



# SUPPLEMENTAL FINANCIAL INFORMATION

Q2FY23



SEAGATE

# Safe Harbor Statement

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical fact. Forward-looking statements include, among other things, statements about the Company's plans, programs, strategies and prospects; financial outlook for future periods, including the fiscal third quarter 2023; expectations regarding our ability to service debt and continue to generate free cash flow; assessments regarding our ability to comply with debt covenants; expectations regarding logistical, macroeconomic, or other factors affecting the Company; expectations regarding our ability to execute on our cost saving plans as currently contemplated; changes to the assumptions on which the projected cost saving initiatives are based; expectations regarding market demand for Company's products and our ability to optimize our level of production and meet market and industry expectations and the effects of these future trends on Company's performance; anticipated shifts in technology and storage industry trends, and anticipated demand and performance of new storage product introductions, including HAMR-based products; and expectations on the Company's business strategy and performance, as well as dividend issuance plans for the fiscal quarter ending March 31, 2023 and beyond. Forward-looking statements generally can be identified by words such as "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "projects," "should," "may," "will," "will continue," "can," "could" or the negative of these words, variations of these words and comparable terminology, in each case, intended to refer to future events or circumstances. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. Forward-looking statements are subject to various uncertainties and risks that could cause our actual results to differ materially from historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's latest periodic report on Form 10-Q or Form 10-K filed with the U.S. Securities and Exchange Commission. Undue reliance should not be placed on the forward-looking statements in this press release, which are based on information available to us on, and which speak only as of, the date hereof. The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date they were made, unless required by applicable law.

# Use of Non-GAAP Financial Information

To supplement the consolidated financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP), the Company uses non-GAAP measures of gross profit, gross margin, operating expenses, income from operations, operating margin, net income, diluted EPS, and free cash flow, which are adjusted from results based on GAAP to exclude certain benefits, expenses, gains and losses. These non-GAAP financial measures are provided to enhance the user's overall understanding of the Company's current financial performance and its prospects for the future. Specifically, the Company believes non-GAAP results provide useful information to both management and investors as these non-GAAP results exclude certain benefits, expenses, gains and losses that it believes are not indicative of its core operating results and because it is similar to the approach used in connection with the financial models and estimates published by financial analysts who follow the Company.

These non-GAAP results are some of the measurements management uses to assess the Company's performance, allocate resources and plan for future periods. Reported non-GAAP results should only be considered as supplemental to results prepared in accordance with GAAP, and not considered as a substitute or replacement for, or superior to, GAAP results. These non-GAAP measures may differ from the non-GAAP measures reported by other companies in its industry.

# Executive Summary



SEAGATE

## Q2FY23 results reflect operational resilience amid ongoing market challenges



- Delivered top and bottom-line results slightly above guidance mid-point
- Generated positive free cash flow of \$172M, up 54% QoQ

## Executed plans to drive cost efficiencies and improve long-term profitability



- Lowered production output to progress customer inventory correction and support supply discipline as demand recovers
- Reduced Capex 41% QoQ, reduced inventory levels 26% QoQ and realized a meaningful portion of the expected cost savings from the October 2022 Restructuring Plan

## Extending product leadership through areal density gains at attractive margin opportunities



- Ongoing adoption of 20+TB platform, representing nearly 60% of nearline EB shipped in Q2FY23
- Shipped ~35% of nearline exabytes as SMR drives in Q2FY23
- Launching HAMR-based product family featuring 3-plusTB/disk in Q4FY23, slightly ahead of schedule

# Q2FY23 Financial Highlights

**\$1.89B**

REVENUE

**13.0%**

GROSS MARGIN  
GAAP

**-8.5%**

OPERATING MARGIN  
GAAP

**-\$0.16**

DILUTED EPS  
GAAP

**113EB**

HDD CAPACITY  
SHIPPED

**\$251M**

CASH FLOW  
FROM OPERATIONS

**21.4%**

GROSS MARGIN  
NON-GAAP<sup>1</sup>

**5.8%**

OPERATING MARGIN  
NON-GAAP<sup>1</sup>

**\$0.16**

DILUTED EPS  
NON-GAAP<sup>1</sup>

**7.3TB**

AVG. CAPACITY  
PER DRIVE

1. See 'Reconciliation Tables' section for GAAP reconciliation.

## Q2FY23 Market Highlights



### Legacy

- **Legacy** revenue up 8% sequentially, reflecting a slight seasonal uptick in consumer product demand, still at subdued levels compared to prior years



### Mass Capacity

- **Nearline** near-term demand impacted by high customer inventory levels, customers have started to make progress in working down inventory
- **VIA** near-term demand impacted by the prolonged economic slow-down in China, following recent China government policy changes, anticipate demand improvement as the year unfolds



### Non-HDD

- **Enterprise Systems** revenue lower following a very strong September quarter, increased sales of our branded channel products
- **Corvault** product line building momentum with innovative self-healing technology for improved productivity while reducing e-waste; captured a record number of new customers

**Mass capacity storage** includes nearline, video and image applications (“VIA”) and network-attached storage.

**Legacy markets** include mission critical, consumer, and client applications.

**Non-HDD** includes enterprise systems business, SSD, and other.

# Quarterly Financial Trends

## In Q2FY23:

- **Revenue** reflecting expected decline in the Mass Capacity business, partially offset by a slight uptick in the Legacy markets
- **Gross Margin (Non-GAAP)** impacted by underutilization costs with lower production output
- **Operating Expense (Non-GAAP)** reflects cost reduction actions and strong expense discipline

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	QoQ	YoY
<b>GAAP Results</b>							
Revenue (\$M)	3,116	2,802	2,628	2,035	1,887	-7%	-39%
Gross Margin %	30.4%	28.8%	28.9%	23.7%	13.0%	-10.7 ppt	-17.4 ppt
Operating Expenses (\$M)	368	377	399	375	406	8%	10%
Operating Margin %	18.6%	15.3%	13.7%	5.3%	-8.5%	-13.8 ppt	-27.1 ppt
Net (Loss) Income (\$M)	501	346	276	29	-33	-214%	-107%
Diluted EPS <sup>1</sup>	\$2.23	\$1.56	\$1.27	\$0.14	-\$0.16	-214%	-107%
<b>Non-GAAP Results<sup>2</sup></b>							
Revenue (\$M)	3,116	2,802	2,628	2,035	1,887	-7%	-39%
Gross Margin %	30.7%	29.2%	29.3%	24.5%	21.4%	-3.1 ppt	-9.3 ppt
Operating Expenses (\$M)	337	345	349	314	294	-6%	-13%
Operating Margin %	19.9%	16.8%	16.1%	9.0%	5.8%	-3.2 ppt	-14.1 ppt
Net Income (\$M)	543	401	345	101	34	-66%	-94%
Diluted EPS	\$2.41	\$1.81	\$1.59	\$0.48	\$0.16	-67%	-93%
End of Qtr Actual Share Count (M)	219	216	210	206	206	0%	-6%
Diluted Shares O/S for EPS (M)	225	222	217	210	207	-1%	-8%
<b>Revenue by Product Line (\$M)</b>							
HDD	2,822	2,565	2,410	1,772	1,663	-6%	-41%
Systems, SSD & Other	294	237	218	263	224	-15%	-24%
<b>Revenue by Channel</b>							
OEM	70%	77%	81%	76%	72%	-4.0 ppt	2.0 ppt
Distributors	18%	12%	10%	15%	16%	1.0 ppt	-2.0 ppt
Retail	12%	11%	9%	9%	12%	3.0 ppt	0.0 ppt

NOTE: Minor changes and calculation variances are due to rounding.

1. Q2FY23 Diluted EPS computed using weighted average basic shares of 206 million as a result of net loss reported during the period

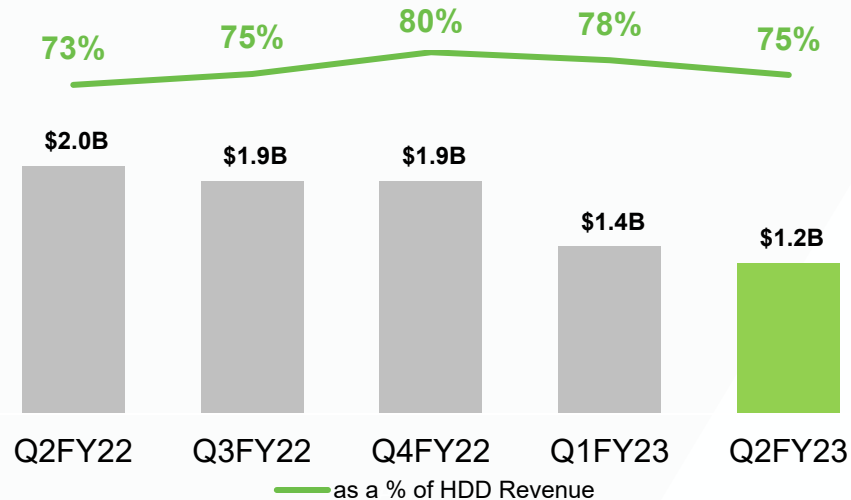
2. See 'Reconciliation Tables' section for GAAP reconciliation.



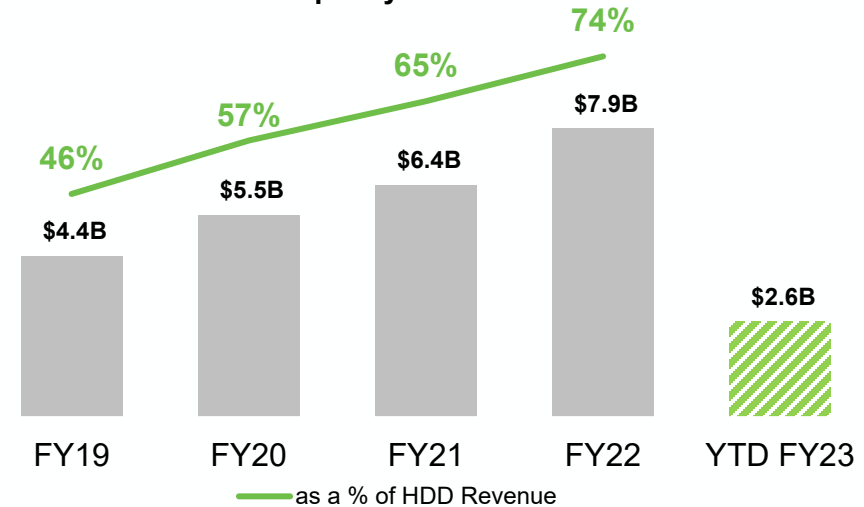
# HDD Product Trends

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	QoQ	YoY
<b>Capacity Shipped (EB)</b>	<b>163.2</b>	<b>154.2</b>	<b>154.6</b>	<b>118.2</b>	<b>112.5</b>	-5%	-31%
Mass Capacity	137.1	132.7	138.5	104.0	96.7	-7%	-29%
Nearline	111.0	117.5	119.0	85.1	79.7	-6%	-28%
Legacy	26.1	21.5	16.1	14.3	15.8	11%	-39%
<b>Average Capacity per Drive (TB)</b>	<b>6.1</b>	<b>6.7</b>	<b>7.8</b>	<b>7.5</b>	<b>7.3</b>	-3%	20%
Mass Capacity	10.0	10.9	11.5	11.8	11.9	0%	19%
Legacy	2.0	2.0	2.0	2.1	2.2	6%	10%

Quarterly  
Mass Capacity Revenue Trend



Annual  
Mass Capacity Revenue Trend



NOTE: Minor changes and calculation variances are due to rounding



# Cash, Cash Flow, and Operational Trends

## In Q2FY23:

- Reduced Debt by \$220M, down 4% QoQ
- Cash Flow From Operations of \$251M, up 2% QoQ
- Capex of \$79M, down 41% QoQ
- Free Cash Flow improved to \$172M, up 54% QoQ

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Cash <sup>1</sup> (\$M)	1,535	1,138	615	761	770
Debt (\$M)	5,861	5,644	5,646	6,249	6,029
Cash Flow From Operations (\$M)	521	460	180	245	251
Capital Expenditures <sup>2</sup> (\$M)	95	97	72	133	79
Free Cash Flow <sup>3</sup> (\$M)	426	363	108	112	172
YTD Cash Flow From Operations <sup>4</sup> (\$M)	1,017	1,477	1,657	245	496
YTD Shares Repurchased <sup>4</sup> (\$M)	896	1,313	1,799	408	408
YTD Dividend Paid <sup>4</sup> (\$M)	304	458	610	147	292
Dividends Per Share Paid	\$0.67	\$0.70	\$0.70	\$0.70	\$0.70
Shares Repurchased (M)	5.1	4.2	6.0	5.4	-
YTD Shares Repurchased (M)	10.0	14.2	20.2	5.4	5.4
Days Sales Outstanding	41	44	53	49	41
Days Inventory Outstanding	54	67	76	94	66
Days Payables Outstanding	76	89	100	100	60
Cash Conversion Cycle	19	22	29	43	47

NOTE: Minor calculation variances are due to rounding.

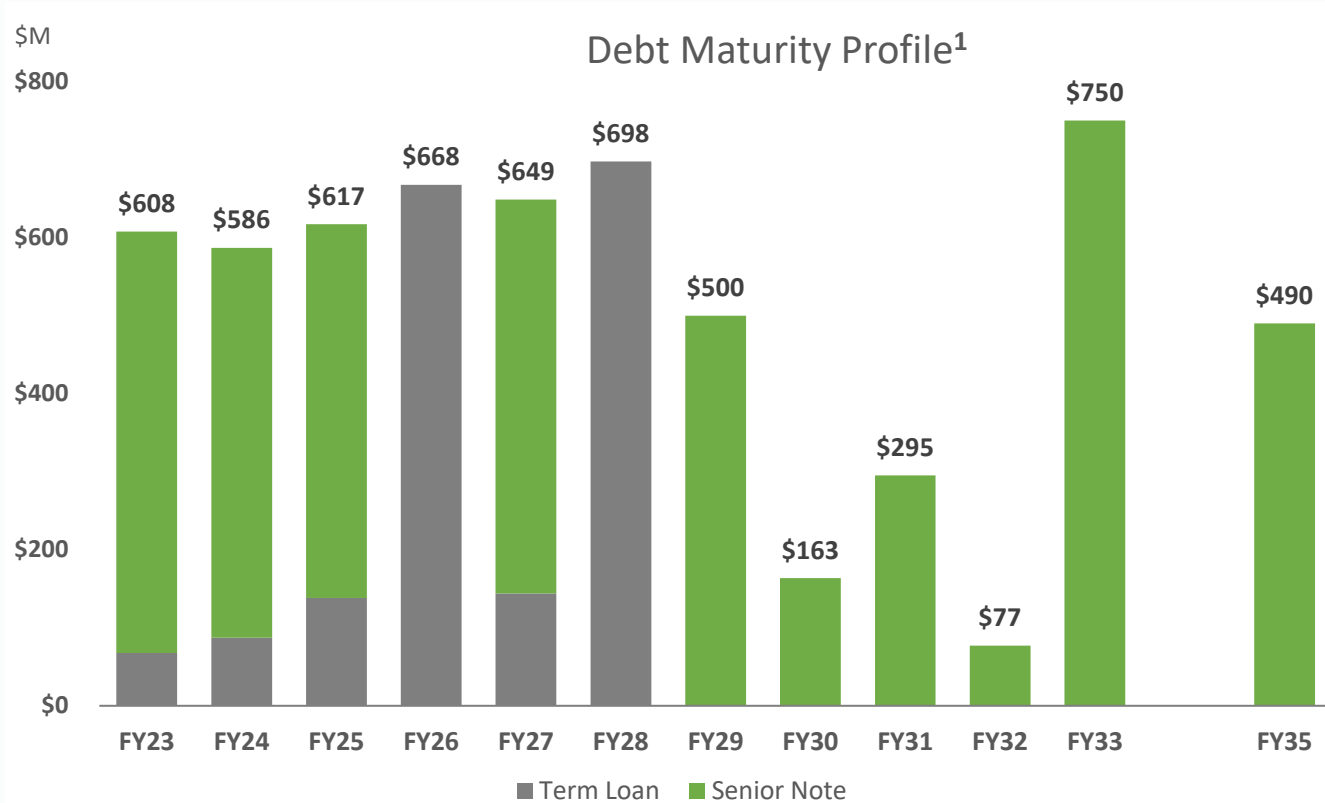
1. Cash includes Cash and cash equivalents.

2. Capital Expenditures is cash paid for the acquisition of property, equipment, and leasehold improvements.

3. Free cash flow is a non-GAAP measure. See 'Reconciliation Tables' section for GAAP reconciliation.

4. Based on Fiscal Year.

# Capital Structure



## \$2.5B Liquidity<sup>2</sup>

- \$770M Cash
- \$1.75B Revolving credit facility

## \$6.0B Debt<sup>3</sup>

- Weighted average interest rate of 5.5%
- Weighted average maturity of ~5 years

NOTE: Minor calculation variances are due to rounding.

1. Principal outstanding
2. Liquidity levels include both Cash and cash equivalents and revolver.
3. Principal outstanding less unamortized discount and debt issuance cost

# Debt Metrics

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Debt (\$M)	5,861	5,644	5,646	6,249	6,029
Cash and cash equivalents (\$M)	1,535	1,138	615	761	770
Net Debt (\$M)	4,326	4,506	5,031	5,488	5,259
LTM Cash Interest Expense (\$M)	206	235	244	249	283
LTM Credit Agreement Defined EBITDA (\$M) <sup>1</sup>	2,604	2,668	2,549	2,107	1,595
Total Leverage Ratio <sup>2</sup>	2.3x	2.1x	2.2x	3.0x	3.8x
Total Leverage Ratio on Net Debt <sup>3</sup>	1.7x	1.7x	2.0x	2.6x	3.3x
Interest Coverage Ratio <sup>4</sup>	12.6x	11.4x	10.4x	8.5x	5.6x

The Credit Agreement includes three financial covenants: (1) interest coverage ratio, (2) total leverage ratio, and (3) a minimum liquidity amount. Seagate was in compliance with the covenants as of December 30, 2022. We continue to evaluate our debt portfolio and structure to comply with our financial debt covenants.

NOTE: Minor calculation variances are due to rounding. For the capitalized terms included but not defined here, please see the Credit Agreement filed with the SEC.

1. See 'Reconciliation Tables' section for reconciliation of Net Income to Credit Agreement defined EBITDA.
2. On November 8, 2022, Seagate amended its Credit Agreement to increase the maximum permitted total leverage ratio to 5.0 to 1.0 beginning with the fiscal quarter ending December 30, 2022, with periodic step downs, and returning to a maximum permitted leverage ratio of 4.0 to 1.0 for any fiscal quarter after June 28, 2024.
3. Reflects Net Debt divided by LTM Credit Agreement Defined EBITDA.
4. Interest Coverage Ratio not to be less than 3.25 as of the end of any fiscal quarter.

# Environmental, Social and Governance



# Delivering on ESG Priorities



## Environmental

- **100% renewable energy** by 2030, across our entire global operations<sup>1</sup>
- **Carbon neutrality by 2040**, across Scope 1, 2, and 3<sup>1</sup>
- UN Global Compact signatory and RBA founding member<sup>2</sup>
- Actively engaging with customers on product and component circularity



## Social

- **Policy and controls** for global working conditions
- 58% Global workforce are women<sup>3</sup>
- More than 40% US workforce are minorities<sup>3</sup>
- Best places to work for women, LGBTQ+ equality (2019-2022)



## Governance

- **Enterprise Security Risk Management** process to ensure compliance with data privacy and protection laws
- Publicly available Ethics Helpline, Anti-Bribery and Corruption training for all global employees
- ISO Certifications ([www.seagate.com](http://www.seagate.com))

1. Seagate will reach these environmental sustainability goals through commitments spanning Scope 1, 2, and 3 greenhouse gas (GHG) emissions as defined by The Greenhouse Gas Protocol and Reporting Standard.

2. RBA - Responsible Business Alliance

3. Seagate FY2022 annual Diversity, Equity, and Inclusion Report

# ESG Focus: Social

*“As a multinational company, we have found that the more we embrace DEI, the better we understand the many people we serve. This fuels our innovation to have an even greater impact on the world and makes contributing to Seagate’s success meaningful and fulfilling for all of us.”*

Dave Mosley, CEO



ENVIRONMENT



SOCIAL



GOVERNANCE

**31.3%**

Women in leadership roles globally, increased representation of women across all levels of leadership

**3,600+**

Global ERG members representing 9 Employee Resource Groups and 27 local chapters across 6 countries. Three new chapters formed in FY2022 – all in the Asia Region

**4<sup>th</sup>**

Consecutive year awarded the Best Places to Work for LGBTQ+ Equality from the Human Rights Campaign Foundation

**31.7%**

Inventions with one or more female inventors, up from 22.6% in FY2021

**9,000+**

Total global employees who have participated in the Core People Skills Program

**435**

Global interns hired, including diverse students from our partnership with the National Society of Black Engineers

# RECONCILIATION TABLES



<b>Reconciliation of GAAP Gross Profit to Non-GAAP Gross Profit (\$M)</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>
<b>GAAP Gross Profit</b>	<b>948</b>	<b>806</b>	<b>759</b>	<b>482</b>	<b>246</b>
Accelerated depreciation, impairment and other charges related to cost saving efforts	-	1	-	-	39
Amortization of acquired intangible assets	1	1	1	1	1
Pandemic-related lockdown charges	-	-	-	7	-
Purchase order cancellation fees	-	-	-	-	108
Share-based compensation	9	9	11	8	8
Other charges	-	-	-	-	1
<b>Non-GAAP Gross Profit</b>	<b>958</b>	<b>817</b>	<b>771</b>	<b>498</b>	<b>403</b>
<b>GAAP Gross Margin %</b>	30.4%	28.8%	28.9%	23.7%	13.0%
<b>Non-GAAP Gross Margin %</b>	30.7%	29.2%	29.3%	24.5%	21.4%
<b>Reconciliation of GAAP Operating Expenses to Non-GAAP Operating Expenses (\$M)</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>
<b>GAAP Operating Expenses</b>	<b>368</b>	<b>377</b>	<b>399</b>	<b>375</b>	<b>406</b>
Accelerated depreciation, impairment and other charges related to cost saving efforts	-	-	(13)	(22)	-
Amortization of acquired intangible assets	(3)	(3)	(2)	(3)	-
Restructuring and other, net	(1)	-	(1)	(9)	(81)
Share-based compensation	(27)	(27)	(28)	(21)	(25)
Other charges	-	(2)	(6)	(6)	(6)
<b>Non-GAAP Operating Expenses</b>	<b>337</b>	<b>345</b>	<b>349</b>	<b>314</b>	<b>294</b>
<b>Reconciliation of GAAP Income (Loss) From Operations to Non-GAAP Income From Operations (\$M)</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>
<b>GAAP Income (Loss) From Operations</b>	<b>580</b>	<b>429</b>	<b>360</b>	<b>107</b>	<b>(160)</b>
Accelerated depreciation, impairment and other charges related to cost saving efforts	-	1	13	22	39
Amortization of acquired intangible assets	4	4	3	4	1
Pandemic-related lockdown charges	-	-	-	7	-
Purchase order cancellation fees	-	-	-	-	108
Restructuring and other, net	1	-	1	9	81
Share-based compensation	36	36	39	29	33
Other charges	-	2	6	6	7
<b>Non-GAAP Income From Operations</b>	<b>621</b>	<b>472</b>	<b>422</b>	<b>184</b>	<b>109</b>
<b>GAAP Operating Margin %</b>	18.6%	15.3%	13.7%	5.3%	(8.5)%
<b>Non-GAAP Operating Margin %</b>	19.9%	16.8%	16.1%	9.0%	5.8%
<b>Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income (\$M)</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>
<b>GAAP Net Income (Loss)</b>	<b>501</b>	<b>346</b>	<b>276</b>	<b>29</b>	<b>(33)</b>
Accelerated depreciation, impairment and other charges related to cost saving efforts	-	1	13	22	39
Amortization of acquired intangible assets	4	4	3	4	1
Net (gain) recognized from early redemption of debt and debt modification costs	1	-	-	-	(204)
Pandemic-related lockdown charges	-	-	-	7	-
Purchase order cancellation fees	-	-	-	-	108
Restructuring and other, net	1	-	1	9	81
Share-based compensation	36	36	39	29	33
Strategic investment losses (gains) or impairment charges	2	13	6	-	-
Other charges	-	2	6	6	7
Income tax adjustments	(2)	(1)	1	(5)	2
<b>Non-GAAP Net Income</b>	<b>543</b>	<b>401</b>	<b>345</b>	<b>101</b>	<b>34</b>



Reconciliation of GAAP Diluted Net Income (Loss) Per Share to Non-GAAP Diluted Net Income Per Share (\$)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>GAAP Diluted Net Income (Loss) Per Share</b>	<b>\$2.23</b>	<b>\$1.56</b>	<b>\$1.27</b>	<b>\$0.14</b>	<b>\$(0.16)</b>
Accelerated depreciation, impairment and other charges related to cost saving efforts	-	-	0.06	0.10	0.19
Amortization of acquired intangible assets	0.02	0.02	0.01	0.02	-
Net (gain) recognized from early redemption of debt and debt modification costs	-	-	-	-	(0.99)
Pandemic-related lockdown charges	-	-	-	0.03	-
Purchase order cancellation fees	-	-	-	-	0.52
Restructuring and other, net	-	-	-	0.04	0.39
Share-based compensation	0.16	0.16	0.18	0.14	0.16
Strategic investment losses (gains) or impairment charges	0.01	0.06	0.03	-	-
Other charges	-	0.01	0.04	0.03	0.04
Income tax adjustments	(0.01)	-	-	(0.02)	0.01
<b>Non-GAAP Diluted Net Income Per Share</b>	<b>\$2.41</b>	<b>\$1.81</b>	<b>\$1.59</b>	<b>\$0.48</b>	<b>\$0.16</b>
Shares used in diluted earnings (loss) per share calculation (M)					
GAAP	225	222	217	210	206
Non-GAAP	225	222	217	210	207

Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow (\$M)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Cash Provided by Operating Activities</b>	<b>521</b>	<b>460</b>	<b>180</b>	<b>245</b>	<b>251</b>
Acquisition of property, equipment and leasehold improvements	(95)	(97)	(72)	(133)	(79)
<b>Free Cash Flow</b>	<b>426</b>	<b>363</b>	<b>108</b>	<b>112</b>	<b>172</b>

Reconciliation of Net Income (Loss) to Credit Agreement Defined EBITDA (\$M)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Income (Loss)</b>	<b>501</b>	<b>346</b>	<b>276</b>	<b>29</b>	<b>(33)</b>
Depreciation and Amortization	108	112	127	135	148
Interest Expense	62	63	65	71	77
Interest Income	(1)	-	(1)	(1)	(1)
Income Tax Expense (Benefit)	13	5	5	(2)	(5)
<b>EBITDA</b>	<b>683</b>	<b>526</b>	<b>472</b>	<b>232</b>	<b>186</b>
Accelerated depreciation, impairment and other charges related to cost saving efforts	-	-	1	-	-
Net (gain) recognized from early redemption of debt and debt modification costs	1	-	-	-	(204)
Pandemic-related lockdown charges	-	-	-	6	-
Purchase order cancellation fees	-	-	-	-	108
Restructuring and other, net	1	-	1	9	81
Share-based compensation	36	36	39	29	33
Strategic investment losses (gains) or impairment charges	2	13	6	-	-
Other charges	-	2	6	6	7
<b>Credit Agreement Defined EBITDA</b>	<b>723</b>	<b>577</b>	<b>525</b>	<b>282</b>	<b>211</b>



**Non-GAAP Measures Adjusted for the Following Items:****Accelerated depreciation, impairment and other charges related to cost saving efforts**

These expenses are excluded in the non-GAAP measures due to the inconsistency in amount and frequency and are excluded to facilitate a more meaningful evaluation of the Company's current operating performance and comparison to its past periods' operating performance.

**Amortization of acquired intangible assets**

The Company records expense from amortization of intangible assets that were acquired in connection with its business combinations over their estimated useful lives. Such charges are inconsistent in size and are significantly impacted by the timing and magnitude of the Company's acquisitions. Consequently, these expenses are excluded in the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Net (gain) recognized from early redemption of debt and debt modification costs**

From time to time, the Company incurs gains, losses and fees from the early redemption and repurchase of certain long-term debt instruments. The gains and losses represent the difference between the reacquisition price and the par value of the debt extinguished less the write-off of any unamortized debt issuance costs and discount. Fees include certain costs associated with a debt extinguishment or modification. The amount of these charges may be inconsistent in size and varies depending on the timing of the early redemption of debt and consequently is excluded from the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Pandemic-related lockdown charges**

Pandemic-related lockdown charges are factory under-utilization costs incurred due to the pandemic-related lockdown measures at our factory in Wuxi, China. These charges are inconsistent in amount and frequency and are excluded in the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Purchase order cancellation fees**

Purchase order cancellation fees are the costs incurred to cancel certain purchase commitments made with the Company's suppliers for component and equipment purchases that will not be received due to change in forecasted demand. These charges are inconsistent in amount and frequency and are excluded in the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Restructuring and other, net**

Restructuring and other, net are costs associated with restructuring plans that are primarily related to costs associated with reduction in the Company's workforce, exiting certain facilities and other related costs, as well as charges or gains from sale of properties. These costs or benefits do not reflect the Company's ongoing operating performance and consequently are excluded from the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Share-based compensation**

These expenses consist primarily of expenses for employee share-based compensation. Given the variety of equity awards used by companies, the varying methodologies for determining share-based compensation expense, the subjective assumptions involved in those determinations, and the volatility in valuations that can be driven by market conditions outside the Company's control, the Company believes excluding share-based compensation expense enhances the ability of management and investors to understand and assess the underlying performance of its business over time and compare it against the Company's peers, a majority of whom also exclude share-based compensation expense from their non-GAAP results.

**Strategic investment losses (gains) or impairment charges**

From time to time, the Company incurs losses, gains or impairment charges from strategic investments that are measured and accounted at fair value, under the equity method of accounting, as available-for-sale debt securities or adjust for downward or upward adjustments to the carrying value under the measurement alternative if an impairment or observable price adjustment is recognized in the current period that are not considered as part of its ongoing operating performance. The resulting expense, gain or impairment loss is inconsistent in amount and frequency and consequently is excluded from the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Other charges**

The other charges primarily include IT transformation costs. These charges are inconsistent in amount and frequency and are excluded in the non-GAAP measures to facilitate a more meaningful evaluation of its current operating performance and comparison to its past periods' operating performance.

**Income tax adjustments**

Provision or benefit for income taxes represents the tax effects of non-GAAP adjustments determined using a hybrid with and without method and effective tax rate for the applicable adjustment and jurisdiction.

**Free cash flow**

Free cash flow is a non-GAAP measure defined as net cash provided by operating activities less acquisition of property, equipment and leasehold improvements. Free cash flow does not reflect non-cash items, net cash used or provided by financing activities, and net cash used or provided by investing activities, other than acquisition of property, equipment and leasehold improvements. This non-GAAP financial measure is used by management to assess the Company's sources of liquidity, capital structure and operating performance.