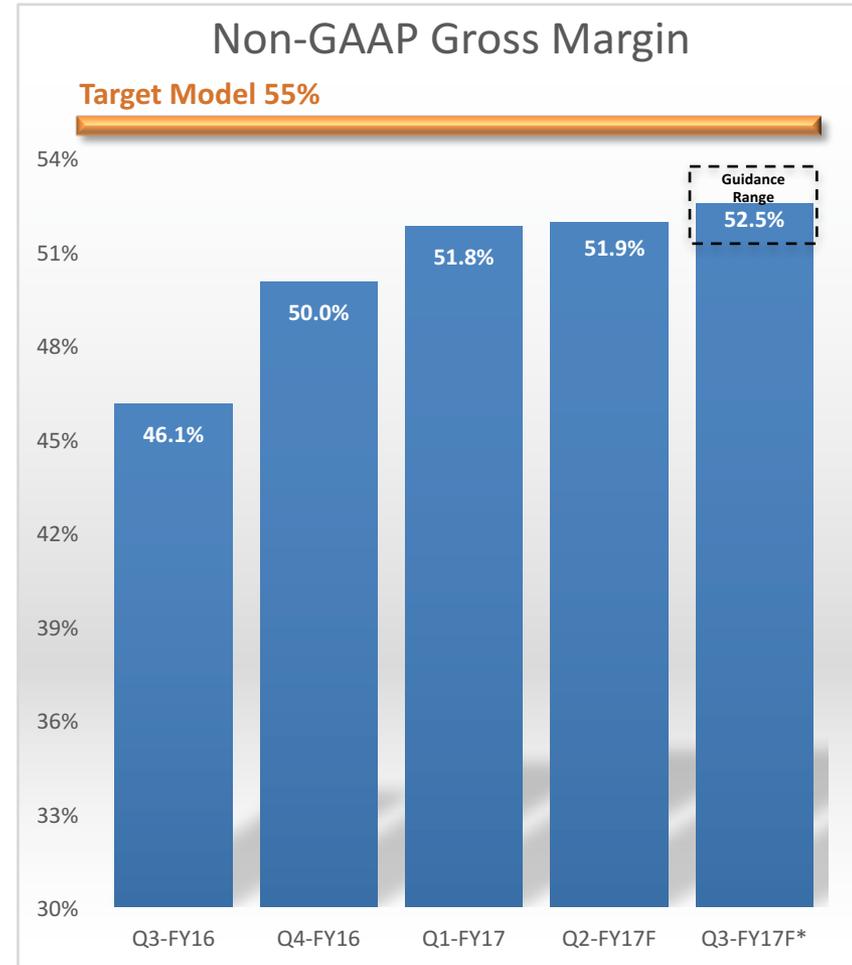
Q3-FY17 Guidance Comments

- **Quarterly Revenue** expected to be down on softness in industrial market and due to delay of expected product ramps at several key customers in infrastructure markets.
- **Quarterly Gross Margin** expected to continue improvements from manufacturing cost reduction realization.
- **Quarterly OPEX** expected to continue growth due to hiring of additional sales and engineering resources.



Margin Improvement Progress Continues

- Started transformation in Q4'16
- China back-end up to 50% at end of Q2'17. Still expected to grow to >70% by end of FY'17.
- Front-end strategy planning now underway
- Cumulative quarterly savings \$2.1M
- New target is to exceed \$3M in quarterly savings by end of FY'17



*Midpoint of Guidance Range

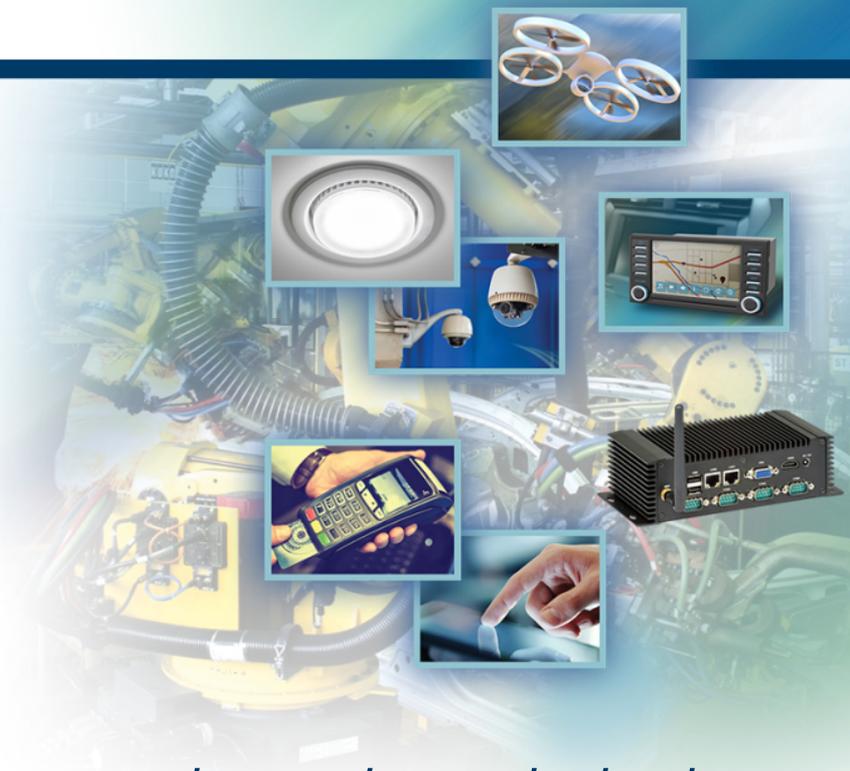


Q2FY17 Earnings Call

Sales and Marketing Update

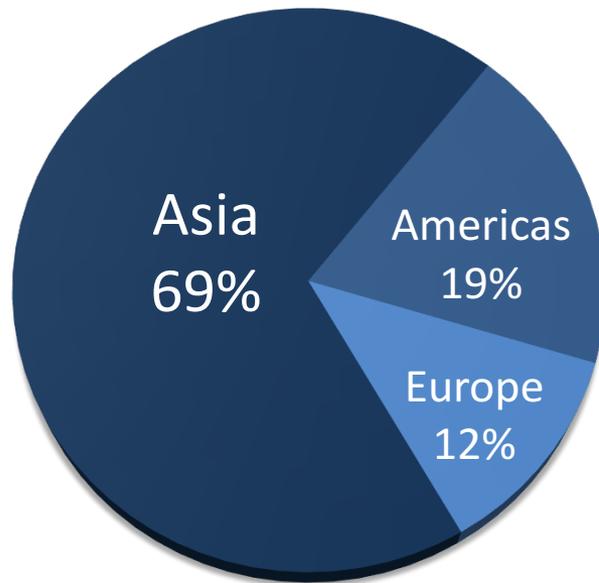
James Lougheed
SVP Sales & Marketing

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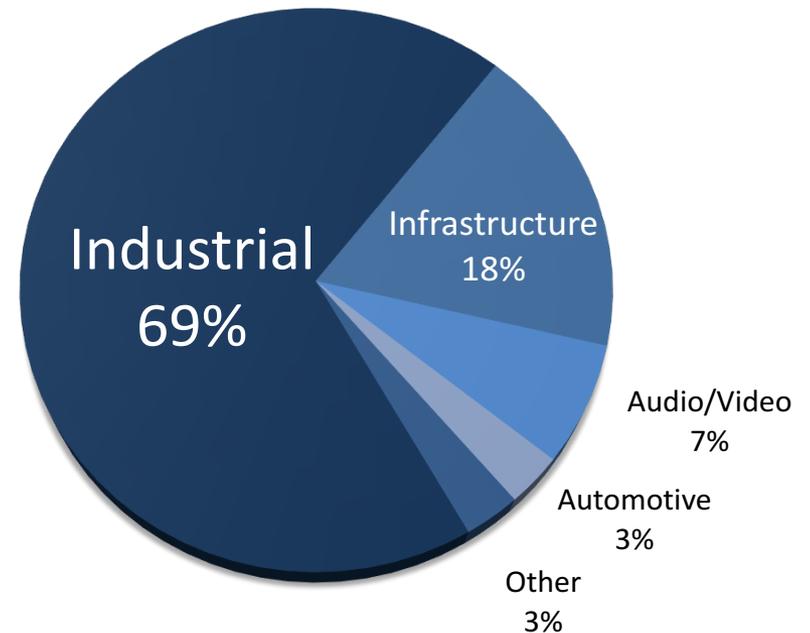


Fiscal 2017 Q2 \$27.6M Sales Up 2% Q/Q*

Sales by Geography (Continuing Operations)



Sales by End Market (Continuing Operations)



* Q1-17 had 14 calendar weeks. Q2-17 had the customary 13 weeks.



Sales by End Market

	Q2FY17 (Sept-16)	% Sales	Q1FY17* (June-16)	% Sales		Q/Q Change
Total Revenue	\$27.6M	100%	\$27.1M	100%		2%
Industrial	\$19.0M	69%	\$18.4M	67%		3%
Infrastructure	\$5.1M	18%	\$5.6M	21%		(9%)
Audio/Video	\$1.8M	7%	\$1.9M	7%		(1%)
Automotive	\$1.0M	3%	\$0.8M	3%		23%
Other	\$0.7M	3%	\$0.5M	2%		47%

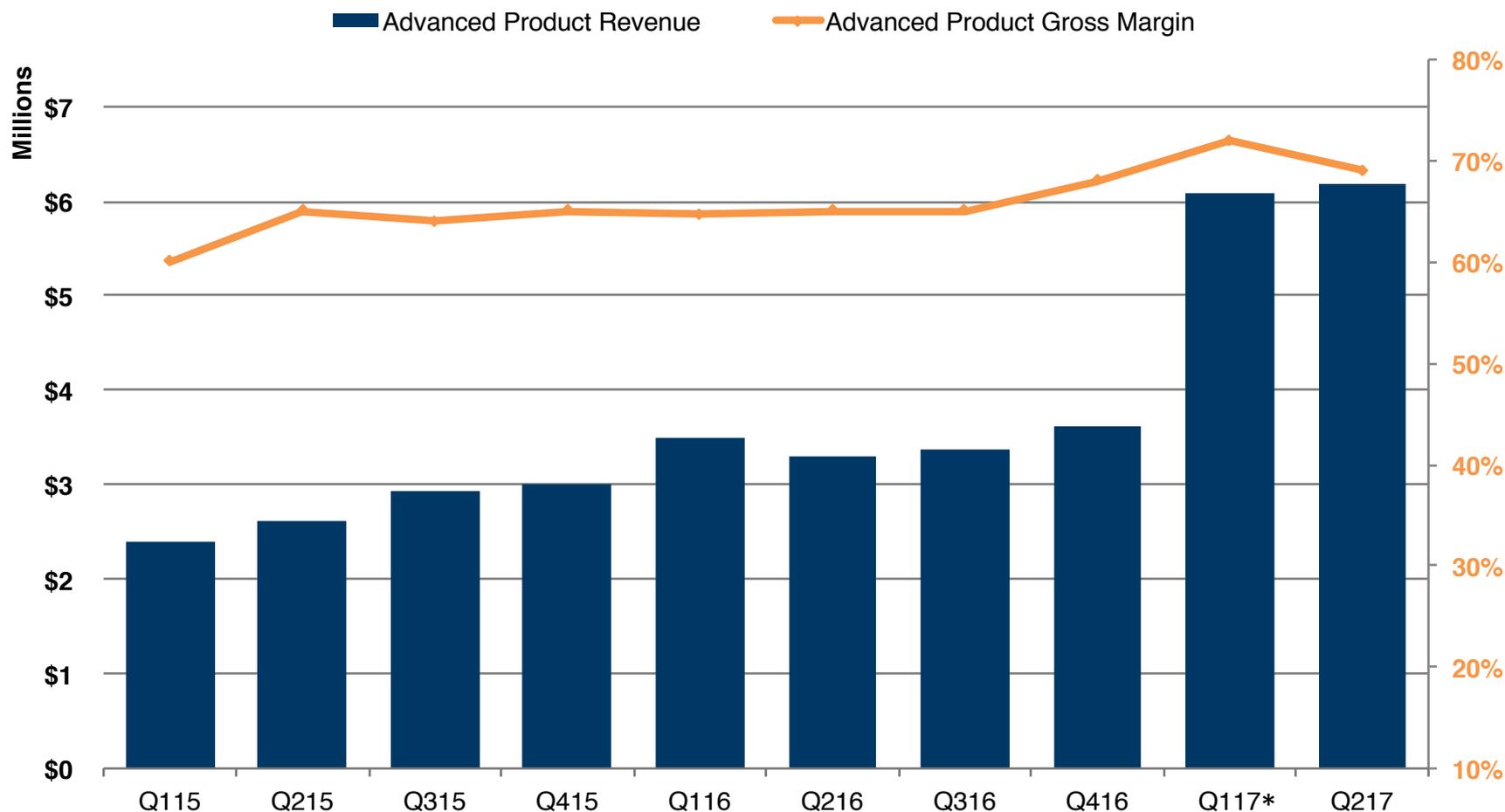
Q2 FY17 End Market Comments

- Industrial:** The increase in the industrial market was attributable to the core interface business, which started to show benefits of the lower cost structure allowing Exar to be more competitive.
- Infrastructure:** Decline in a legacy telecommunications product which was a nominal amount in the fiscal second quarter.
- Audio/Video:** Nominal change q/q.
- Automotive:** Continue to gain traction in aftermarket automotive infotainment and communication systems. First AEC-Q100 products to release this fiscal year.

* Q1-17 had 14 calendar weeks.
Q2-17 had the customary 13 weeks.



Advanced Product Sales Increasing



* Q1-17 had 14 calendar weeks. Q2-17 had the customary 13 weeks.



Q2FY17 Earnings Call



Concluding Remarks

Ryan Benton
Chief Executive Officer



Exar's Vision: Exar strives to be the most responsive analog and mixed-signal solutions provider by leveraging our broad portfolio, experience, and IP to enable the world's leading electronic manufacturers to connect and power their next generation products in target markets where operational excellence and reliability are valued.



Exar's Mission Statement

Exar's mission is to leverage our extensive analog and mixed-signal portfolio, experience and IP to deliver leading-edge application specific technology solutions to target markets where operational excellence and reliability are valued. We service the Industrial, Infrastructure, Automotive, and Audio/Video markets by acting as an extension of the customer's own technology organization and singularly focusing on exceeding customer expectations. Our long history of innovation, financial stability, and product performance give our customers confidence, while our global structure enables our exceptional customer responsiveness.





Q&A