



FOR IMMEDIATE RELEASE

EARNINGS RELEASE

Silicom Reports Q2 2018 Financial Results

KFAR SAVA, Israel, July 26, 2018 - Silicom Ltd. (NASDAQ: SILC), a leading provider of high-performance networking and data infrastructure solutions, today reported its financial results for the second quarter and first half ended June 30, 2018.

Financial Results

Second Quarter: Silicom's revenues for the second quarter of 2018 totalled \$27.6 million compared with \$30.3 million for the second quarter of 2017.

On a GAAP basis, net income for the quarter totalled \$2.4 million, or \$0.32 per share (basic and diluted), compared with \$4.2 million, or \$0.55 per diluted share (\$0.57 per basic share), for the second quarter of 2017.

On a non-GAAP basis (as described and reconciled below), net income for the quarter totalled \$3.4 million, or \$0.44 per diluted share (\$0.45 per basic share), compared with \$5.2 million, or \$0.69 per diluted share (\$0.71 per basic share), for the second quarter of 2017.

First Six Months: Silicom's revenues for the first half of 2018 totalled \$57.1 million compared with \$55.6 million for the first half of 2017.

On a GAAP basis, net income for the period totalled \$1.0 million, or \$0.13 per share (basic and diluted), compared with \$6.8 million, or \$0.90 per diluted share (\$0.92 per diluted share), for the first half of 2017.

On a non-GAAP basis (as described and reconciled below), net income for the period totalled \$7.7 million, or \$1.00 per diluted share (\$1.02 per basic share), compared with \$9.1 million, or \$1.21 per diluted share (\$1.23 per basic share), for the first half of 2017.

Guidance for the Third Quarter

Management projects that revenues for the third quarter of 2018 will total \$30 to \$31 million.

Comments of Management

Shaike Orbach, Silicom's President and CEO, commented, "We are pleased to report revenues which are in line with our plans, confirming the fundamental strength of our business and the soundness of our strategic plan.

"During the quarter, we were excited to close two strategic deals that demonstrated the unique fit of our products for the connectivity needs of SD-WAN and NFV related markets, both at the CPE level and in the hubs. In April, a Tier-1 telco selected our edge devices for its SD-WAN-based deployment, and at the end of the quarter, a Tier-1 Internet and content provider chose our Switch-on-a-NIC for its SD-WAN-ready distribution hub infrastructure. These clients chose our products as critical building blocks that maximize the performance of their SD-WAN and NFV-related

infrastructures, demonstrating that our concepts are powerful at the data center, hub and CPEs levels. With products that are important at every segment of the communications network, every service provider represents the opportunity for an almost unlimited series of Design Wins.”

Mr. Orbach continued, “Indeed, we are leveraging these successes by reaching out to additional service providers, and also returning to existing CPE customers to discuss their need for Data Center as well as SD-WAN hub solutions - and vice versa. We are pleased with the reaction so far and believe that it will translate into long-term growth for our Company.”

Conference Call Details

Silicom’s Management will host an interactive conference today, July 26th, at 9am Eastern Time (6am Pacific Time, 4pm Israel Time) to review and discuss the results.

To participate, please call one of the following teleconferencing numbers. Please begin placing your calls at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, try the international dial-in number.

US: 1 888 407 2553

UK: 0 800-917-5108

ISRAEL: 03 918 0609

INTERNATIONAL: +972 3 918 0609

At: 9:00am Eastern Time, 6:00am Pacific Time, 4:00pm Israel Time

For those unable to listen to the live call, a replay of the call will be available for three months from the day after the call under the investor relations section of Silicom’s website.

Non-GAAP Financial Measures

This release, including the financial tables below, presents other financial information that may be considered "non-GAAP financial measures" under Regulation G and related reporting requirements promulgated by the Securities and Exchange Commission as they apply to our company. These non-GAAP financial measures exclude compensation expenses in respect of options and RSUs granted to directors, officers and employees, amortization of acquired intangible assets, changes in the fair value of contingent consideration from a business combination, taxes on amortization of acquired intangible assets, as well as discontinued project-related write-offs. Non-GAAP financial measures should be evaluated in conjunction with, and are not a substitute for, GAAP financial measures. The tables also present the GAAP financial measures, which are most comparable to the non-GAAP financial measures as well as reconciliation between the non-GAAP financial measures and the most comparable GAAP financial measures. The non-GAAP financial information presented herein should not be considered in isolation from or as a substitute for operating income, net income or per share data prepared in accordance with GAAP.

About Silicom

Silicom Ltd. is an industry-leading provider of high-performance networking and data infrastructure solutions. Designed primarily to improve performance and efficiency in Cloud and Data Center environments, Silicom’s solutions increase throughput, decrease latency and boost the performance

of servers and networking appliances, the infrastructure backbone that enables advanced Cloud architectures and leading technologies like NFV, SD-WAN and Cyber Security. Our innovative solutions for high-density networking, high-speed fabric switching, offloading and acceleration, which utilize a range of cutting-edge silicon technologies as well as FPGA-based solutions, are ideal for scaling-up and scaling-out cloud infrastructures.

Silicom products are used by major Cloud players, service providers, telcos and OEMs as components of their infrastructure offerings, including both add-on adapters in the Data Center and stand-alone virtualized/universal CPE devices at the edge.

Silicom's long-term, trusted relationships with more than 150 customers throughout the world, its more than 400 active Design Wins and more than 300 product SKUs have made Silicom a "go-to" connectivity/performance partner of choice for technology leaders around the globe.

For more information, please visit: www.silicom.co.il

Statements in this press release which are not historical data are forward-looking statements which involve known and unknown risks, uncertainties, or other factors not under the company's control, which may cause actual results, performance, or achievements of the company to be materially different from the results, performance, or other expectations implied by these forward-looking statements. These factors include, but are not limited to, Silicom's increasing dependence for substantial revenue growth on a limited number of customers in the evolving cloud-based market, the speed and extent to which cloud-based and cloud-focused solutions are adopted by the market, likelihood that it will rely increasingly on customers which provide cloud-based and cloud-focused solutions in this evolving market, resulting in an increasing dependence on a smaller number of larger customers, difficulty in commercializing and marketing of Silicom's products and services, maintaining and protecting brand recognition, protection of intellectual property, competition and other factors detailed in the company's periodic filings with the Securities and Exchange Commission. These forward-looking statements can generally be identified as such because the context of the statement will include words, such as "expects," "should," "believes," "anticipates" or words of similar import. Similarly, statements that describe future plans, objectives or goals are also forward-looking statements. In light of significant risks and uncertainties inherent in forward-looking statements, the inclusion of such statements should not be regarded as a representation by the company that it will achieve such forward-looking statements. The company disclaims any duty to update such statements, whether as a result of new information, future events, or otherwise.

Company Contact:

Eran Gilad, CFO

Silicom Ltd.

Tel: +972-9-764-4555

E-mail: erang@silicom.co.il

Investor Relations Contact:

Ehud Helft / Gavriel Frohwein

GK Investor Relations

Tel: +1 646 668 3559

E-mail: silicom@gkir.com

-- FINANCIAL TABLES FOLLOW --

Silicom Ltd. Consolidated Balance Sheets

(US\$ thousands)

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 32,676	\$ 17,021
Marketable securities	-	7,752
Accounts receivables: Trade, net	27,443	41,367
Accounts receivables: Other	5,252	5,823
Inventories	49,571	51,487
Total current assets	<u>114,942</u>	<u>123,450</u>
Marketable securities	19,877	5,945
Assets held for employees' severance benefits	1,536	1,591
Deferred tax assets	970	899
Property, plant and equipment, net	3,666	4,121
Intangible assets, net	894	1,047
Goodwill	<u>25,561</u>	<u>25,561</u>
Total assets	<u>\$ 167,446</u>	<u>\$ 162,614</u>
Liabilities and shareholders' equity		
Current liabilities		
Trade accounts payable	\$ 16,330	\$ 12,629
Other accounts payable and accrued expenses	<u>5,510</u>	<u>6,420</u>
Total current liabilities	21,840	19,049
Liability for employees' severance benefits	<u>2,663</u>	<u>2,765</u>
Total liabilities	<u>24,503</u>	<u>21,814</u>
Shareholders' equity		
Ordinary shares and additional paid-in capital	53,077	51,931
Treasury shares	(38)	(38)
Retained earnings	<u>89,904</u>	<u>88,907</u>
Total shareholders' equity	<u>142,943</u>	<u>140,800</u>
Total liabilities and shareholders' equity	<u>\$ 167,446</u>	<u>\$ 162,614</u>

Silicom Ltd. Consolidated Statements of Operations

(US\$ thousands, except for share and per share data)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2018	2017	2018	2017
Sales	\$ 27,603	\$ 30,266	\$ 57,125	\$ 55,608
Cost of sales	<u>18,714</u>	<u>19,142</u>	<u>43,686</u>	<u>34,899</u>
Gross profit	<u>8,889</u>	<u>11,124</u>	<u>13,439</u>	<u>20,709</u>
Research and development expenses	3,647	3,328	7,078	6,842
Selling and marketing expenses	1,596	1,593	3,132	3,235
General and administrative expenses	<u>1,068</u>	<u>1,109</u>	<u>1,975</u>	<u>2,298</u>
Total operating expenses	<u>6,311</u>	<u>6,030</u>	<u>12,185</u>	<u>12,375</u>
Operating income (loss)	2,578	5,094	1,254	8,334
Financial income, net	<u>200</u>	<u>13</u>	<u>484</u>	<u>43</u>
Income (Loss) before income taxes	2,778	5,107	1,738	8,377
Income taxes	<u>342</u>	<u>914</u>	<u>741</u>	<u>1,587</u>
Net income (loss)	<u>\$ 2,436</u>	<u>\$ 4,193</u>	<u>\$ 997</u>	<u>\$ 6,790</u>
Basic income (loss) per ordinary share (US\$)	<u>\$ 0.32</u>	<u>\$ 0.57</u>	<u>\$ 0.13</u>	<u>\$ 0.92</u>
Weighted average number of ordinary shares used to compute basic income per share (in thousands)	<u>7,550</u>	<u>7,420</u>	<u>7,550</u>	<u>7,401</u>
Diluted income (loss) per ordinary share (US\$)	<u>\$ 0.32</u>	<u>\$ 0.55</u>	<u>\$ 0.13</u>	<u>\$ 0.90</u>
Weighted average number of ordinary shares used to compute diluted income per share (in thousands)	<u>7,629</u>	<u>7,573</u>	<u>7,671</u>	<u>7,536</u>

Silicom Ltd. Reconciliation of Non-GAAP Financial Results

(US\$ thousands, except for share and per share data)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2018	2017	2018	2017
GAAP gross profit	\$ 8,889	\$ 11,124	\$ 13,439	\$ 20,709
(1) Share-based compensation (*)	87	83	146	176
(2) Discontinued project-related write-offs	-	-	4,985	-
Non-GAAP gross profit	<u>\$ 8,976</u>	<u>\$ 11,207</u>	<u>\$ 18,570</u>	<u>\$ 20,885</u>
GAAP operating income (loss)	\$ 2,578	\$ 5,094	\$ 1,254	\$ 8,334
Gross profit adjustments	87	83	5,131	176
(1) Share-based compensation (*)	522	457	923	1,125
(2) Discontinued project-related write-offs	-	-	13	-
(3) Amortization of acquired intangible assets	314	479	617	955
(4) Changes in the fair value of contingent consideration	-	60	-	118
Non-GAAP operating income	<u>\$ 3,501</u>	<u>\$ 6,173</u>	<u>\$ 7,938</u>	<u>\$ 10,708</u>
GAAP net income (loss)	\$ 2,436	\$ 4,193	\$ 997	\$ 6,790
Operating income adjustments	923	1,079	6,684	2,374
(5) Taxes on amortization of acquired intangible assets	8	(27)	16	(53)
Non-GAAP net income	<u>\$ 3,367</u>	<u>\$ 5,245</u>	<u>\$ 7,697</u>	<u>\$ 9,111</u>
GAAP net income (loss)	\$ 2,436	\$ 4,193	\$ 997	\$ 6,790
Adjustments for Non-GAAP cost of sales	87	83	5,131	176
Adjustments for Non-GAAP Research and development expenses	420	512	770	1,054
Adjustments for Non-GAAP Selling and marketing expenses	252	272	480	620
Adjustments for Non-GAAP General and administrative expenses	164	212	303	524
Adjustments for Non-GAAP Income taxes	8	(27)	16	(53)
Non-GAAP net income	<u>\$ 3,367</u>	<u>\$ 5,245</u>	<u>\$ 7,697</u>	<u>\$ 9,111</u>
GAAP basic income (loss) per ordinary share (US\$)	\$ 0.32	\$ 0.57	\$ 0.13	\$ 0.92
(1) Share-based compensation (*)	0.08	0.07	0.14	0.18
(2) Discontinued project-related write-offs	-	-	0.66	-
(3-5) Acquisition-related adjustments	0.05	0.07	0.09	0.13
Non-GAAP basic income per ordinary share (US\$)	<u>\$ 0.45</u>	<u>\$ 0.71</u>	<u>\$ 1.02</u>	<u>\$ 1.23</u>
GAAP diluted income (loss) per ordinary share (US\$)	\$ 0.32	\$ 0.55	\$ 0.13	\$ 0.90
(1) Share-based compensation (*)	0.08	0.07	0.14	0.17
(2) Discontinued project-related write-offs	-	-	0.65	-
(3-5) Acquisition-related adjustments	0.04	0.07	0.08	0.14
Non-GAAP diluted income per ordinary share (US\$)	<u>\$ 0.44</u>	<u>\$ 0.69</u>	<u>\$ 1.00</u>	<u>\$ 1.21</u>

(*) Adjustments related to share-based compensation expenses according to ASC topic 718 (SFAS 123 (R))