



FOR IMMEDIATE RELEASE

EARNINGS RELEASE

Silicom Reports Q2'23 Results:
\$38.1M Revenues with \$0.66 Non-GAAP EPS

KFAR SAVA, Israel, July 31, 2023 - 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, 2023.

Financial Results

Second Quarter: Silicom's revenues for the second quarter of 2023 totalled \$38.1 million, up 12% compared with \$34.2 million for the second quarter of 2022.

On a GAAP basis, net income for the quarter totalled \$3.8 million, or \$0.56 per share (basic and diluted), compared with \$4.5 million, or \$0.67 per diluted share (\$0.68 per basic share), for the second quarter of 2022.

On a non-GAAP basis (as described and reconciled below), net income for the quarter totalled \$4.5 million, or \$0.66 per share (basic and diluted), compared with \$4.7 million, or \$0.70 per diluted share (\$0.71 per basic share), for the second quarter of 2022.

First Six Months: Silicom's revenues for the first half of 2023 totalled \$75.3 million, up 14% compared with \$66.2 million for the first half of 2022.

On a GAAP basis, net income for the period totalled 7.3 million, or \$1.07 per diluted share (\$1.09 million per basic share), up 10% compared with \$6.7 million, or \$0.99 per diluted share (\$1.00 per basic share) for the first half of 2022.

On a non-GAAP basis (as described and reconciled below), net income for the period totalled \$8.6 million, or \$1.27 per diluted share (\$1.28 per basic share), up 12% compared with \$7.7 million, or \$1.14 per diluted share (\$1.16 per basic share) for the first half of 2022.

Cash and Buyback

Our cash position continues to improve. Our balance of cash, cash equivalents and marketable securities increased by \$10 million during the second quarter, and currently stands at \$63 million with no debt. Based on our improved cash position and our expectation that our profitability will continue during the coming years, we intend to accelerate the pace at which we will be repurchasing our shares under the \$15 million Share Repurchase Plan that we announced three months ago.

Guidance

With supply chain issues and component lead times easing, some of the Company's major customers have begun drawing down the inventories they had stockpiled during the component shortages period. In addition, with broad expectations of a slowing macro economy, some of the Company's recent design wins have been ramping more slowly and cautiously than originally expected. As such, the Company projects that Q3 will be a slower quarter, with revenues ranging between \$30 and \$31 million.

Comments of Management

Liron Eizenman, Silicom's President and CEO, commented, "We are pleased to report another quarter of growing revenues and cash generation for Silicom, especially given the significant macro headwinds that currently characterize our markets. While these factors have impacted our revenue expectations for 2023 and may have an effect on our first half 2024 results, we believe that we are currently under-shipping end-market demand and that our longer-term picture remains strong. Given the sheer breadth of our addressable market, which is proving to be so much larger and faster-growing than we had originally estimated, coupled with our already impressive roster of customers and Design Wins, we believe that we will re-establish a growth trajectory once our customer activities and inventory levels return to normal."

Mr. Eizenman continued, "In fact, several developments during the quarter confirm the potential of our target markets. We were gratified that a leading US telecommunication service provider selected us once again as its partner for developing a strategic Edge Networking product, placing \$5 million in initial orders and planning a significant ramp up when development is complete. We also secured two new NIC wins from a major cyber security company, demonstrating the ongoing power and importance of our server adapter business. In parallel, our recent launch of an innovative Edge AI product line in partnership with Hailo has begun opening up entirely new use cases, adding new categories of sales opportunities and customers to our already rich pipeline."

Mr. Eizenman concluded, "Perhaps most important, the continually growing volume of Design Wins, opportunities and interest that we are seeing from top-tier players across a broad variety of industries continues to confirm our unique value proposition: a full-service model with an unmatched Edge Networking portfolio, rapid development and customization capabilities and a partnership approach. All in all, we believe that Silicom is well-positioned as a key player in our industry. We are optimistic about our long-term growth potential and increasingly excited about the opportunities that lie ahead of us."

Conference Call Details

Silicom's Management will host an interactive conference today, July 31st, at 9am Eastern Time (6am Pacific Time, 4pm Israel Time) to review and discuss the results.

To participate, investors may either listen via a webcast link hosted on Silicom's website or via the dial-in. The link is under the investor relations' webcast section of Silicom's website at

<https://www.silicom-usa.com/webcasts/>

For those that wish to dial in via telephone, one of the following teleconferencing numbers may be used:

US: 1 866 860 9642

ISRAEL: 03 918 0609

INTERNATIONAL: +972 3 918 0609

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

It is advised to connect to the conference call a few minutes before the start.

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 above-mentioned webcast 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 (the "SEC") 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, taxes on amortization of acquired intangible assets, as well as lease liabilities - financial expenses (income). 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 200 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, SD-WAN, NFV and Edge markets, the speed and extent to which solutions are adopted by these markets, likelihood that Silicom will rely increasingly on customers which provide solutions in these evolving markets, 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, disruptions to our manufacturing, sales & marketing, development and customer support activities, the impact of the war in Ukraine, rising inflation, rising interest rates, volatile exchange rates and commodities' prices, as well as any continuing or new effects resulting from the COVID-19 pandemic, and the global economy uncertainty which may impact customer demand through their exercising greater caution and selectivity with their short-term IT investment plans, as well as those other factors discussed in our Annual Report on Form 20-F and other documents filed by the Company and that may be subsequently filed by the company from time to time with the SEC. 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.

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-- FINANCIAL TABLES FOLLOW --

Silicom Ltd. Consolidated Balance Sheets

(US\$ thousands)

| | <u>June 30,</u> <u>2023</u> | <u>December 31,</u> <u>2022</u> |
|--|--------------------------------|------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 36,684 | \$ 30,734 |
| Marketable securities | 9,012 | 4,020 |
| Accounts receivables: Trade, net | 30,665 | 27,258 |
| Accounts receivables: Other | 5,709 | 3,620 |
| Inventories | <u>72,061</u> | <u>87,985</u> |
| Total current assets | <u>154,131</u> | <u>153,617</u> |
| Marketable securities | 17,617 | 15,163 |
| Assets held for employees' severance benefits | 1,641 | 1,715 |
| Deferred tax assets | 45 | 502 |
| Property, plant and equipment, net | 4,014 | 4,488 |
| Intangible assets, net | 6,999 | 6,710 |
| Right of Use | 7,830 | 8,441 |
| Goodwill | <u>25,561</u> | <u>25,561</u> |
| Total assets | <u>\$ 217,838</u> | <u>\$ 216,197</u> |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Trade accounts payable | \$ 10,365 | \$ 15,922 |
| Other accounts payable and accrued expenses | 8,609 | 9,641 |
| Lease Liabilities | <u>2,150</u> | <u>1,549</u> |
| Total current liabilities | 21,124 | 27,112 |
| Lease Liabilities | 4,818 | 6,291 |
| Liability for employees' severance benefits | 3,306 | 3,425 |
| Deferred tax liabilities | <u>83</u> | <u>74</u> |
| Total liabilities | <u>29,331</u> | <u>36,902</u> |
| Shareholders' equity | | |
| Ordinary shares and additional paid-in capital | 68,775 | 66,578 |
| Treasury shares | (35,224) | (34,896) |
| Retained earnings | <u>154,956</u> | <u>147,613</u> |
| Total shareholders' equity | <u>188,507</u> | <u>179,295</u> |
| Total liabilities and shareholders' equity | <u>\$ 217,838</u> | <u>\$ 216,197</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, | |
|--|--------------------------------------|-----------|------------------------------------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| Sales | \$ 38,130 | \$ 34,154 | \$ 75,311 | \$ 66,224 |
| Cost of sales | 25,968 | 22,032 | 51,364 | 43,212 |
| Gross profit | 12,162 | 12,122 | 23,947 | 23,012 |
| Research and development expenses | 5,253 | 5,257 | 10,391 | 10,735 |
| Selling and marketing expenses | 1,894 | 1,599 | 3,397 | 3,382 |
| General and administrative expenses | 1,013 | 1,131 | 2,106 | 2,328 |
| Total operating expenses | 8,160 | 7,987 | 15,894 | 16,445 |
| Operating income | 4,002 | 4,135 | 8,053 | 6,567 |
| Financial income (loss), net | 468 | 1,159 | 767 | 1,500 |
| Income before income taxes | 4,470 | 5,294 | 8,820 | 8,067 |
| Income taxes | 664 | 770 | 1,477 | 1,370 |
| Net income | \$ 3,806 | \$ 4,524 | \$ 7,343 | \$ 6,697 |
| Basic income per ordinary share (US\$) | \$ 0.56 | \$ 0.68 | \$ 1.09 | \$ 1.00 |
| Weighted average number of ordinary shares used to compute basic income per share (in thousands) | 6,772 | 6,666 | 6,760 | 6,674 |
| Diluted income per ordinary share (US\$) | \$ 0.56 | \$ 0.67 | \$ 1.07 | \$ 0.99 |
| Weighted average number of ordinary shares used to compute diluted income per share (in thousands) | 6,827 | 6,749 | 6,837 | 6,789 |

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, | |
|--|--------------------------------------|------------------|------------------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| GAAP gross profit | \$ 12,162 | \$ 12,122 | \$ 23,947 | \$ 23,012 |
| (1) Share-based compensation (*) | 104 | 173 | 218 | 334 |
| Non-GAAP gross profit | <u>\$ 12,266</u> | <u>\$ 12,295</u> | <u>\$ 24,165</u> | <u>\$ 23,346</u> |
| GAAP operating income | \$ 4,002 | \$ 4,135 | \$ 8,053 | \$ 6,567 |
| Gross profit adjustments | 104 | 173 | 218 | 334 |
| (1) Share-based compensation (*) | 647 | 683 | 1,257 | 1,468 |
| Non-GAAP operating income | <u>\$ 4,753</u> | <u>\$ 4,991</u> | <u>\$ 9,528</u> | <u>\$ 8,369</u> |
| GAAP net income | \$ 3,806 | \$ 4,524 | \$ 7,343 | \$ 6,697 |
| Operating income adjustments | 751 | 856 | 1,475 | 1,802 |
| (2) Lease liabilities - financial expenses (income) | (136) | (734) | (304) | (920) |
| (3) Taxes on amortization of acquired intangible assets | 67 | 67 | 135 | 135 |
| Non-GAAP net income | <u>\$ 4,488</u> | <u>\$ 4,713</u> | <u>\$ 8,649</u> | <u>\$ 7,714</u> |
| GAAP net income | \$ 3,806 | \$ 4,524 | \$ 7,343 | \$ 6,697 |
| Adjustments for Non-GAAP Cost of sales | 104 | 173 | 218 | 334 |
| Adjustments for Non-GAAP Research and development expenses | 292 | 373 | 598 | 748 |
| Adjustments for Non-GAAP Selling and marketing expenses | 196 | 163 | 349 | 371 |
| Adjustments for Non-GAAP General and administrative expenses | 159 | 147 | 310 | 349 |
| Adjustments for Non-GAAP Financial income (loss), net | (136) | (734) | (304) | (920) |
| Adjustments for Non-GAAP Income taxes | 67 | 67 | 135 | 135 |
| Non-GAAP net income | <u>\$ 4,488</u> | <u>\$ 4,713</u> | <u>\$ 8,649</u> | <u>\$ 7,714</u> |
| GAAP basic income per ordinary share (US\$) | \$ 0.56 | \$ 0.68 | \$ 1.09 | \$ 1.00 |
| (1) Share-based compensation (*) | 0.11 | 0.13 | 0.21 | 0.27 |
| (2) Lease liabilities - financial expenses (income) | (0.02) | (0.11) | (0.04) | (0.13) |
| (3) Taxes on amortization of acquired intangible assets | 0.01 | 0.01 | 0.02 | 0.02 |
| Non-GAAP basic income per ordinary share (US\$) | <u>\$ 0.66</u> | <u>\$ 0.71</u> | <u>\$ 1.28</u> | <u>\$ 1.16</u> |
| GAAP diluted income per ordinary share (US\$) | \$ 0.56 | \$ 0.67 | \$ 1.07 | \$ 0.99 |
| (1) Share-based compensation (*) | 0.11 | 0.13 | 0.22 | 0.27 |
| (2) Lease liabilities - financial expenses (income) | (0.02) | (0.11) | (0.04) | (0.14) |
| (3) Taxes on amortization of acquired intangible assets | 0.01 | 0.01 | 0.02 | 0.02 |
| Non-GAAP diluted income per ordinary share (US\$) | <u>\$ 0.66</u> | <u>\$ 0.70</u> | <u>\$ 1.27</u> | <u>\$ 1.14</u> |

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