



NXP Semiconductors Reports Second Quarter 2019 Results

July 30, 2019

EINDHOVEN, The Netherlands, July 29, 2019 (GLOBE NEWSWIRE) -- NXP Semiconductors N.V. (NASDAQ: NXPI) today reported financial results for the second quarter of 2019, ended June 30, 2019.

"NXP delivered revenue of \$2.2 billion during the second quarter. With sales slightly better than the midpoint of our guidance, and good expense control, we successfully delivered improved operating profitability above the high end of our guidance range. Additionally, during the quarter we returned \$716 million to our shareholders consistent with our long-term capital return policy. Looking forward, we continue to be optimistic that our product portfolio investments are addressing our customers' long-term requirements, while in the short-term, the global demand environment has generally not improved," said Richard Clemmer, NXP Chief Executive Officer.

Key Highlights

- Revenue was \$2.2 billion, down 3 percent year-on-year;
- GAAP gross margin was 51.9 percent, and GAAP operating margin was 7.1 percent;
- Non-GAAP gross margin was 53.3 percent, and non-GAAP operating margin was 28.9 percent;
- Cash flow from operations was \$517 million, with net capex investments of \$106 million, resulting in non-GAAP free cash flow of \$411 million;
- On May 29, 2019, NXP announced it had entered into a definitive agreement to acquire Marvell's Wireless Connectivity portfolio in an all-cash asset transaction valued at \$1.76 billion.

Summary of Reported Second Quarter 2019 (\$ millions, unaudited) ⁽¹⁾

	Q2 2019	Q1 2019	Q2 2018	Q - Q	Y - Y
Total Revenue	\$ 2,217	\$ 2,094	\$ 2,290	6%	-3%
GAAP Gross Profit	\$ 1,151	\$ 1,072	\$ 1,180	7%	-2%
Gross Profit Adjustments ⁽ⁱ⁾	\$ (30)	\$ (32)	\$ (30)		
Non-GAAP Gross Profit	\$ 1,181	\$ 1,104	\$ 1,210	7%	-2%
GAAP Gross Margin	51.9 %	51.2 %	51.5 %		
Non-GAAP Gross Margin	53.3 %	52.7 %	52.8 %		
GAAP Operating Income / (Loss)	\$ 157	\$ 54	\$ 137	191%	15%
Operating Income Adjustments ⁽ⁱ⁾	(483)	(505)	(481)		
Non-GAAP Operating Income	\$ 640	\$ 559	\$ 618	14%	4%
GAAP Operating Margin	7.1 %	2.6 %	6.0 %		
Non-GAAP Operating Margin	28.9 %	26.7 %	27.0 %		
Additional Information					
Automotive	\$ 1,031	\$ 1,036	\$ 1,143	0%	-10%
Industrial & IoT	\$ 390	\$ 368	\$ 454	6%	-14%
Mobile	\$ 297	\$ 241	\$ 238	23%	25%
Comm. Infra. & Other	\$ 499	\$ 449	\$ 419	11%	19%
Manufacturing Services ("MSA")	\$ -	\$ -	\$ 36	NM	NM
DIO	100	113	111		
DPO	67	74	90		
DSO	32	35	31		
Cash Conversion Cycle	65	74	52		
Channel Inventory (months)	2.4	2.4	2.4		
Financial Leverage ⁽ⁱⁱ⁾	1.7x	1.7x	0.7x		

1. Additional Information for the Second Quarter 2019:

i. For an explanation of GAAP to non-GAAP adjustments, please see "Non-GAAP Financial Measures" on page 2 of

this release.

ii. Financial leverage, is defined as net debt divided by trailing twelve months adjusted EBITDA.

- During the second quarter of 2019 NXP repurchased 6.6 million shares for a total cost of \$645 million; and paid cash dividends of \$71 million.
- Weighted average number of diluted shares for the three-month period ended June 30, 2019 was 285.1 million.
- Cash paid for income taxes related to on-going operations was \$30 million. Items not related to on-going operations resulted in additional cash payments of \$36 million, which was mainly due to the divestment of the Standard Products business.

Guidance for the Third Quarter 2019: (\$ millions) ⁽¹⁾

	Guidance Range									
	GAAP			Reconciliation	non-GAAP					
	Low	Mid	High		Low	Mid	High			
Total Revenue	\$ 2,210	\$ 2,240	\$ 2,270	\$ -	\$ 2,210	\$ 2,240	\$ 2,270			
Q-Q	0	% 1	% 2	%	0	% 1	% 2	%		
Y-Y	-10	% -8	% -7	%	-10	% -8	% -7	%		
Gross Profit	\$ 1,151	\$ 1,173	\$ 1,196	\$ (29)	\$ 1,180	\$ 1,202	\$ 1,225			
Gross Margin	52.1	% 52.4	% 52.7	%	53.4	% 53.7	% 54.0	%		
Operating Income (loss)	\$ 167	\$ 180	\$ 193	\$ (485)	\$ 652	\$ 665	\$ 678			
Operating Margin	7.6	% 8.0	% 8.5	%	29.5	% 29.7	% 29.9	%		
Financial income (expense)	\$ (84)	) \$ (84)	) \$ (84)	) \$ (15)	) \$ (69)	) \$ (69)	) \$ (69))		

Note (1) Additional Information:

1. GAAP Gross Profit is expected to include Purchase Price Accounting ("PPA") effects, (\$19 million); Stock Based Compensation, (\$10 million);
2. GAAP Operating Income (loss) is expected to include PPA effects, (\$378 million); Stock Based Compensation, (\$87 million); Merger related costs (\$10 million); Restructuring and Other Incidentals, (\$10 million);
3. GAAP Financial Income (expense) is expected to include Other financial expense (\$15 million);
4. Net cash paid for income taxes related to on-going operations is expected to be approximately (\$41 million);
5. Non-controlling interest is expected to be approximately (\$10 million);
6. Weighted average diluted share count is expected to be approximately 284 million.

NXP has based the guidance included in this release on judgments and estimates that management believes are reasonable given its assessment of historical trends and other information reasonably available as of the date of this release. Please note, the guidance included in this release consists of predictions only, and is subject to a wide range of known and unknown risks and uncertainties, many of which are beyond NXP's control. The guidance included in this release should not be regarded as representations by NXP that the estimated results will be achieved. Actual results may vary materially from the guidance we provide today. In relation to the use of non-GAAP financial information see the note regarding "Non-GAAP Financial Measures" below. For the factors, risks, and uncertainties to which judgments, estimates and forward-looking statements generally are subject see the note regarding "Forward-looking Statements." We undertake no obligation to publicly update or revise any forward-looking statements, including the guidance set forth herein, to reflect future events or circumstances.

Non-GAAP Financial Measures

In managing NXP's business on a consolidated basis, management develops an annual operating plan, which is approved by our Board of Directors, using non-GAAP financial measures. In measuring performance against this plan, management considers the actual or potential impacts on these non-GAAP financial measures from actions taken to reduce costs with the goal of increasing our gross margin and operating margin and when assessing appropriate levels of research and development efforts. In addition, management relies upon these non-GAAP financial measures when making decisions about product spending, administrative budgets, and other operating expenses. We believe that these non-GAAP financial measures, when coupled with the GAAP results and the reconciliations to corresponding GAAP financial measures, provide a more complete understanding of the Company's results of operations and the factors and trends affecting NXP's business. We believe that they enable investors to perform additional comparisons of our operating results, to assess our liquidity and capital position and to analyze financial performance excluding the effect of expenses unrelated to operations, certain non-cash expenses and share-based compensation expense, which may obscure trends in NXP's underlying performance. This information also enables investors to compare financial results between periods where certain items may vary independent of business performance, and allow for greater transparency with respect to key metrics used by management.

These non-GAAP financial measures are provided in addition to, and not as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. The presentation of these and other similar items in NXP's non-GAAP financial results should not be interpreted as implying that these items are non-recurring, infrequent, or unusual. Reconciliations of these non-GAAP measures to the most comparable measures calculated in accordance with GAAP are provided in the financial statements portion of this release in a schedule entitled "Financial Reconciliation of GAAP to non-GAAP Results (unaudited)." Please refer to the NXP Historic Financial Model file found on the Financial Information page of the Investor Relations section of our website at <https://investors.nxp.com> for additional information related to our rationale for using these

non-GAAP financial measures, as well as the impact of these measures on the presentation of NXP's operations.

In addition to providing financial information on a basis consistent with U.S. generally accepted accounting principles ("GAAP"), NXP also provides the following selected financial measures on a non-GAAP basis: (i) Gross profit, (ii) Gross margin, (iii) Research and development, (iv) Selling, general and administrative, (v) Amortization of acquisition-related intangible assets, (vi) Other income, (vii) Operating income (loss), (viii) Operating margin, (ix) Financial Income (expense), (x) adjusted net income, adjusted EBITDA and trailing 12 month adjusted EBITDA, and (xi) free cash flow and free cash flow as a percent of Revenue. The non-GAAP information excludes the amortization of acquisition related intangible assets, the purchase accounting effect on inventory and property, plant and equipment, merger related costs (including integration costs), certain items related to divestitures, share-based compensation expense, restructuring and asset impairment charges, non-cash interest expense on convertible notes, extinguishment of debt, and foreign exchange gains and losses.

Conference Call and Webcast Information

NXP will host a conference call on July 30, 2019 at 8:00 a.m. U.S. Eastern Time (2:00 p.m. Central European Time) to discuss its second quarter 2019 results and provide an outlook for the third quarter of 2019.

Interested parties may join the conference call by dialing 1 – 888 – 603 – 7644 (within the U.S.) or 1 – 484 – 747 - 6631 (outside of the U.S.). The participant pass-code is 6381567. To listen to a webcast of the event, please visit the Investor Relations section of the NXP website at <https://investors.nxp.com>. The webcast will be recorded and available for replay shortly after the call concludes.

About NXP Semiconductors

NXP Semiconductors N.V. (NASDAQ: NXPI) enables secure connections and infrastructure for a smarter world, advancing solutions that make lives easier, better, and safer. As the world leader in secure connectivity solutions for embedded applications, NXP is driving innovation in the secure connected vehicle, end-to-end security & privacy, and smart connected solutions markets. Built on more than 60 years of combined experience and expertise, the company has approximately 30,000 employees in more than 30 countries and posted revenue of \$9.41 billion in 2018. Find out more at www.nxp.com.

Forward-looking Statements

This document includes forward-looking statements which include statements regarding NXP's business strategy, financial condition, results of operations, and market data, as well as any other statements which are not historical facts. By their nature, forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties include the following: market demand and semiconductor industry conditions; the ability to successfully introduce new technologies and products; the end-market demand for the goods into which NXP's products are incorporated; the ability to generate sufficient cash, raise sufficient capital or refinance corporate debt at or before maturity; the ability to meet the combination of corporate debt service, research and development and capital investment requirements; the ability to accurately estimate demand and match manufacturing production capacity accordingly or obtain supplies from third-party producers; the access to production capacity from third-party outsourcing partners; any events that might affect third-party business partners or NXP's relationship with them; the ability to secure adequate and timely supply of equipment and materials from suppliers; the ability to avoid operational problems and product defects and, if such issues were to arise, to correct them quickly; the ability to form strategic partnerships and joint ventures and to successfully cooperate with alliance partners; the ability to win competitive bid selection processes to develop products for use in customers' equipment and products; the ability to achieve targeted efficiencies and cost savings; the ability to successfully hire and retain key management and senior product architects; and, the ability to maintain good relationships with our suppliers. In addition, this document contains information concerning the semiconductor industry and NXP's business generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, NXP's markets and product areas may develop. NXP has based these assumptions on information currently available, if any one or more of these assumptions turn out to be incorrect, actual results may differ from those predicted. While NXP does not know what impact any such differences may have on its business, if there are such differences, its future results of operations and its financial condition could be materially adversely affected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak to results only as of the date the statements were made. Except for any ongoing obligation to disclose material information as required by the United States federal securities laws, NXP does not have any intention or obligation to publicly update or revise any forward-looking statements after we distribute this document, whether to reflect any future events or circumstances or otherwise. For a discussion of potential risks and uncertainties, please refer to the risk factors listed in our SEC filings. Copies of our SEC filings are available on our Investor Relations website, <https://investors.nxp.com> or from the SEC website, www.sec.gov.

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Table 1: Condensed consolidated statement of operations (unaudited)

(\$ in millions except share data)

	Three Months Ended		
	June 30, 2019	March 31, 2019	July 1, 2018
Revenue	\$ 2,217	\$ 2,094	\$ 2,290

Cost of revenue	(1,066)	(1,022)	(1,110)
Gross profit	1,151	1,072	1,180
Research and development	(408)	(415)	(438)
Selling, general and administrative	(230)	(248)	(242)
Amortization of acquisition-related intangible assets	(355)	(357)	(363)
Total operating expenses	(993)	(1,020)	(1,043)
Other income (expense)	(1)	2	-
Operating income (loss)	157	54	137
Financial income (expense):			
Extinguishment of debt	(10)	-	(26)
Other financial income (expense)	(79)	(83)	(45)
Income (loss) before taxes	68	(29)	66
Benefit (provision) for income taxes	(21)	9	(4)
Results relating to equity-accounted investees	(1)	4	4
Net income (loss)	46	(16)	66
Less: Net income (loss) attributable to non-controlling interests	5	5	12
Net income (loss) attributable to stockholders	41	(21)	54
Earnings per share data:			
Net income (loss) per common share attributable to stockholders in \$:			
Basic	\$ 0.15	\$ (0.07)	\$ 0.16
Diluted	\$ 0.14	\$ (0.07)	\$ 0.16

Weighted average number of shares of common stock outstanding during the period (in thousands):

Basic	281,241	287,227	344,120
Diluted	285,088	287,227	347,027

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Table 2: Condensed consolidated balance sheet (unaudited)

(\$ in millions)	As of		
	June 30, 2019	March 31, 2019	July 1, 2018
Current assets:			
Cash and cash equivalents	\$ 3,030	\$ 2,192	\$ 2,981
Accounts receivable, net	780	800	790
Assets held for sale	81	-	-
Inventories, net	1,144	1,241	1,326
Other current assets	396	387	414
Total current assets	5,431	4,620	5,511
Non-current assets:			
Other non-current assets	706	699	793
Property, plant and equipment, net	2,397	2,407	2,352
Identified intangible assets, net	3,737	4,094	5,127
Goodwill	8,788	8,852	8,861
Total non-current assets	15,628	16,052	17,133
Total assets	21,059	20,672	22,644
Current liabilities:			
Accounts payable	770	815	1,072

Restructuring liabilities-current	53	66	64
Other current liabilities	983	1,264	712
Short-term debt	1,177	1,117	2
Total current liabilities	2,983	3,262	1,850
Non-current liabilities:			
Long-term debt	7,361	6,223	5,341
Restructuring liabilities	-	4	9
Deferred tax liabilities	337	390	579
Other non-current liabilities	858	862	976
Total non-current liabilities	8,556	7,479	6,905
Non-controlling interests	195	190	159
Stockholders' equity	9,325	9,741	13,730
Total equity	9,520	9,931	13,889
Total liabilities and equity	21,059	20,672	22,644

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Table 3: Condensed consolidated statement of cash flows (unaudited)

(\$ in millions)

	Three Months Ended		
	June 30, 2019	March 31, 2019	July 1, 2018
Cash Flows from operating activities			
Net income (loss)	\$ 46	\$ (16)	) \$ 66
Adjustments to reconcile net income (loss):			
Depreciation and amortization	506	502	496
Stock-based compensation	87	86	69
Amortization of discount on debt	11	11	11
Amortization of debt issuance costs	3	3	2
Net (gain) loss on sale of assets	1	-	-
(Gain) loss on extinguishment of debt	10	-	26
Results relating to equity accounted investees	1	(4)	) 1
Changes in deferred taxes	(30)	) (63)	) (67)
Changes in operating assets and liabilities:			
(Increase) decrease in receivables and other current assets	31	(42)	) 86
(Increase) decrease in inventories	84	38	(76)
Increase (decrease) in accounts payable and other current liabilities	(218)	) (250)	) (225)
Decrease (Increase) in other non-current assets	(14)	) 20	10
Exchange differences	1	6	(5)
Other items	(2)	) 5	9
Net cash provided by (used for) operating activities	517	296	403
Cash flows from investing activities:			
Purchase of identified intangible assets	(23)	) (28)	) (10)
Capital expenditures on property, plant and equipment	(106)	) (144)	) (129)
Purchase of interests in businesses, net of cash acquired	-	-	(18)
Proceeds from sale of interests in businesses, net of cash divested	-	37	32
Purchase of available-for-sale securities	(15)	) (2)	) (7)
Proceeds from the sale of securities	-	1	-
Net cash provided by (used for) investing activities	(144)	) (136)	) (132)
Cash flows from financing activities:			
Repurchase of long-term debt	(553)	) -	(1,273)
Principal payments on long-term debt	-	-	(1)
Proceeds from the issuance of long-term debt	1,750	-	-

Cash paid for debt issuance costs	(23)	-	-
Dividends paid to common stockholders	(71	)	(73)
Cash proceeds from exercise of stock options	5		32	10
Purchase of treasury shares	(645	)	(715)
Net cash provided by (used for) financing activities	463		(756)	(1,266)
Effect of changes in exchange rates on cash positions	2		(1)
Increase (decrease) in cash and cash equivalents	838		(597)	(1,002)
Cash and cash equivalents at beginning of period	2,192		2,789	3,983
Cash and cash equivalents at end of period	3,030		2,192	2,981

Net cash paid during the period for:

Interest	78		25	75
Income taxes	66		209	3

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Table 4: Financial Reconciliation of GAAP to non-GAAP Results (unaudited)

(\$ in millions except share data)

	Three Months Ended				
	June 30, 2019	March 31, 2019	July 1, 2018		
Revenue	\$ 2,217	\$ 2,094	\$ 2,290		
GAAP Gross profit	\$ 1,151	\$ 1,072	\$ 1,180		
PPA effects	(20	)	(17)	
Restructuring	-	(4)	-	
Stock Based Compensation	(10	)	(10)	
Merger-related costs	-	(1)	(2)
Non-GAAP Gross profit	\$ 1,181	\$ 1,104	\$ 1,210		
GAAP Gross margin	51.9	% 51.2	% 51.5		
Non-GAAP Gross margin	53.3	% 52.7	% 52.8		
GAAP Research and development	\$ (408	)	\$ (415)	
Restructuring	(5	)	(11)	
Stock based compensation	(34	)	(35)	
Merger-related costs	(2	)	(3)	
Non-GAAP Research and development	\$ (367	)	\$ (366)	
GAAP Selling, general and administrative	\$ (230	)	\$ (248)	
PPA effects	(2	)	(1)	
Restructuring	-	(10)	-	
Stock based compensation	(43	)	(41)	
Merger-related costs	(8	)	(9)	
Other incidentals	(3	)	(6)	
Non-GAAP Selling, general and administrative	\$ (174	)	\$ (181)	
GAAP amortization of acquisition-related intangible assets	\$ (355	)	\$ (357)	
PPA effects	(355	)	(357)	
Non-GAAP amortization of acquisition-related intangible assets	\$ -		\$ -		
GAAP Other income (expense)	\$ (1	)	\$ 2	
Restructuring	\$ -		\$ -		
Other incidentals	(1)	-		
Non-GAAP Other income (expense)	\$ -		\$ 2		
GAAP Operating income (loss)	\$ 157		\$ 54	\$ 137	

PPA effects	(377	)	(375	)	(384)
Restructuring	(5	)	(25	)	1)
Stock based compensation	(87	)	(86	)	(69)
Merger-related costs	(10	)	(13	)	(25)
Other incidentals	(4	)	(6	)	(4)
Non-GAAP Operating income (loss)	\$ 640		\$ 559		\$ 618	
GAAP Operating margin	7.1	%	2.6	%	6.0	%
Non-GAAP Operating margin	28.9	%	26.7	%	27.0	%
GAAP Financial income (expense)	\$ (89	)	\$ (83	)	\$ (71)
Non-cash interest expense on convertible notes	(11	)	(11	)	(11)
Foreign exchange gain (loss)	(4	)	(7)	-)
Gain (loss) on extinguishment of long-term debt	(10)	-)	(26)
Other financial expense	(3)	(4)	(3)
Non-GAAP Financial income (expense)	\$ (61)	\$ (61)	\$ (31)

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Table 5: Adjusted EBITDA and Free Cash Flow (unaudited)

(\$ in millions)

	Three Months Ended		
	June 30, 2019	March 31, 2019	July 1, 2018
Net Income (loss)	\$ 46	\$ (16	) \$ 66
Reconciling items to EBITDA			
Financial (income) expense	89	83	71
(Benefit) provision for income taxes	21	(9	) 4
Depreciation	128	124	119
Amortization	378	378	377
EBITDA	\$ 662	\$ 560	\$ 637
Reconciling items to adjusted EBITDA			
Results of equity-accounted investees	1	(4	) (4
Restructuring	5	25	(1
Stock based compensation	87	86	69
Merger-related costs	10	13	25
Other incidental items	4	6	4
Adjusted EBITDA	\$ 769	\$ 686	\$ 730
Trailing twelve month adjusted EBITDA	\$ 3,150	\$ 3,111	\$ 3,176

(\$ in millions)

	Three Months Ended		
	June 30, 2019	March 31, 2019	July 1, 2018
Net cash provided by (used for) operating activities	\$ 517	\$ 296	\$ 403
Net capital expenditures on property, plant and equipment	(106	)	(144
		)	(129
))
Non-GAAP free cash flow	\$ 411	\$ 152	\$ 274
Non-GAAP free cash flow as a percent of Revenue	19	%	7
		%	12
			%



Source: NXP USA, Inc.