



July 7, 2020

Dear Customer/Channel Partner,

We hope this letter finds you, your family and your team safe and navigating the COVID-19 challenges effectively. We're pleased to report that the Microchip team is safe and we have continued to effectively navigate the COVID-19 challenges so that we can continue to be a valuable partner to your business success.

We would like to take this opportunity to appraise you about business conditions as we see it, so that you may properly plan for your business for the balance of 2020. In the last 2 months we have experienced a large and growing number of orders being placed on us with little to no lead time. These orders with short lead time appear to be driven by three factors:

1. Customers whose businesses have strengthened due to COVID-19 conditions (ex: "work from home" initiatives and Medical Devices)
2. The recovery in May/June of some customers' business which experienced a sharp decline in the March/April timeframe (ex: Automotive and some industrials)
3. An erroneous expectation that despite not providing backlog visibility, orders placed with short lead times can be supported by slack in the supply chain

The result of so many short lead time orders is that we are having to disappoint you with delivery dates that are later than what you want. Our unsupported backlog, defined as orders with a shorter requested delivery date than we can support ordinarily, has ballooned to one of the largest we have experienced. We are also experiencing some expedite costs from our supply chain and running our factories inefficiently (ex: breaking manufacturing set ups) in order to respond to short term requests. As a result, we on some occasions have passed on expedite fees to you. Finally, our teams that support you and your purchasing teams are spending considerable amount of energy in daily emails and telephone calls dealing with short lead time orders and what we can do to expedite them to meet your delivery date expectations. In recent days the pace of short lead time orders has picked up speed as customers like yourselves are planning for their 2H 2020 business and proactively ensuring they get the capacity they need to take advantage of business conditions.

With our manufacturing cycle times for most standard products in the 16–20 week range, ***we would like to request your help for us to serve you better by asking you to give us at least 12 weeks of backlog visibility at all times for our standard products.*** This gives us the best chance to effectively plan for your demand, not disappoint your delivery date expectations and not have to charge you expedite fees. Further, starting August 1, 2020, we will not be able to accept any expedite request without an associated expedite fee. This fee is so that those customers who plan their businesses better and give us backlog visibility are not impacted by those who constantly expedite their orders. Please be aware that for standard products, any backlog placed directly on Microchip that is outside of 45 days can be cancelled or rescheduled without penalty, giving you the flexibility to adjust your backlog as your business visibility improves. Please do not place orders in excess of what you need—just place them so that we have the visibility to be in a position to serve you effectively.

Thank you for your business and your confidence in us, and please be safe.

Sincerely,

Steve Sanghi, Chairman and CEO
Ganesh Moorthy, President and COO