

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 24, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-39675

ALLEGRO MICROSYSTEMS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware <small>(State or other jurisdiction of incorporation or organization)</small>	46-2405937 <small>(I.R.S. Employer Identification No.)</small>
955 Perimeter Road	
Manchester, New Hampshire	03103
<small>(Address of principal executive offices)</small>	<small>(Zip Code)</small>

(603) 626-2300

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<small>Title of each class</small>	<small>Trading Symbol(s)</small>	<small>Name of each exchange on which registered</small>
Common Stock, par value \$0.01 per share	ALGM	The Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 20, 2021, the registrant had 189,702,550 shares of common stock, \$0.01 par value per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the “Quarterly Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding our future results of operations and financial position, business strategy, the impact of the ongoing and global COVID-19 pandemic on our business, prospective products and the plans and objectives of management for future operations, may be forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, including, among others, statements regarding the liquidity, growth and profitability strategies and factors and trends affecting our business are forward-looking statements. Without limiting the foregoing, in some cases, you can identify forward-looking statements by terms such as “aim,” “may,” “will,” “should,” “expect,” “exploring,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” “seek,” or “continue” or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. No forward-looking statement is a guarantee of future results, performance, or achievements, and one should avoid placing undue reliance on such statements.

Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to us. Such beliefs and assumptions may or may not prove to be correct. Additionally, such forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, and actual results may differ materially from those expressed or implied in the forward-looking statements due to various factors, including, but not limited to, those identified in Part I, Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report and Part II, Item 1A., “Risk Factors” in our Annual Report on Form 10-K for the year ended March 26, 2021 (the “2021 Annual Report”). These risks and uncertainties include, but are not limited to:

- downturns or volatility in general economic conditions, including as a result of the COVID-19 pandemic, particularly in the automotive market;
- our ability to compete effectively, expand our market share and increase our net sales and profitability;
- our ability to compensate for decreases in average selling prices of our products;
- the cyclical nature of the analog semiconductor industry;
- shifts in our product mix or customer mix, which could negatively impact our gross margin;
- our ability to manage any sustained yield problems or other delays at our third-party wafer fabrication facilities or in the final assembly and test of our products;
- any disruptions at our primary third-party wafer fabrication facilities;
- our ability to fully realize the benefits of past and potential future initiatives designed to improve our competitiveness, growth and profitability;
- our ability to accurately predict our quarterly net sales and operating results;
- our ability to adjust our supply chain volume to account for changing market conditions and customer demand;
- our reliance on a limited number of third-party wafer fabrication facilities and suppliers of other materials;
- our dependence on manufacturing operations in the Philippines;
- our reliance on distributors to generate sales;
- our indebtedness may limit our flexibility to operate our business;
- the loss of one or more significant end customers;
- our ability to develop new product features or new products in a timely and cost-effective manner;
- our ability to meet customers’ quality requirements;
- uncertainties related to the design win process and our ability to recover design and development expenses and to generate timely or sufficient net sales or margins;
- changes in government trade policies, including the imposition of tariffs and export restrictions;
- our exposures to warranty claims, product liability claims and product recalls;
- our ability to protect our proprietary technology and inventions through patents or trade secrets;
- our ability to commercialize our products without infringing third-party intellectual property rights;
- disruptions or breaches of our information technology systems;

- risks related to governmental regulation and other legal obligations, including privacy, data protection, information security, consumer protection, environmental and occupational health and safety, anti-corruption and anti-bribery, and trade controls;
- our dependence on international customers and operations;
- the availability of rebates, tax credits and other financial incentives on end-user demands for certain products;
- the volatility of currency exchange rates;
- risks related to acquisitions of and investments in new businesses, products or technologies, joint ventures and other strategic transactions;
- our ability to raise capital to support our growth strategy;
- our ability to effectively manage our growth and to retain key and highly skilled personnel;
- changes in tax rates or the adoption of new tax legislation;
- risks related to litigation, including securities class action litigation; and
- our ability to accurately estimate market opportunity and growth forecasts.

Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report, whether as a result of any new information, future events or otherwise.

Unless the context otherwise requires, references to “we,” “us,” “our,” the “Company” and “Allegro” refer to the operations of Allegro MicroSystems, Inc. and its consolidated subsidiaries.

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ALLEGRO MICROSYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value and share amounts)

	September 24, 2021 (Unaudited)	March 26, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 248,579	\$ 197,214
Restricted cash	7,105	6,661
Trade accounts receivable, net of provision for expected credit losses of \$176 at September 24, 2021 and allowance for doubtful accounts of \$138 at March 26, 2021	73,971	69,500
Trade and other accounts receivable due from related party	23,853	23,832
Accounts receivable – other	1,295	1,516
Inventories	78,042	87,498
Prepaid expenses and other current assets	13,069	18,374
Assets held for sale	—	25,969
Total current assets	445,914	430,564
Property, plant and equipment, net	198,069	192,393
Operating lease right-of-use assets	17,054	—
Deferred income tax assets	20,134	26,972
Goodwill	20,093	20,106
Intangible assets, net	36,131	36,366
Equity investment in related party	27,169	26,664
Other assets, net	38,687	14,613
Total assets	\$ 803,251	\$ 747,678
Liabilities, Non-Controlling Interest and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 29,158	\$ 35,389
Amounts due to related party	3,686	2,353
Accrued expenses and other current liabilities	52,049	78,932
Current portion of operating lease liabilities	3,523	—
Total current liabilities	88,416	116,674
Obligations due under Senior Secured Credit Facilities	25,000	25,000
Operating lease liabilities, less current portion	13,793	—
Other long-term liabilities	19,489	19,133
Total liabilities	146,698	160,807
Commitments and contingencies (Note 16)		
Stockholders' Equity:		
Preferred Stock, \$0.01 par value; 20,000,000 shares authorized, no shares issued or outstanding at September 24, 2021 and March 26, 2021	—	—
Common stock, \$0.01 par value; 1,000,000,000 shares authorized, 189,702,550 shares issued and outstanding at September 24, 2021; 1,000,000,000 shares authorized, 189,588,161 issued and outstanding at March 26, 2021	1,897	1,896
Additional paid-in capital	604,488	592,170
Retained earnings	64,406	3,551
Accumulated other comprehensive loss	(15,368)	(11,865)
Equity attributable to Allegro MicroSystems, Inc.	655,423	585,752
Non-controlling interests	1,130	1,119
Total stockholders' equity	656,553	586,871
Total liabilities, non-controlling interest and stockholders' equity	\$ 803,251	\$ 747,678

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Net sales	\$ 156,445	\$ 114,138	\$ 309,134	\$ 205,519
Net sales to related party	37,165	22,511	72,618	46,131
Total net sales	193,610	136,649	381,752	251,650
Cost of goods sold	91,078	74,879	185,060	134,179
Gross profit	102,532	61,770	196,692	117,471
Operating expenses:				
Research and development	29,590	25,130	59,144	49,510
Selling, general and administrative	34,088	24,238	66,152	51,027
Change in fair value of contingent consideration	300	—	600	—
Total operating expenses	63,978	49,368	125,896	100,537
Operating income	38,554	12,402	70,796	16,934
Other (expense) income:				
Interest (expense) income, net	(1,150)	350	(1,495)	663
Foreign currency transaction gain (loss)	202	(1,318)	(52)	(1,186)
Income in earnings of equity investment	226	246	505	458
Other, net	1,534	20	1,582	213
Income before income tax provision	39,366	11,700	71,336	17,082
Income tax provision	6,143	2,082	10,406	2,610
Net income	33,223	9,618	60,930	14,472
Net income attributable to non-controlling interests	37	34	75	68
Net income attributable to Allegro MicroSystems, Inc.	\$ 33,186	\$ 9,584	\$ 60,855	\$ 14,404
Net income attributable to Allegro MicroSystems, Inc. per share (Note 17):				
Basic	\$ 0.17	\$ 0.96	\$ 0.32	\$ 1.44
Diluted	\$ 0.17	\$ 0.96	\$ 0.32	\$ 1.44
Weighted average shares outstanding:				
Basic	189,673,788	10,000,000	189,629,535	10,000,000
Diluted	191,676,422	10,000,000	191,416,250	10,000,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)
(Unaudited)

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Net income	\$ 33,223	\$ 9,618	\$ 60,930	\$ 14,472
Net income attributable to non-controlling interest	37	34	75	68
Net income attributable to Allegro MicroSystems, Inc.	33,186	9,584	60,855	14,404
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(3,537)	1,900	(3,567)	6,180
Net actuarial loss amortization of net transition obligation and prior service costs related to defined benefit plans, net of tax	—	—	—	(313)
Comprehensive income	29,649	11,484	\$ 57,288	\$ 20,271
Other comprehensive loss (income) attributable to non-controlling interest	34	(31)	64	(24)
Comprehensive income attributable to Allegro MicroSystems, Inc.	\$ 29,683	\$ 11,453	\$ 57,352	\$ 20,247

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except share amounts)
(Unaudited)

	Common Stock, Class A		Common Stock, Class L		Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at June 26, 2020	10,000,000	\$ 100	638,298	\$ 6	—	\$ —	—	\$ —	\$ 439,679	\$ 199,175	\$ (16,002)	\$ 977	\$ 623,935
Net income	—	—	—	—	—	—	—	—	—	9,584	—	34	9,618
Capitalization changes related to organizational structure of affiliates and direct and indirect interests in subsidiaries	—	—	—	—	—	—	—	—	(527)	—	—	—	(527)
Stock-based compensation	—	—	—	—	—	—	—	—	580	—	—	—	580
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	1,869	31	1,900
Balance at September 25, 2020	<u>10,000,000</u>	<u>\$ 100</u>	<u>638,298</u>	<u>\$ 6</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 439,732</u>	<u>\$ 208,759</u>	<u>\$ (14,133)</u>	<u>\$ 1,042</u>	<u>\$ 635,506</u>

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance at June 25, 2021	—	\$ —	189,581,621	\$ 1,896	\$ 597,001	\$ 31,220	\$ (11,865)	\$ 1,127	\$ 619,379
Net income	—	—	—	—	—	33,186	—	37	33,223
Employee stock purchase plan issuances	—	—	59,563	—	1,291	—	—	—	1,291
Stock-based compensation, net of forfeitures	—	—	61,366	1	6,196	—	—	—	6,197
Foreign currency translation adjustment	—	—	—	—	—	—	(3,503)	(34)	(3,537)
Balance at September 24, 2021	<u>—</u>	<u>\$ —</u>	<u>189,702,550</u>	<u>\$ 1,897</u>	<u>\$ 604,488</u>	<u>\$ 64,406</u>	<u>\$ (15,368)</u>	<u>\$ 1,130</u>	<u>\$ 656,553</u>

	Common Stock, Class A		Common Stock, Class L		Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at March 27, 2020	10,000,000	\$ 100	622,470	\$ 6	—	\$ —	—	\$ —	\$ 458,697	\$ 194,355	\$ (19,976)	\$ 950	\$ 634,132
Net income	—	—	—	—	—	—	—	—	—	14,404	—	68	14,472
Issuance of Class L shares, net of forfeitures	—	—	15,828	—	—	—	—	—	—	—	—	—	—
Capitalization changes related to organizational structure of affiliates and direct and indirect interests in subsidiaries	—	—	—	—	—	—	—	—	(19,692)	—	—	—	(19,692)
Reclassification of certain class L shares	—	—	—	—	—	—	—	—	(298)	—	—	—	(298)
Stock-based compensation	—	—	—	—	—	—	—	—	1,025	—	—	—	1,025
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	6,156	24	6,180
Net actuarial loss and amortization of net transition obligation and prior service costs related to defined benefit plans, net of tax	—	—	—	—	—	—	—	—	—	—	(313)	—	(313)
Balance at September 25, 2020	<u>10,000,000</u>	<u>\$ 100</u>	<u>638,298</u>	<u>\$ 6</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 439,732</u>	<u>\$ 208,759</u>	<u>\$ (14,133)</u>	<u>\$ 1,042</u>	<u>\$ 635,506</u>

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount					
Balance at March 26, 2021	—	\$ —	189,588,161	\$ 1,896	\$ 592,170	\$ 3,551	\$ (11,865)	\$ 1,119	\$ 586,871
Net income	—	—	—	—	—	60,855	—	75	60,930
Employee stock purchase plan issuances	—	—	59,563	—	1,291	—	—	—	1,291
Stock-based compensation, net of forfeitures	—	—	54,826	1	11,027	—	—	—	11,028
Foreign currency translation adjustment	—	—	—	—	—	—	(3,503)	(64)	(3,567)
Balance at September 24, 2021	<u>—</u>	<u>\$ —</u>	<u>189,702,550</u>	<u>\$ 1,897</u>	<u>\$ 604,488</u>	<u>\$ 64,406</u>	<u>\$ (15,368)</u>	<u>\$ 1,130</u>	<u>\$ 656,553</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

ALLEGRO MICROSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six-Month Period Ended	
	September 24, 2021	September 25, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 60,930	\$ 14,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,511	24,026
Amortization of deferred financing costs	25	—
Deferred income taxes	(2,246)	1,307
Stock-based compensation	11,027	1,025
(Gain) loss on disposal of assets	(330)	293
Loss on contingent consideration change in fair value	600	—
Provisions for inventory and credit losses/bad debt	2,869	209
Unrealized gains on marketable securities	(978)	—
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,299)	6,196
Accounts receivable - other	181	(1,292)
Inventories	4,415	(8,772)
Prepaid expenses and other assets	(6,761)	(16,725)
Trade accounts payable	(6,188)	2,793
Due to/from related parties	1,312	10,731
Accrued expenses and other current and long-term liabilities	(17,192)	(5,623)
Net cash provided by operating activities	69,876	28,640
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(33,821)	(18,091)
Acquisition of business, net of cash acquired	(12,549)	(8,500)
Proceeds from sales of property, plant and equipment	27,407	282
Investments in marketable securities	(4,334)	—
Contribution of cash balances due to divestiture of subsidiary	—	(16,335)
Net cash used in investing activities	(23,297)	(42,644)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock under employee stock purchase plan	1,291	—
Net cash provided by financing activities	1,291	—
Effect of exchange rate changes on Cash and cash equivalents and Restricted cash	3,939	2,480
Net increase in Cash and cash equivalents and Restricted cash	51,809	(11,524)
Cash and cash equivalents and Restricted cash at beginning of period	203,875	219,876
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD:	\$ 255,684	\$ 208,352
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents at beginning of period	\$ 197,214	\$ 214,491
Restricted cash at beginning of period	6,661	5,385
Cash and cash equivalents and Restricted cash at beginning of period	\$ 203,875	\$ 219,876
Cash and cash equivalents at end of period	248,579	201,998
Restricted cash at end of period	7,105	6,354
Cash and cash equivalents and Restricted cash at end of period	\$ 255,684	\$ 208,352
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 269	\$ 107
Cash paid for income taxes	7,993	6,385
Noncash transactions:		
Changes in Trade accounts payable related to Property, plant and equipment, net	\$ (3,183)	\$ (4,000)
Loans to cover purchase of common stock under employee stock plan	—	171
Recognition of right of use assets and lease liability upon adoption of new accounting standard	356	—

The accompanying notes are an integral part of these condensed consolidated financial statements.

ALLEGRO MICROSYSTEMS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements
(Amounts in thousands, except share and per share amounts)

1. Nature of the Business and Basis of Presentation

Allegro MicroSystems, Inc., together with its consolidated subsidiaries (“AMI” or the “Company”), is a global leader in designing, developing and manufacturing sensing and power solutions for motion control and energy-efficient systems in automotive and industrial markets. The Company is headquartered in Manchester, New Hampshire, and has a global footprint with 16 locations across four continents.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited condensed consolidated financial statements include the Company’s accounts and those of its subsidiaries. All intercompany balances have been eliminated in consolidation. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on May 19, 2021 (the “2021 Annual Report”). In the opinion of the Company’s management, the financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of the Company’s financial position, results of operations and cash. The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for the entire year.

On November 2, 2020, the Company completed its initial public offering (“IPO”). Refer to Note 1, “Nature of Business and Basis of Presentation” to the Company’s 2021 Annual Report for details.

Financial Periods

The Company’s second quarter three-month period is a 13-week period ending on the Friday closest to the last day in September. The Company’s second quarter of fiscal 2022 ended September 24, 2021, and the Company’s second quarter of fiscal 2021 ended September 25, 2020.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingencies at the date of the unaudited consolidated financial statements and the reported amounts of net sales and expenses during the reporting period. Such estimates relate to useful lives of fixed and intangible assets, allowances for doubtful accounts and customer returns and sales allowances. Such estimates could also relate to the fair value of acquired assets and liabilities, including goodwill and intangible assets, net realizable value of inventory, accrued liabilities, the valuation of stock-based awards, deferred tax valuation allowances, and other reserves. On an ongoing basis, management evaluates its estimates. Actual results could differ from those estimates, and such differences may be material to the unaudited condensed consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications.

Concentrations of Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with financial institutions that management believes to be of a high credit quality. To manage credit risk related to accounts receivables, the Company evaluates the creditworthiness of its customers and maintains allowances, to the extent necessary, for potential credit losses based upon the aging of its accounts receivable balances and known collection issues. The Company has not experienced any significant credit losses to date.

As of September 24, 2021 and March 26, 2021, Sanken Electric Co., Ltd. (“Sanken”) accounted for 24.3% and 22.7% of the Company’s outstanding trade accounts receivable, net, respectively, including related party trade accounts receivable. No other customers accounted for 10% or more of outstanding trade accounts receivable, net during those periods.

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

For the three- and six-month periods ended September 24, 2021, Sanken accounted for 19.2% and 19.0% of total net sales, respectively. No other customers accounted for 10% or more of total net sales for either of the three- and six-month periods ended September 24, 2021. For the three- and six-month periods ended September 25, 2020, Sanken accounted for 16.5% and 18.3% of total net sales, respectively. No other customers accounted for 10% or more of total net sales for either of the three- and six-month periods ended September 25, 2020.

During the three-month period September 24, 2021, sales from customers located outside of the United States accounted for, in the aggregate, 85.6% of the Company's total net sales, with Greater China accounting for 26.2%, Japan accounting for 19.2% and South Korea accounting for 10.2%. During the six-month period September 24, 2021, sales from customers located outside of the United States accounted for, in the aggregate, 85.7% of the Company's total net sales, with Greater China accounting for 24.5%, Japan accounting for 19.0% and South Korea accounting for 10.9%. No other countries accounted for greater than 10% of total net sales for the three- and six-month periods ended September 24, 2021.

During the three-month period September 25, 2020, sales from customers located outside of the United States, in the aggregate, accounted for 84.7% of the Company's total net sales, with Greater China accounting for 27.8% and Japan accounting for 16.4%. During the six-month period September 25, 2020, sales from customers located outside of the United States, in the aggregate, accounted for 86.5% of the Company's total net sales, with Greater China accounting for 27.8%, Japan accounting for 18.3% and South Korea accounting for 10.4%. No other countries accounted for greater than 10% of total net sales for the three- and six-month periods ended September 25, 2020.

Recently Adopted Accounting Standards

The Company qualifies as "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 and has elected to "opt in" to the extended transition related to complying with new or revised accounting standards, which means that when a standard is issued or revised and it has different application dates for public and nonpublic companies, the Company will adopt the new or revised standard at the time nonpublic companies adopt the new or revised standard and will do so until such time that the Company either (i) irrevocably elects to "opt out" of such extended transition period or (ii) no longer qualifies as an emerging growth company. The Company may choose to early adopt any new or revised accounting standards whenever such early adoption is permitted for nonpublic companies.

In February 2016, the Financial Accounting Standards Board ("FASB") issued its new lease accounting guidance in Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which is codified as Accounting Standard Codification ("ASC") Topic 842 ("ASC 842") and replaces ASC Topic 840, Leases ("ASC 840"). ASU 2016-02 and all subsequent amendments amend various aspects of existing guidance for leases and require significant additional quantitative and qualitative disclosures about lease arrangements. ASU 2016-02 requires lessees to recognize lease assets representing the right to use an underlying asset and lease liabilities representing the obligation to make lease payments over the lease term, measured on a discounted basis, for substantially all leases. ASU 2016-02 retains a distinction between finance leases and operating leases using classification criteria that are substantially similar to the previous lease guidance. Although the Company has elected to opt-in to the extended transition dates for new or revised accounting standards to align with nonpublic companies, the Company elected to early adopt ASU 2016-02 effective March 27, 2021. The Company used the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Company has applied ASU 2016-02 to reporting periods beginning on March 27, 2021, while prior periods continue to be reported and disclosed in accordance with the legacy guidance under ASC 840.

A number of practical expedients and policy elections are available under the new guidance to reduce the burden of adoption and ongoing compliance with ASC 842. The Company elected the "package of practical expedients", which permitted the Company to retain lease classification and initial direct costs for any identified leases that existed prior to adoption of ASC 842. Under this transition guidance, the Company also did not reassess whether any existing contracts at March 27, 2021 are, or contain, leases and carried forward its initial determination under legacy lease guidance. The Company has elected not to adopt the "hindsight" practical expedient and, therefore, will measure the right-of-use ("ROU") asset and lease liability using the remaining portion of the lease term at adoption on March 27, 2021.

The Company made an accounting policy election available under the new lease standard to not recognize lease assets and lease liabilities for leases with a term of 12 months or less. For all other leases, the initial measurement of the lease liability is based on the present value of future lease payments over the lease term at the application date or the commencement date of the lease. Lease payments may include fixed rent escalation clauses or payments that depend on an index or a rate (such as the consumer price index) measured using the index or applicable rate at lease commencement. Subsequent changes in the index or rate and any other variable payments, such as market-rate base rent adjustments, are recognized as variable lease expense in the period incurred. Payments for terminating a lease are included in lease payments

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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only when it is probable they will be incurred. To determine the present value of lease payments, the Company uses its incremental borrowing rate, as the leases generally do not have a readily determinable implicit discount rate. The Company applies judgment in assessing factors such as Company-specific credit risk, lease term, nature and quality of the underlying collateral, currency and economic environment in determining the lease-specific incremental borrowing rate. The carrying value of the ROU assets at the application date equals the lease liability adjusted for any initial direct costs incurred and lease payments made at or before the commencement date and for any lease incentives.

The Company's leases generally include a non-lease component representing additional services transferred to the Company. The Company has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for all asset classes. The non-lease components are usually variable in nature and recorded in variable lease expense in the period incurred.

Adoption of ASC 842 resulted in ROU assets of \$18,403 and lease liabilities of \$18,759 related to the Company's operating leases at March 27, 2021. The Company does not have any leases classified as finance leases. The adoption of ASC 842 did not materially impact the Company's consolidated net income or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which adds an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce complexity by decreasing the number of credit impairment models that entities use to account for debt instruments. The Company adopted ASU 2016-13 effective March 27, 2021 and concluded that the standard update did not have a material impact on either the financial position, results of operations, cash flows, or related disclosures. There was no impact on beginning balance retained earnings upon adoption of this ASU.

The Company is exposed to credit losses primarily through trade and other financing receivables arising from revenue transactions. The Company uses an aging schedule method to estimate current expected credit losses based on days of delinquency, including information about past events and current economic conditions. The Company's accounts receivable is separated into two categories using a portfolio methodology to evaluate the allowance under the CECL impairment model based on sales categorization and similar credit quality and worthiness of the customers: original equipment manufacturers ("OEMs") and distributors. The receivables in each category share similar risk characteristics. The change to the CECL impairment model resulted in an immaterial increase in the provision for expected credit losses compared to the allowance for doubtful accounts under the previous incurred loss method.

The Company increases the allowance for expected credits losses when the Company determines all or a portion of a receivable is uncollectible. The Company recognizes recoveries as a decrease to the allowance for expected credit losses. For the three- and six-month periods ended September 24, 2021, no material changes in the allowance occurred.

Recently Issued Accounting Standards Not Yet Adopted

In May 2021, the FASB issued ASU No. 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2021-04"). ASU 2021-04 outlines how an entity should account for modifications made to equity-classified written call options, including stock options and warrants to purchase the entity's own common stock. The guidance in the ASU requires an entity to treat a modification of an equity-classified written call option that does not cause the option to become liability-classified as an exchange of the original option for a new option. This guidance applies whether the modification is structured as an amendment to the terms and conditions of the equity-classified written call option or as termination of the original option and issuance of a new option. The guidance is effective prospectively for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, including in an interim period as of the beginning of the fiscal year that includes that interim period. The Company is currently in the process of evaluating the impact of this new guidance on the consolidated financial statements and the related disclosures.

3. Revenue from Contracts with Customers

The Company generates revenue from the sale of magnetic sensor integrated circuits ("ICs") and application-specific analog power semiconductors. The following tables summarize net sales disaggregated by application, by product and by geography for the three- and six-month periods ended September 24, 2021 and September 25, 2020. The categorization of net

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sales by application is determined using various characteristics of the product and the application into which the Company's product will be incorporated. The categorization of net sales by geography is determined based on the location the products are being shipped to.

Net sales by application:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Automotive	\$ 126,031	\$ 89,479	\$ 259,554	\$ 165,857
Industrial	36,321	21,650	66,630	42,056
Other	31,258	25,520	55,568	43,737
Total net sales	\$ 193,610	\$ 136,649	\$ 381,752	\$ 251,650

Net sales by product:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Power integrated circuits	\$ 65,523	\$ 50,271	\$ 132,195	\$ 91,870
Magnetic sensors	127,621	86,097	248,263	159,499
Photonics	466	281	1,294	281
Total net sales	\$ 193,610	\$ 136,649	\$ 381,752	\$ 251,650

Net sales by geography:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Americas:				
United States	\$ 27,785	\$ 20,962	\$ 54,626	\$ 33,958
Other Americas	5,427	3,249	11,776	5,177
EMEA:				
Europe	32,466	24,374	67,217	42,220
Asia:				
Japan	37,165	22,511	72,618	46,131
Greater China	50,683	37,935	93,462	70,006
South Korea	19,746	12,515	41,679	26,127
Other Asia	20,338	15,103	40,374	28,031
Total net sales	\$ 193,610	\$ 136,649	\$ 381,752	\$ 251,650

The Company recognizes sales net of returns, credits issued, price protection adjustments and stock rotation rights. At September 24, 2021 and March 26, 2021, these adjustments were \$17,583 and \$15,412, respectively, and were netted against trade accounts receivable in the unaudited consolidated balance sheets. These amounts represent charges of \$2,171 and \$1,864, respectively, for the six-month periods ended September 24, 2021 and September 25, 2020, respectively.

Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. The Company elected to not disclose the amount of unsatisfied performance obligations, as these contracts have original expected durations of less than one year.

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4. Fair Value Measurements

The following tables present information about the Company’s financial assets and liabilities as of September 24, 2021 and March 26, 2021 measured at fair value on a recurring basis and indicate the level of the fair value hierarchy utilized to determine such fair values:

	Fair Value Measurement at September 24, 2021 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market fund deposits	\$ 16,341	\$ —	\$ —	\$ 16,341
Restricted cash:				
Money market fund deposits	7,105	—	—	7,105
Other assets, net (long-term):				
Investments in marketable securities	\$ 5,287	\$ —	\$ —	\$ 5,287
Total assets	\$ 28,733	\$ —	\$ —	\$ 28,733
Liabilities:				
Other long-term liabilities:				
Contingent consideration	\$ —	\$ —	\$ 5,400	\$ 5,400
Total liabilities	\$ —	\$ —	\$ 5,400	\$ 5,400

	Fair Value Measurement at March 26, 2021 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market fund deposits	\$ 16,327	\$ —	\$ —	\$ 16,327
Restricted cash:				
Money market fund deposits	6,661	—	—	6,661
Total assets	\$ 22,988	\$ —	\$ —	\$ 22,988
Liabilities:				
Other long-term liabilities:				
Contingent consideration	—	—	4,800	4,800
Total liabilities	\$ —	\$ —	\$ 4,800	\$ 4,800

The following table represents the unrealized gains and losses on investments in marketable securities held with a readily determinable fair value for the six-month period ended September 24, 2021:

Net gains and losses recognized during the period on equity securities	\$ 978
Less: Net gains and losses recognized during the period on equity securities sold during the period	—
Unrealized gains and losses recognized during the reporting period on equity securities still held at the reporting date	\$ 978

In addition to the unrealized gains in the table above, the change in fair value of the equity securities was impacted by unrealized foreign currency exchange losses of \$25 for the six-month period ended September 24, 2021

The following table shows the change in fair value of Level 3 contingent consideration in connection with the fiscal year 2021 purchase of Voxel, Inc. (“Voxel”), a privately-held technology company located in Beaverton, Oregon that

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Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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develops, manufactures and supplies photonic and advanced 3D imaging technologies (the “Voxtel Acquisition”), for the six-month period ended September 24, 2021:

	Level 3 Contingent Consideration
Balance at March 26, 2021	\$ 4,800
Change in fair value of contingent consideration	600
Balance at September 24, 2021	<u>\$ 5,400</u>

Assets and liabilities measured at fair value on a recurring basis also consist of marketable securities, unit investment trust fund, loans, bonds, stock and other investments which are the Company’s defined benefit plan assets. Fair value information for those assets and liabilities, including their classification in the fair value hierarchy, is included in Note 15, “Retirement Plans.”

During the six-month periods ended September 24, 2021 and September 25, 2020, there were no transfers among Level 1, Level 2 and Level 3 asset or liabilities.

5. Trade Accounts Receivable, net

Trade accounts receivable, net (including related party trade accounts receivable) consisted of the following:

	September 24, 2021	March 26, 2021
Trade accounts receivable	\$ 115,274	\$ 108,546
Less:		
Provision for expected credit losses and allowance for doubtful accounts	(176)	(138)
Returns and sales allowances	(17,407)	(15,274)
Related party trade accounts receivable	(23,720)	(23,634)
Total	<u>\$ 73,971</u>	<u>\$ 69,500</u>

Changes in the Company’s allowance for doubtful accounts and returns and sales allowances were as follows:

Description	Allowance for Doubtful Accounts	Returns and Sales Allowances	Total
Balance at March 26, 2021	\$ 138	\$ 15,274	\$ 15,412
Charged to costs and expenses or revenue	38	82,365	82,403
Write-offs, net of recoveries	—	(80,232)	(80,232)
Balance at September 24, 2021	<u>\$ 176</u>	<u>\$ 17,407</u>	<u>\$ 17,583</u>

Description	Allowance for Doubtful Accounts	Returns and Sales Allowances	Total
Balance at March 27, 2020	\$ 288	\$ 17,185	\$ 17,473
Charged to costs and expenses or revenue	50	64,316	64,366
Write-offs, net of recoveries	—	(62,502)	(62,502)
Balance at September 25, 2020	<u>\$ 338</u>	<u>\$ 18,999</u>	<u>\$ 19,337</u>

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Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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6. Inventories

Inventories include material, labor and overhead and consisted of the following:

	September 24, 2021	March 26, 2021
Raw materials and supplies	\$ 10,265	\$ 9,629
Work in process	43,964	50,095
Finished goods	23,813	27,774
Total	\$ 78,042	\$ 87,498

The Company recorded inventory provisions totaling \$1,852 and \$5,041 for the three- and six-month periods ended September 24, 2021, respectively, and \$490 and \$2,073 for the three- and six-month periods ended September 25, 2020, respectively.

The Company discontinued a product line manufactured by Voxel and subsequently recognized impairment charges, which represented much of the increase in inventory provisions, for the related inventory of \$271 and \$3,106 for the three- and six-month periods ended September 24, 2021, respectively.

7. Assets Held for Sale

As of March 26, 2021, the Company had entered into a definitive agreement to sell its Thailand-based facility (the “AMTC Facility”) as it had already transferred production to the Manila, Philippines facility, which was reclassified from Property, plant and equipment, net to Assets held for sale in fiscal year 2021. The sale of the AMTC Facility was completed on August 3, 2021 following receipt of government approvals in Thailand and the fulfillment of customary closing conditions. The Company received cash of \$27,405, which with related selling costs, resulted in a gain on the final disposition of \$370.

8. Property, Plant and Equipment, net

Property, plant and equipment, net is stated at cost, and consisted of the following:

	September 24, 2021	March 26, 2021
Land	\$ 16,227	\$ 16,602
Buildings, building improvements and leasehold improvements	56,992	56,911
Machinery and equipment	520,133	491,025
Office equipment	6,268	6,281
Construction in progress	16,947	29,201
Total	616,567	600,020
Less accumulated depreciation	(418,498)	(407,627)
Total	\$ 198,069	\$ 192,393

Total depreciation expense amounted to \$11,222 and \$22,342 for the three- and six-month periods ended September 24, 2021, respectively, and \$11,797 and \$22,606 for the three- and six-month periods ended September 25, 2020, respectively.

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Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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Long-lived assets include property, plant and equipment and related deposits on such assets, and capitalized tooling costs. The geographic locations of the Company's long-lived assets, net, based on physical location of the assets, as of September 24, 2021 and March 26, 2021 are as follows:

	September 24, 2021	March 26, 2021
United States	\$ 35,433	\$ 36,529
Philippines	155,564	148,374
Thailand	—	1,698
Other	7,407	7,190
Total	\$ 198,404	\$ 193,791

Amortization of prepaid tooling costs amounted to \$33 and \$66 for the three- and six-month periods ended September 24, 2021, respectively, and \$19 and \$36 for the three- and six-month periods ended September 25, 2020, respectively.

9. Goodwill and Intangible Assets

The table below summarizes the changes in the carrying amount of goodwill as follows:

	Total
Balance at March 26, 2021	\$ 20,106
Currency translation	(13)
Balance at September 24, 2021	\$ 20,093

Intangible assets, net is as follows:

Description	September 24, 2021			Weighted- Average Lives
	Gross	Accumulated Amortization	Net Carrying Amount	
Patents	\$ 34,616	\$ 13,799	\$ 20,817	10 years
Customer relationships	6,951	6,668	283	9 years
Process technology	13,100	1,197	11,903	12 years
Indefinite-lived and legacy process technology	4,050	1,650	2,400	
Trademarks	200	44	156	5 years
Legacy trademarks	629	57	572	
Other	32	32	—	
Total	\$ 59,578	\$ 23,447	\$ 36,131	

Description	March 26, 2021			Weighted- Average Lives
	Gross	Accumulated Amortization	Net Carrying Amount	
Patents	\$ 32,751	\$ 12,307	\$ 20,444	10 years
Customer relationships	6,193	5,865	328	9 years
Process technology	13,100	651	12,449	12 years
Indefinite-lived and legacy process technology	4,050	1,650	2,400	
Trademarks	200	24	176	5 years
Legacy trademarks	627	58	569	
Other	32	32	—	
Total	\$ 56,953	\$ 20,587	\$ 36,366	

Intangible assets amortization expense was \$1,084 and \$2,103 for the three- and six-month periods ended September 24, 2021, respectively, and \$671 and \$1,384 for the three- and six-month periods ended September 25, 2020,

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respectively. The majority of the Company's intangible assets are related to patents as noted above. The Company capitalizes external legal costs incurred in the defense of its patents when it believes that a significant, discernible increase in value will result from the defense and a successful outcome of the legal action is probable. When the Company capitalizes patent defense costs, it amortizes these costs over the remaining estimated useful life of the patent, which is generally 10 years. There were no significant costs capitalized during either of the first six months of fiscal years 2022 or 2021.

As of September 24, 2021, annual amortization expense of intangible assets for the next five fiscal years is expected to be as follows:

Remainder of 2022	\$	2,326
2023		3,360
2024		3,241
2025		3,039
2026		2,823
Thereafter		21,342
Total	\$	36,131

10. Other Assets, net

The composition of other assets, net is as follows:

	September 24, 2021	March 26, 2021
VAT receivables long-term, net	\$ 8,958	\$ 8,177
Income taxes receivable long-term	11,462	—
Investments in marketable securities ⁽¹⁾	5,287	—
Deposits	8,567	3,573
Prepaid contracts long-term	1,662	1,295
Deferred financing costs	99	149
Other	2,652	1,419
Total	\$ 38,687	\$ 14,613

(1) Represents equity investments in an entity whose equity securities have a readily determinable fair value. These strategic investments represent less than a 20% ownership interest in the entity, and the Company does not maintain power over or control of the entity. These investments are measured at fair value with unrealized gains and losses related to changes in the entity's stock price and the impact of changes in foreign exchange rates each included in the consolidated statements of operations.

11. Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities is as follows:

	September 24, 2021	March 26, 2021
Accrued management incentives	\$ 16,167	\$ 21,538
Accrued salaries and wages	16,838	15,060
Base acquisition purchase price due	2,000	14,588
Deposits on AMTC Facility	—	14,531
Accrued vacation	6,056	5,739
Accrued severance	497	572
Accrued professional fees	3,472	2,029
Accrued income taxes	1,487	514
Accrued utilities	622	623
Other current liabilities	4,910	3,738
Total	\$ 52,049	\$ 78,932

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Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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12. Leases

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to and the agreement creates enforceable rights and obligations. The Company also considers whether its service arrangements include the right to control the use of an asset.

The Company leases real estate, equipment and vehicles under operating lease agreements that have initial terms ranging from 1 to 11 years. The Company does not have any leases classified as finance leases. Some leases include one or more options to exercise renewal terms, generally at the Company's sole discretion, that can extend the lease term. Certain leases contain rights to terminate whereby those termination options are held by either the Company, the lessor, or both parties. These options to extend or terminate a lease are included in the lease term only when it is reasonably certain that the Company will exercise that option. The Company's leases generally do not contain any material restrictive covenants.

Operating lease cost is recognized on a straight-line basis over the lease term. Information regarding the Company's leases are as follows:

	<u>Three-Month Period Ended</u> <u>September 24, 2021</u>	<u>Six-Month Period Ended</u> <u>September 24, 2021</u>
Lease costs:		
Operating lease expense	\$ 1,154	\$ 2,302
Short term lease expense	87	141
Other information:		
Operating cash flows from operating leases	\$ 1,244	\$ 2,474
Weighted-average remaining lease term – operating leases	5.71 years	5.71 years
Weighted-average discount rate – operating leases	4.6 %	4.6 %

Rent expense incurred under operating lease agreements was \$1,537 and \$2,772 for the three- and six-month periods ended September 24, 2021, respectively, and \$1,122 and \$2,305 for the three- and six-month periods ended September 25, 2020.

As of September 24, 2021, expirations of lease obligations by fiscal year were as follows:

Remainder of 2022	\$	2,137
2023		3,922
2024		3,526
2025		3,095
2026		2,623
Thereafter		4,463
Total undiscounted lease payments	\$	19,766
Less: present value adjustment		(2,450)
Total operating lease liabilities	\$	17,316

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Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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Information as Lessee under ASC 840

Future minimum lease payments for noncancellable operating leases as reported under the previous lease guidance as of March 26, 2021 are as follows:

2022	\$	2,887
2023		2,726
2024		2,644
2025		2,172
2026		1,773
Thereafter		3,713
Total	\$	15,915

13. Debt and Other Borrowings

On September 30, 2020, the Company entered into a term loan credit agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent, and the other agents, arrangers and lenders party thereto, providing for a \$325,000 senior secured term loan facility due in 2027 (the “Term Loan Facility”). On September 30, 2020, the Company also entered into a revolving facility credit agreement with Mizuho Bank, Ltd., as administrative agent and collateral agent, and the other agents, arrangers and lenders party thereto, providing for a \$50,000 senior secured revolving credit facility expiring in 2023 (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Senior Secured Credit Facilities”). The Revolving Credit Facility is secured by a lien on the same collateral and on the same basis as the Term Loan Facility. Interest on the Term Loan Facility is calculated at LIBOR plus 3.75% to 4.00% based on the Company’s net leverage ratio, and LIBOR is subject to a 0.5% floor. The Company’s outstanding borrowings bore an interest rate of 4.25% at September 24, 2021. As of both September 24, 2021 and March 26, 2021, the Company had \$25,000 outstanding under the Term Loan Facility and had not borrowed on the Revolving Credit Facility.

Included in the Term Loan Facility were deferred financing costs of \$9,374, which the Company has deducted from the carrying amount presented on its unaudited consolidated balance sheet and amortized into interest expense or recognized as loss on debt extinguishment. Included in the Revolving Credit Facility were deferred financing costs of \$300, which the Company classified the related short-term and long-term portions within “Prepaid expenses and other current assets” and “Other assets” on its unaudited consolidated balance sheet and is amortizing those costs over the term of the facility. The unamortized portion of the deferred financing costs associated with the Revolving Credit Facility was \$199 at September 24, 2021.

On November 26, 2019, the Company, through its subsidiaries, entered into a line of credit agreement with a financial institution that provides for a maximum borrowing capacity of 60,000 Philippine pesos (approximately \$1,796 at September 24, 2021) at the bank’s prevailing interest rate. While this line of credit initially expired on August 21, 2021 (in connection with certain delays as a result of the COVID-19 pandemic and its impact on bank operations), the line of credit was extended in September 2021 and is now expected to expire on August 21, 2022. There were no borrowings outstanding under this line of credit as of September 24, 2021 and March 26, 2021.

On November 20, 2019, the Company, through its subsidiaries, entered into a line of credit agreement with a financial institution that provides for a maximum capacity of 75,000 Philippine pesos (approximately \$2,246 at September 24, 2021) at the bank’s prevailing interest rate. While this line of credit initially expired on June 30, 2021 (in connection with certain delays as a result of the COVID-19 pandemic and its impact on bank operations), the line of credit was extended in September 2021 and is now expected to expire on June 30, 2022. There were no borrowings outstanding under this line of credit as of September 24, 2021 and March 26, 2021.

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Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
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14. Other Long-Term Liabilities

The composition of other long-term liabilities is as follows:

	September 24, 2021	March 26, 2021
Accrued management incentives	\$ 614	\$ 628
Accrued retirement	10,669	10,656
Accrued contingent consideration	5,400	4,800
Provision for uncertain tax positions (net)	2,806	2,774
Other	—	275
Total	\$ 19,489	\$ 19,133

15. Retirement Plans

The Company recognizes the funded status (i.e., the difference between the fair value of plan assets and the benefit obligations) of its defined benefit pension plans in its unaudited consolidated balance sheets with a corresponding adjustment to accumulated other comprehensive income, net of tax. These amounts will continue to be recognized as a component of future net periodic benefit costs consistent with the Company's past practice. Further, actuarial gains and losses and prior service costs that arise in future periods and are not recognized as net periodic benefit costs in the same periods will be recognized as a component of other comprehensive income. Those amounts will also be recognized as a component of future net periodic benefit costs consistent with the Company's past practice. The Company uses a measurement date for its defined benefit pension plans and other postretirement benefit plans that is equivalent to its fiscal year-end.

Plan Descriptions

Non-U.S. Defined Benefit Plan

The Company, through its wholly owned subsidiary, Allegro MicroSystems Philippines, Inc. ("AMPI"), has a defined benefit pension plan, which is a noncontributory plan that covers substantially all employees of the respective subsidiary. The plan's assets are invested in common trust funds, bonds and other debt instruments and stocks.

Effect on the unaudited statements of operations

Expense related to the non-United States ("U.S.") defined benefit plan was as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Service cost	\$ 371	\$ 277	\$ 754	\$ 547
Interest cost	161	156	327	308
Expected return on plan assets	(76)	(74)	(155)	(152)
Amortization of prior service cost	—	2	—	4
Actuarial loss	52	45	105	79
Net periodic pension expense	\$ 508	\$ 406	\$ 1,031	\$ 786

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

Information on Plan Assets

The table below sets forth the fair value of the entity’s plan assets as of September 24, 2021 and March 26, 2021, using the same three-level hierarchy of fair value inputs described in the significant accounting policies included in the Company’s 2021 Annual Report.

	Fair Value at September 24, 2021	Level 1	Level 2	Level 3
Assets of non-U.S. defined benefit plan:				
Government securities	\$ 1,726	\$ 1,726	\$ —	\$ —
Unit investment trust fund	1,053	—	1,053	—
Loans	620	—	—	620
Bonds	867	—	867	—
Stocks and other investments	2,438	1,340	2	1,096
Total	\$ 6,704	\$ 3,066	\$ 1,922	\$ 1,716

	Fair Value at March 26, 2021	Level 1	Level 2	Level 3
Assets of non-U.S. defined benefit plan:				
Government securities	\$ 1,646	\$ 1,646	\$ —	\$ —
Unit investment trust fund	1,221	—	1,221	—
Loans	584	—	—	584
Bonds	1,112	—	1,112	—
Stocks and other investments	3,081	1,947	1	1,133
Total	\$ 7,644	\$ 3,593	\$ 2,334	\$ 1,717

The following table shows the change in fair value of Level 3 plan assets for the six-month period ended September 24, 2021:

	Level 3 Non-U.S. Defined Plan Assets	
	Loans	Stocks
Balance at March 26, 2021	\$ 584	\$ 1,133
Additions during the year	273	—
Redemptions during the year	(214)	—
Revaluation of equity securities	(1)	—
Change in foreign currency exchange rates	(22)	(37)
Balance at September 24, 2021	\$ 620	\$ 1,096

The investments in the Company’s major benefit plans largely consist of low-cost, broad-market index funds to mitigate risks of concentration within the market sectors. In recent years, the Company’s investment policy has shifted toward a closer matching of the interest-rate sensitivity of the plan assets and liabilities. The appropriate mix of equity and bond investments is determined primarily through the use of detailed asset-liability modeling studies that look to balance the impact of changes in the discount rate against the need to provide asset growth to cover future service cost. The Company, through its wholly owned subsidiary, Allegro MicroSystems, LLC’s (“AML”), non-U.S. defined benefit plan, has added a greater proportion of fixed income securities with return characteristics that are more closely aligned with changes in liabilities caused by discount rate volatility. There are no significant restrictions on the amount or nature of the investments that may be acquired or held by the plans.

During the three- and six-month periods ended September 24, 2021, the Company contributed approximately \$343 and \$696 to its non-U.S. pension plan, respectively. During the three- and six-month periods ended September 25, 2020, the Company contributed approximately \$247 and \$487 to its non-U.S. pension plan, respectively. The Company expects to contribute approximately \$943 to its non-U.S. pension plan in fiscal year 2022.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

Other Defined Benefit Plans

In December 1993, the Company commenced with a rollover pension promise agreement (“Pension Promise”) to offer a then European employee an insured annuity upon their retirement at age 65. The employee was the only eligible participant of the Pension Promise. The impact associated with the expense and related other income with the Pension Promise was insignificant in fiscal years 2021 and 2020, respectively. The total values of the Pension Promise in the amounts of 797 and 928 British Pounds Sterling at September 24, 2021 and March 26, 2021, respectively (approximately \$1,087 and \$1,272 at September 24, 2021 and March 26, 2021, respectively), were classified with other in other assets, net and accrued retirement in other long-term liabilities in the Company’s unaudited consolidated balance sheets.

Defined Contribution Plan

The Company has a 401(k) plan that covers all employees meeting certain service and age requirements. Employees are eligible to participate in the plan upon hire when the service and age requirements are met. Employees may contribute up to 35% of their compensation, subject to the maximum contribution allowed by the Internal Revenue Service. All employees are 100% vested in their contributions at the time of plan entry.

Eligible AML U.S. employees may contribute up to 50% of their pretax compensation to a defined contribution plan, subject to certain limitations, and AML may match, at its discretion, 100% of the participants’ pretax contributions, up to a maximum of 5% of their eligible compensation. Matching contributions by AML totaled approximately \$1,089 and \$2,345 for the three- and six-month periods ended September 24, 2021, respectively, and approximately \$1,040 and \$2,069 for the three- and six-month periods ended September 25, 2020, respectively.

The Company, through its AML subsidiary, Allegro MicroSystems Europe, Ltd. (“Allegro Europe”), also has a defined contribution plan (the “AME Plan”) covering substantially all employees of Allegro Europe. Contributions to the AME Plan by the Company totaled approximately \$211 and \$429 for the three- and six-month periods ended September 24, 2021, respectively, and approximately \$206 and \$385 for the three- and six-month periods ended September 25, 2020, respectively.

16. Commitments and Contingencies**Insurance**

The Company, through its subsidiaries, utilizes self-insured employee health programs for employees in the United States. The Company records estimated liabilities for its self-insured health programs based on information provided by the third-party plan administrators, historical claims experience and expected costs of claims incurred but not reported. The Company monitors its estimated liabilities on a quarterly basis. As facts change, it may become necessary to make adjustments that could be material to the Company’s unaudited consolidated financial position and results of operations. The accrued liability related to self-insurance was \$660 and \$1,518 as of September 24, 2021 and March 26, 2021, respectively, and was included in accrued expenses and other current liabilities in the Company’s unaudited consolidated balance sheets.

Legal proceedings

The Company is subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. The Company does not believe there are any such matters that could have a material adverse effect on the Company’s financial position, results of operations or cash flows. The Company records an accrual for legal contingencies when it is determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In making such determinations, the Company evaluates, among other things, the degree of probability of an unfavorable outcome and, when it is probable that a liability has been incurred, and the ability to make a reasonable estimate of the loss. If the occurrence of liability is probable, the Company will disclose the nature of the contingency, and if estimable, will provide the likely amount of such loss or range of loss.

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

Indemnification

From time to time, the Company has agreed to indemnify and hold harmless certain customers for potential allegations of infringement of intellectual property rights and patents arising from the use of its products. To date, the Company has not incurred any costs in connection with such indemnification arrangements; therefore, there was no accrual of such amounts at September 24, 2021 or March 26, 2021.

Environmental Matters

The Company establishes accrued liabilities for environmental matters when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. If the contingency is resolved for an amount greater or less than the accrual, or the Company's share of the contingency increases or decreases or other assumptions relevant to the development of the estimate were to change, the Company would recognize an additional expense or benefit in the unaudited consolidated statements of operations during the period such determination was made. No environmental accruals were established at September 24, 2021 or March 26, 2021.

17. Net Income per Share

In connection with completion of the Company's IPO on November 2, 2020 and immediately following the pricing of the IPO, all outstanding shares of Class A common stock and Class L common stock were automatically converted into an aggregate of 166,500,000 shares of common stock (the "Common Stock Conversion"). Outstanding shares of Class A and Class L common stock were converted to common stock in the Common Stock Conversion at conversion rates of approximately 15.822 and 13.010 shares of common stock to each share of Class A and Class L common stock, respectively. As part of the Common Stock Conversion, 2,066,508 and 1,766 shares of common stock were returned to the Company for tax payments made on behalf of holders of Class A common stock and Class L common stock, respectively, in withhold to cover tax transactions.

Prior to the Company's IPO, shares of Class A common stock were entitled to a priority dividend of 8%. After Class A shareholders received an annualized return on capital of 8%, distributions of the remaining value were split between Class A and Class L shareholders based on the achievement of certain return targets. In determining income to the Class A stockholders for computing basic and diluted earnings per share for the three- and six-month periods ended September 25, 2020, the Company did not allocate income to the shares of Class L common stock in accordance with ASC 260, because such classes of shares would not have shared in the distribution had all of the income for the periods been distributed. Accordingly, earnings per share calculations were provided only for the Class A shares with a weighted average of 10,000,000 shares for the three- and six-month periods ended September 25, 2020.

The following table sets forth the basic and diluted net income attributable to Allegro MicroSystems, Inc. per share. The number of shares of common stock reflected in the calculation is the total shares of common stock (vested and unvested) held on the IPO date, after the Common Stock Conversion.

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Net income attributable to Allegro MicroSystems, Inc.	\$ 33,186	\$ 9,584	\$ 60,855	\$ 14,404
Net income attributable to common stockholders	33,223	9,618	60,930	14,472
Basic weighted average shares of common stock	189,673,788	10,000,000	189,629,535	10,000,000
Dilutive effect of common stock equivalents	2,002,634	—	1,786,715	—
Diluted weighted average shares of common stock	191,676,422	10,000,000	191,416,250	10,000,000
Basic net income attributable to Allegro MicroSystems, Inc. per share	\$ 0.17	\$ 0.96	\$ 0.32	\$ 1.44
Basic net income attributable to common stockholders per share	\$ 0.18	\$ 0.96	\$ 0.32	\$ 1.45
Diluted net income attributable to Allegro MicroSystems, Inc. per share	\$ 0.17	\$ 0.96	\$ 0.32	\$ 1.44
Diluted net income attributable to common stockholders per share	\$ 0.17	\$ 0.96	\$ 0.32	\$ 1.45

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

The computed net income per share for the three- and six-month periods ended September 24, 2021 and September 25, 2020 does not assume conversion of securities that would have an antidilutive effect on income per share. There were 1,567 and 6,012 contingently issuable shares under the employee stock purchase plan excluded for the three- and six-month periods ended September 24, 2021 as such securities would have an antidilutive effect on income per share. There were no such convertible securities to consider for the three- and six-month periods ended September 25, 2020.

The following table represents issuable weighted average share information for the respective periods:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Restricted stock units	1,026,069	—	922,968	—
Performance stock units	976,565	—	863,747	—
Total	2,002,634	—	1,786,715	—

18. Common Stock and Stock-Based Compensation

The Company accounts for stock-based compensation through the measurement and recognition of compensation expense for share-based payment awards made to employees over the related requisite service period, including stock options, performance share units (“PSUs”), restricted share units (“RSUs”) and restricted shares (all part of our equity incentive plan).

During the six-month period ended September 24, 2021, the Company granted 960,031 RSUs to employees with an estimated grant date fair value of \$24.96. Stock-based compensation expense related to non-vested awards not yet recorded at September 24, 2021 was \$29,231, which is expected to be recognized over a weighted-average of 1.57 years. During the six-month period ended September 24, 2021, 64,583 shares vested.

PSUs are included at 100% - 200% of target goals. The intrinsic value of the PSU’s that were unvested during the six-month period ended September 24, 2021 was \$38,211. The total compensation cost related to unvested awards not yet recorded at September 24, 2021 was \$16,865, which is expected to be recognized over a weighted average of 2.03 years. No shares vested during the six-month period ended September 24, 2021.

During the six-month period ended September 24, 2021, 59,201 shares of the Company’s restricted common stock vested. In addition, 9,757 shares were forfeited, which reduced common stock outstanding during the same period. The Company had 337,369 unvested shares of restricted common stock at September 24, 2021 with a weighted average grant date fair value of \$14.00 and remaining vesting period of 1.33 years.

The Company recorded stock-based compensation expense in the following expense categories of its unaudited consolidated statements of operations:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Cost of sales	\$ 722	\$ 53	\$ 1,250	\$ 150
Research and development	1,043	32	1,795	53
Selling, general and administrative	4,431	495	7,982	822
Total stock-based compensation	\$ 6,196	\$ 580	\$ 11,027	\$ 1,025

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

19. Income Taxes

The Company recorded the following tax (benefit) provision in its unaudited consolidated statements of operations:

	Three-Month Period Ended		Six-Month Period Ended	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Operating taxes	\$ 6,150	\$ 1,589	\$ 11,268	\$ 2,405
Discrete tax items	(7)	493	(862)	205
Provision for income taxes	\$ 6,143	\$ 2,082	\$ 10,406	\$ 2,610
Annual operating tax rate	15.6 %	13.6 %	15.8 %	14.1 %
Effective tax rate	15.6 %	17.8 %	14.6 %	15.3 %

The Company’s provision for income taxes is comprised of the year-to-date taxes based on an estimate of the annual effective tax rate plus the tax impact of discrete items.

The Company is subject to tax in the U.S. and various foreign jurisdictions. The Company’s effective tax rate can fluctuate primarily based on: the mix of its U.S. and foreign income; the impact of discrete transactions; and the difference between the amount of tax benefit generated by the foreign derived intangible income deduction (“FDII”) and research credits offset by the additional tax from the global intangible low-tax income (“GILTI”).

The Company regularly assesses the likelihood of outcomes that could result from the examination of its tax returns by the IRS and other tax authorities to determine the adequacy of its income tax reserves and expense. Should actual events or results differ from the Company’s then-current expectations, charges or credits to the Company’s provision for income taxes may become necessary. Any such adjustments could have a significant effect on the results of operations.

Income tax expense and the effective income tax rate were \$6,143, or 15.6%, and \$10,406, or 14.6%, for the three- and six-month periods ended September 24, 2021, respectively, and \$2,082, or 17.8%, and \$2,610, or 15.3%, for the three- and six-month periods ended September 25, 2020, respectively. The fluctuation in our effective income tax rate relates primarily to differences in our US taxable income, estimated FDII benefits, GILTI income, research credits, non-deductible stock-based compensation charges, and discrete tax items.

20. Related Party Transactions

Transactions involving Sanken

The Company sells products and services to, and purchases in-process products from, Sanken. In addition, prior to March 28, 2020, the Company also sold products for Sanken.

Net sales of the Company’s products and services to Sanken totaled \$37,165 and \$72,618 during the three- and six-month periods ended September 24, 2021, respectively, and \$22,511 and \$46,131 during the three- and six-month periods ended September 25, 2020, respectively. Trade accounts receivables, net of allowances from Sanken, totaled \$23,720 and \$21,595 as of September 24, 2021 and March 26, 2021, respectively. Other accounts receivable from Sanken totaled \$133 and \$198 as of September 24, 2021 and March 26, 2021, respectively.

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

Transactions involving PSL

In May 2009, the Company entered into a technology development agreement (the “IC Technology Development Agreement”) with Polar Semiconductor, Inc. (“PSI”) (subsequently changed to Polar Semiconductor, LLC (“PSL”)), and Sanken, pursuant to which the parties agreed upon the general terms under which they may, from time to time, undertake certain activities (the “IC Process Development Activities”) to develop new technologies to be used by PSI to manufacture products for the Company and Sanken, as well as the ownership and use of such technologies following their development. The IC Technology Development Agreement provides that the expenses for all IC Process Development Activities will be shared equally by the Company and Sanken on an annual basis (subject to any exceptions upon which the parties may agree from time to time), with such expenses being paid to PSL by Sanken in the form of an up-front annual fee, with PSL being responsible for any expenses that exceed the amount of such fee. The IC Technology Development Agreement will continue in effect until such time as the Company, PSL and Sanken mutually agree to its termination or adopt a successor agreement, or in the event that the companies fail to agree upon the annual fee for that fiscal year within three months after the commencement of such fiscal year. During both of the three- and six-month periods ended September 24, 2021 and September 25, 2020, the Company (through PSL) received no fees from Sanken pursuant to the IC Technology Development Agreement, and, during the same periods, the Company paid no fees to PSL pursuant to the IC Technology Development Agreement. There are also no expected payments to be made during the remainder of fiscal year 2022.

In April 2015, PSL and Sanken entered into a discrete technology development agreement (as amended, the “Discrete Technology Development Agreement”), pursuant to which the parties agreed upon the general terms under which they, from time to time, would undertake certain activities (the “Discrete Development Activities”) to develop new technologies to be used by PSL to manufacture products for Sanken, as well as the ownership and use of such technologies following their development. In June 2018, the Company, PSL and Sanken entered into an amendment to the Discrete Technology Development Agreement pursuant to which the parties agreed to the assignment of all rights and obligations of PSL under such agreement to the Company and to certain amendments to the terms of such agreement. The Discrete Technology Development Agreement provided that the expenses for all Discrete Development Activities were to be shared equally by the Company and Sanken on an annual basis (subject to any exceptions upon which the parties agreed to from time to time). As of March 26, 2021, the Company had accrued \$614 included in amounts due to a related party under the Discrete Technology Development Agreement, which was paid in the first quarter of fiscal year 2022. The Discrete Technology Development Agreement terminated on March 31, 2021 in accordance with its terms.

On March 28, 2020, the Company entered into an agreement to divest a majority of its ownership interest in PSL to Sanken, in order to better align with its fabless, asset-lite scalable manufacturing strategy (the “PSL Divestiture”). In addition, this also resulted in PSL taking over the Sanken distribution business at the same time.

The Company continues to purchase in-process products from PSL.

Purchases of various products from PSL totaled \$13,129 and \$26,509 for the three- and six-month periods ended September 24, 2021, respectively, and \$9,967 and \$21,890 for the three- and six-month periods ended September 25, 2020, respectively. For the three- and six-month periods ended September 25, 2020, these amounts include \$1,700 and \$3,500, respectively, of price support payments. The price support payments were for fiscal year 2021 only and no such payments are expected to be made in fiscal 2022. Accounts payable to PSL included in amounts due to a related party totaled \$3,688 and \$1,739 as of September 24, 2021 and March 26, 2021, respectively.

Transactions involving Sanken Electric Europe Ltd. (“SEEL”)

During fiscal year ended March 26, 2021 (and following the PSL Divestiture), Sanken, through PSL formed SEEL in order to cover its distribution business in Europe. The Company, in connection with the transition services agreement with Sanken and PSL, paid certain costs on behalf of them, and as such, had no related party accounts receivable from SEEL as of September 24, 2021. The Company had related party accounts receivable from SEEL of \$1,272 as of March 26, 2021.

Sublease Agreement

In 2014, the Company, through one of its subsidiaries, entered into a sublease agreement with Sanken pursuant to which the subsidiary subleases from Sanken certain office building space in Japan. The sublease automatically renews on an annual basis unless either party provides notice to the other party and can otherwise be terminated by either party upon providing six months’ prior notice. The Company made aggregate payments of approximately \$56 and \$112 to Sanken under the sublease agreement during the three- and six-month periods ended September 24, 2021, respectively, and \$58 and \$115 during the three- and six-month periods ended September 25, 2020, respectively.

ALLEGRO MICROSYSTEMS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements – (continued)
(Amounts in thousands, except share and per share amounts)

Consulting Agreement

In September 2018 and prior to Reza Kazerounian becoming a member of the Company's board of directors, the Company entered into a board executive advisor agreement (the "Consulting Agreement") with Mr. Kazerounian, pursuant to which the Company engaged Mr. Kazerounian to serve as executive advisor to the board of directors and the office of Chief Executive Officer. The Consulting Agreement provides for a fee payable to Mr. Kazerounian on a monthly basis in exchange for his services (which fee was reduced from \$30 per month to \$19 per month in connection with Mr. Kazerounian's appointment to the board of directors in June 2018), as well as a grant of 12,000 shares of the Company's Class L common stock and a signing bonus of \$54 in connection with the execution of the Consulting Agreement. The Consulting Agreement provides that if Mr. Kazerounian's employment is terminated by the board of directors, he will be entitled to a severance payment in the amount of \$180 as well as a six-month vesting acceleration of his shares of Class L common stock. The board of directors and Mr. Kazerounian each have the right to terminate the Consulting Agreement at any time. During the three- and six-month periods ended September 24, 2021, the Company paid aggregate fees of \$66 and \$122, respectively, to Mr. Kazerounian pursuant to the Consulting Agreement. During the three- and six-month periods ended September 25, 2020, the Company paid aggregate fees of \$90 and \$180, respectively, to Mr. Kazerounian pursuant to the Consulting Agreement.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes and other information included elsewhere in this Quarterly Report, as well as the audited financial statements and the related notes thereto, and the discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on May 19, 2021 (the “2021 Annual Report”).

In addition to historical data, this discussion contains forward-looking statements about our business, results of operations, cash flows, financial condition and prospects based on current expectations that involve risks, uncertainties and assumptions. Our actual results could differ materially from such forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed in the section titled “Forward-Looking Statements” and in Part II, Item 5, “Risk Factors” of our 2021 Annual Report and Part II, Item 1A, “Risk Factors” of this Quarterly Report. Additionally, our historical results are not necessarily indicative of the results that may be expected for any period in the future.

We operate on a 52- or 53-week fiscal year ending on the last Friday of March. Each fiscal quarter has 13 weeks, except in a 53-week year, when the fourth fiscal quarter has 14 weeks. All references to the three- and six-month periods ended September 24, 2021 and September 25, 2020 relate to the 13-week periods ended September 24, 2021 and September 25, 2020, respectively. All references to “2021,” “fiscal year 2021” or similar references relate to the 52-week period ended March 26, 2021.

Overview

Allegro MicroSystems, Inc., together with its consolidated subsidiaries (“AMI”, “we”, “us” or “our”) is a leading global designer, developer, manufacturer and marketer of sensor integrated circuits (“ICs”) and application-specific analog power ICs enabling the most important emerging technologies in the automotive and industrial markets. We are the number one supplier of magnetic sensor IC solutions worldwide based on market share, driven by our market leadership in the automotive industry. We focus on providing complete IC solutions to sense, regulate and drive a variety of mechanical systems. This includes sensing angular or linear position of a shaft or actuator, driving an electric motor or actuator, and regulating the power applied to sensing and driving circuits so they operate safely and efficiently.

We are headquartered in Manchester, New Hampshire and have a global footprint with 16 locations across four continents. Our portfolio includes more than 1,000 products, and we ship over one billion units annually to more than 10,000 customers worldwide. During the three- and six-month periods ended September 24, 2021, we generated \$193.6 million and \$381.8 million in total net sales, respectively, with \$33.2 million and \$60.9 million in net income and \$59.0 million and \$112.7 million in Adjusted EBITDA in such fiscal periods, respectively. During the three- and six-month periods ended September 25, 2020, we generated \$136.6 million and \$251.7 million in total net sales, respectively, with \$9.6 million and \$14.5 million in net income and \$32.7 million and \$59.0 million in Adjusted EBITDA in such fiscal periods, respectively.

On November 2, 2020, we completed our initial public offering (“IPO”) of 28,750,000 shares of our common stock at an offering price of \$14.00 per share, of which 25,000,000 shares were sold by us and 3,750,000 shares were sold by selling stockholders, resulting in net proceeds to us of approximately, \$321.4 million after deducting \$20.1 million of underwriting discounts and \$8.5 million of offering costs. Our common stock is now listed on the Nasdaq Global Select Market under the ticker symbol “ALGM.”

Our Growth Strategies and Outlook

We plan to pursue the following strategies to continue to grow our sales and enhance our profitability:

- *Invest in research and development that is market-aligned and focused on targeted portfolio expansion.* We believe that our investments in research and development in the areas of product design, automotive-grade wafer fabrication technology and IC packaging development are critical to maintaining our competitive advantage. In both the automotive and industrial markets, major technology shifts driven by disruptive technologies are creating high-growth opportunities in areas such as electrified vehicles (“xEVs”), advanced driver assistance systems (“ADAS”), Industry 4.0, data centers and green energy applications. Our knowledge of customers’ end systems has driven an expansion of our sensor IC and power solutions to enable these new technologies. By aligning our research and

development investments with disruptive technology trends while undergoing a rigorous ROI review, we believe we can deliver an attractive combination of growth and profitability.

- *Emphasize the automotive “first” philosophy to align our product development with the most rigorous applications and safety standards.* We have been intentional about incorporating support for the stringent automotive operating voltages, temperature ranges and safety and reliability standards into every part of our operations, from design to manufacturing. We believe our focus on meeting or exceeding industry standards as the baseline for product development increases our opportunity in the automotive market as customers look for trusted suppliers to deliver highly reliable solutions for rapidly growing emerging markets, and that our philosophy of designing for automotive safety and reliability gives us a meaningful lead over new entrants attempting to enter the automotive market. For example, we will apply this philosophy of innovation, quality and reliability to our new photonics portfolio which supplies components into safety-critical Light Detection and Ranging (“LiDAR”) applications. We also believe we can use our expertise in designing for the automotive market and our expanding product portfolio to capitalize on increasing demand among industrial customers for ruggedized solutions that meet the highest quality and reliability standards. Additionally, in our experience, demand for solutions that meet or exceed stringent safety and reliability specifications supports higher average sales prices (“ASP”) and lower ASP declines over time than are typical for our industry.
- *Invest to lead in chosen markets and apply our intellectual property and technology to pursue adjacent growth markets.* We intend to continue to invest in technology advancements and our intellectual property portfolio to maintain the number one market share position in magnetic sensor ICs and achieve leadership positions in power ICs within our target markets. We believe that leveraging our technology and existing research and development, sales and support efforts will enable us to take advantage of synergistic opportunities in new, adjacent growth markets. We believe this strategy of leveraging our known capabilities to target adjacent growth markets will enable us to enjoy greater returns on our research and development investments.
- *Expand our sales channels and enhance our sales operations and customer relationships.* Our global sales infrastructure is optimized to support customers through a combination of key account managers and regional technical and support centers near customer locations that enable us to act as an extension of our customers’ design teams, providing us with key insights into product requirements and accelerating the adoption and ramp up of our products in customer designs. We intend to continue strengthening our relationships with our existing customers while also enabling our channel partners to support demand creation and fulfillment for smaller broad-based industrial customers. We believe we will be able to further penetrate the industrial market and efficiently scale our business to accelerate growth by enabling our channel partners to become an extension of our demand generation and customer support efforts.
- *Continue to improve our gross margins through product innovation and cost optimization.* We strive to improve our profitability by both rapidly introducing new products with value-added features and reducing our manufacturing costs through our fabless, asset-lite manufacturing model. We expect to continue to improve our product mix by developing new products for growth markets where we believe we can generate higher ASPs and/or higher gross margins. We also intend to further our relationships with key foundry suppliers to apply our product and applications knowledge to develop differentiated and cost-efficient wafer processes and packages. We believe we can reduce our manufacturing costs by leveraging the advanced manufacturing capabilities of our strategic suppliers, implementing more cost-effective packaging technologies and leveraging both internal and external assembly and test capacity to reduce our capital requirements, lower our operating costs, enhance reliability of supply and support our continued growth.
- *Pursue selective acquisitions and other strategic transactions.* We evaluate and pursue selective acquisitions and other transactions to facilitate our entrance into new applications, add to our intellectual property portfolio and design resources, and accelerate our growth. From time to time, we acquire companies, technologies or assets and participate in joint ventures when we believe they will cost effectively and rapidly improve our product development or manufacturing capabilities or complement our existing product offerings. For example, our August 2020 acquisition of Voxel and its affiliate, LadarSystems, Inc., brings together Voxel’s laser and imaging expertise and our automotive leadership and scale to enable what we believe will be the next generation of ADAS.
- *Maintain commitment to sustainability.* We intend to continue to innovate with purpose, addressing critical global challenges related to energy efficiency, vehicle emissions and clean and renewable energy with our sensing and power management product portfolio. In addition, we strive to operate our business in a socially responsible and

environmentally sustainable manner, and we strive to maintain a commitment to social responsibility in our supply chain and disclosure of the environmental impact of our business operations.

Recent Initiatives to Improve Results of Operations

We have recently implemented several initiatives designed to improve our operating results.

On August 28, 2020, we acquired Voxel, Inc. (“Voxel”), a privately-held technology company located in Beaverton, Oregon that specializes in components for eye-safe LiDAR used in ADAS, fully autonomous vehicles, and industrial automation (the “Voxel Acquisition”). In addition to the laser technology, Voxel’s capabilities include its Indium Gallium Arsenide (“InGaAs”) Avalanche Photodiode (“APDs”) and APD photoreceivers—highly sensitive in the important eye-safe region around 1550 nanometers (“nm”). This technology enables images to be obtained over a wide range of weather conditions and over a long-distance or a wide field of view using a laser that does not pose an ocular hazard. The combination of these highly sensitive detectors and high-peak-power eye-safe lasers with Voxel’s custom integrated circuits and electro-optical packaging expertise, allows for cost-effective, compact laser-ranging and 3D-image sensing. In addition, Voxel holds more than 38 US patents, representing a comprehensive Laser Detection and Ranging (“LADAR”)/LiDAR photonic technology suite.

In February 2020, we announced that we would consolidate our assembly and test facilities into a single site, located at our manufacturing facility in the Philippines (the “AMPI Facility”). As such, we completed the transition and closed our manufacturing facility in Thailand (the “AMTC Facility”) in March 2021 and closed on the sale of the AMTC Facility in August 2021. As a result, we expect to realize a significant reduction in cost of goods sold in subsequent periods.

Other Key Factors and Trends Affecting our Operating Results

Our financial condition and results of operations have been, and will continue to be, affected by numerous other factors and trends, including the following:

Design Wins with New and Existing Customers

Our end customers continually develop new products in existing and new application areas, and we work closely with our significant OEM customers in most of our target markets to understand their product roadmaps and strategies. For new products, the time from design initiation and manufacturing until we generate revenue can be lengthy, typically between two and four years. As a result, our future revenue is highly dependent on our continued success at winning design mandates from our customers. Further, because we expect the ASPs of our products to decline over time, we consider design wins to be critical to our future success and anticipate being increasingly dependent on revenue from newer design wins for our newer products. The selection process is typically lengthy and may require us to incur significant design and development expenditures in pursuit of a design win with no assurance that our solutions will be selected. As a result, the loss of any key design win or any significant delay in the ramp-up of volume production of the customer’s products into which our product is designed could adversely affect our business. In addition, volume production is contingent upon the successful introduction and acceptance of our customers’ end products, which may be affected by several factors beyond our control.

Customer Demand, Orders and Forecasts

Demand for our products is highly dependent on market conditions in the end markets in which our customers operate, which are generally subject to seasonality, cyclicity and competitive conditions. In addition, a substantial portion of our total net sales is derived from sales to customers that purchase large volumes of our products. These customers generally provide periodic forecasts of their requirements, but these forecasts do not commit such customers to minimum purchases, and customers can revise these forecasts without penalty. In addition, as is customary in the semiconductor industry, customers are generally permitted to cancel orders for our products within a specified period. Cancellations of orders could result in the loss of anticipated sales without allowing us sufficient time to reduce our inventory and operating expenses. In addition, changes in forecasts or the timing of orders from customers exposes us to the risks of inventory shortages or excess inventory.

Manufacturing Costs and Product Mix

Gross margin, or gross profit as a percentage of total net sales, has been, and will continue to be, affected by a variety of factors, including the ASPs of our products, product mix in a given period, material costs, yields, manufacturing costs and efficiencies. We believe the primary driver of gross margin is the ASP negotiated between us and our customers relative to material costs and yields. Our pricing and margins depend on the volumes and the features of the products we produce and

sell to our customers. As our products mature and unit volumes increase, we expect their ASPs to decline. We continually monitor and work to reduce the cost of our products and improve the potential value our solutions provide to our customers as we target new design win opportunities and manage the product life-cycles of our existing customer designs. We also maintain a close relationship with our suppliers and subcontractors to improve quality, increase yields and lower manufacturing costs. As a result, these declines often coincide with improvements in manufacturing yields and lower wafer, assembly, and testing costs, which offset some or all of the margin reduction that results from declining ASPs. However, we expect our gross margin to fluctuate on a quarterly basis as a result of changes in ASPs due to product mix, new product introductions, transitions into volume manufacturing and manufacturing costs. Gross margin generally decreases if production volumes are lower as a result of decreased demand, which leads to a reduced absorption of our fixed manufacturing costs. Gross margin generally increases when the opposite occurs.

Cyclical Nature of the Semiconductor Industry

The semiconductor industry is highly cyclical and is characterized by increasingly rapid technological change, product obsolescence, competitive pricing pressures, evolving standards, short product life-cycles and fluctuations in product supply and demand. New technology may result in sudden changes in system designs or platform changes that may render some of our products obsolete and require us to devote significant research and development resources to compete effectively. Periods of rapid growth and capacity expansion are occasionally followed by significant market corrections in which sales decline, inventories accumulate and facilities go underutilized. During periods of expansion, our margins generally improve as fixed costs are spread over higher manufacturing volumes and unit sales. In addition, we may build inventory to meet increasing market demand for our products during these times, which serves to absorb fixed costs further and increase our gross margins. During an expansion cycle, we may increase capital spending and hiring to add to our production capacity. During periods of slower growth or industry contractions, our sales, production and productivity suffer and margins generally decline.

Components of Our Results of Operations

Net sales

Our total net sales are derived from product sales to direct customers and distributors. We sell products globally through our direct sales force, third-party and related party distributors and independent sales representatives. Sales are derived from products for different applications. Shutdowns of third-party factories, in connection with COVID-19 or other factors beyond our control, are expected to affect our product sales in the next fiscal quarter. Our core applications are focused on the automotive, industrial and other industries.

We sell magnetic sensor ICs, power ICs and photonics in the Americas, EMEA and Asia. Revenue is generally recognized when control of the products is transferred to the customer, which typically occurs at a point in time upon shipment or delivery, depending on the terms of the contract. When we transact with a distributor, our contractual arrangement is with the distributor and not with the end customer. Whether we transact business with and receive the order from a distributor or directly from an end customer through our direct sales force and independent sales representatives, our revenue recognition policy and resulting pattern of revenue recognition for the order are the same. We recognize revenue net of sales returns, price protection adjustments, stock rotation rights and any other discounts or credits offered to our customers.

Cost of goods sold, gross profit and gross margin

Cost of goods sold consists primarily of costs of purchasing raw materials, costs associated with probe, assembly, test and shipping our products, costs of personnel, including stock-based compensation, costs of equipment associated with manufacturing, procurement, planning and management of these processes, costs of depreciation and amortization, costs of logistics and quality assurance, and costs of royalties, value-added taxes, utilities, repairs and maintenance of equipment, and an allocated portion of our occupancy costs.

Gross profit is calculated as total net sales less cost of goods sold. Gross profit is affected by numerous factors, including average selling price, revenue mix by product, channel and customer, foreign exchange rates, seasonality, manufacturing costs and the effective utilization of our facilities. Another factor impacting gross profit is the time required for the expansion of existing facilities to reach full production capacity. As a result, gross profit varies from period to period and year to year. We expect cost of goods sold to decrease in absolute dollars and as a percentage of total net sales in the

future, primarily as a result of the closure of the AMTC Facility and the transfer of the Sanken products distribution business to PSL.

A significant portion of our costs are fixed, and, as a result, costs are generally difficult to adjust or may take time to adjust in response to changes in demand. In addition, our fixed costs increase as we expand our capacity. If we expand capacity faster than required by our sales growth, our gross margin could be negatively affected. Gross margin is calculated as gross profit divided by total net sales.

Operating Expenses

Research and development (“R&D”) expenses

R&D expenses consist primarily of personnel-related costs of our research and development organization, including stock-based compensation, costs of development of wafers and masks, license fees for computer-aided design software, costs of development testing and evaluation, costs of developing automated test programs, equipment depreciation and related occupancy and equipment costs. While most of the costs incurred are for new product development, a significant portion of these costs are related to process technology development, and proprietary package development. R&D expenses also include costs for technology development by external parties. We expect further increases in R&D expenses, in absolute dollars and as a percentage of total net sales as we continue the development of innovative technologies and processes for new product offerings as well as increase the headcount of our R&D personnel in future years.

Selling, General and Administrative (“SG&A”) expenses

SG&A expenses consist primarily of personnel-related costs, including stock-based compensation, and sales commissions to independent sales representatives, professional fees, including the costs of accounting, audit, legal, regulatory and tax compliance. Additionally, costs related to advertising, trade shows, corporate marketing, as well as an allocated portion of our occupancy costs also comprise SG&A expenses.

We anticipate our selling and marketing expenses to increase in absolute terms as we expand our sales force and increase our sales and marketing activities. We also anticipate that we will incur increased accounting, audit, legal, regulatory, compliance and director and officer insurance costs as well as investor and public relations expenses associated with being a public company.

Change in fair value of contingent consideration

The change in fair value of contingent consideration represents the loss recorded in the three months ended September 24, 2021 resulting from the adjustment in contingent consideration related to the Voxtel Acquisition.

Interest (expense) income, net

Interest (expense) income, net is comprised of interest expense from term loan debt and credit facilities we maintain with various financial institutions and previously on borrowings under the PSL-Sanken Loans (which were forgiven in connection with the PSL Divestiture). Current expense is partially mitigated by income earned on our cash and cash equivalents, consisting primarily of certain investments that have contractual maturities no greater than three months at the time of purchase.

Foreign currency transaction gain (loss)

We incur transaction gains and losses resulting from intercompany transactions as well as transactions with customers or vendors denominated in currencies other than the functional currency of the legal entity in which the transaction is recorded.

Income in earnings of equity investment

Income in earnings of equity investment represents our equity investment in connection with the PSL Divestiture.

Other, net

Other, net primarily consists of miscellaneous income and expense items unrelated to our core operations.

Income tax provision

Our provision for income taxes is comprised of the year-to-date taxes based on an estimate of the annual effective tax rate plus the tax impact of discrete items.

We are subject to tax in the U.S. and various foreign jurisdictions. Our effective income tax rate fluctuates primarily because of: the change in the mix of our U.S. and foreign income; the impact of discrete transactions and law changes; and the difference between the amount of tax benefits generated by the foreign derived intangible income deduction (“FDII”) and research credits offset by the additional tax costs associated with global intangible low-tax income (“GILTI”).

We regularly assess the likelihood of outcomes that could result from the examination of our tax returns by the IRS, and other tax authorities to determine the adequacy of our income tax reserves and expense. Should actual events or results differ from our then-current expectations, charges or credits to our provision for income taxes may become necessary. Any such adjustments could have a significant effect on our results of operations.

Results of Operations

Three-Month Period Ended September 24, 2021 Compared to Three-Month Period Ended September 25, 2020

The following table summarizes our results of operations for the three-month periods ended September 24, 2021 and September 25, 2020.

	Three-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	\$	%
	(Dollars in thousands)			
Total net sales ⁽¹⁾	\$ 193,610	\$ 136,649	\$ 56,961	41.7 %
Cost of goods sold	91,078	74,879	16,199	21.6 %
Gross profit	102,532	61,770	40,762	66.0 %
Operating expenses:				
Research and development	29,590	25,130	4,460	17.7 %
Selling, general and administrative	34,088	24,238	9,850	40.6 %
Change in fair value of contingent consideration	300	—	300	100.0 %
Total operating expenses	63,978	49,368	14,610	29.6 %
Operating income	38,554	12,402	26,152	210.9 %
Other (expense) income, net:				
Interest (expense) income, net	(1,150)	350	(1,500)	(428.6)%
Foreign currency transaction gain (loss)	202	(1,318)	1,520	(115.3)%
Income in earnings of equity investment	226	246	(20)	(8.1)%
Other, net	1,534	20	1,514	7,570.0 %
Total other income (expense), net	812	(702)	1,514	(215.7)%
Income before provision for income taxes	39,366	11,700	27,666	236.5 %
Income tax provision	6,143	2,082	4,061	195.1 %
Net income	33,223	9,618	23,605	245.4 %
Net income attributable to non-controlling interests	37	34	3	8.8 %
Net income attributable to Allegro MicroSystems, Inc.	\$ 33,186	\$ 9,584	\$ 23,602	246.3 %

(1) Our total net sales for the periods presented above include related party net sales generated through our distribution agreement with Sanken. See our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information regarding our related party net sales for the periods set forth above.

The following table sets forth our results of operations as a percentage of total net sales for the periods presented.

	Three-Month Period Ended	
	September 24, 2021	September 25, 2020
Total net sales	100.0 %	100.0 %
Cost of goods sold	47.0 %	54.8 %
Gross profit	53.0 %	45.2 %
Operating expenses:		
Research and development	15.3 %	18.4 %
Selling, general and administrative	17.6 %	17.7 %
Change in fair value of contingent consideration	0.2 %	— %
Total operating expenses	33.1 %	36.1 %
Income from operations	19.9 %	9.1 %
Other (expense) income, net:		
Interest (expense) income, net	(0.6)%	0.3 %
Foreign currency transaction gain (loss)	0.1 %	(1.0)%
Income in earnings of equity investment	0.1 %	0.1 %
Other, net	0.8 %	— %
Total other income (expense), net	0.4 %	(0.6)%
Income before provision for income taxes	20.3 %	8.5 %
Income tax provision	3.2 %	1.5 %
Net income	17.1 %	7.0 %
Net income attributable to non-controlling interests	— %	— %
Net income attributable to Allegro MicroSystems, Inc.	17.1 %	7.0 %

Total net sales

Total net sales increased by \$57.0 million, or 41.7%, to \$193.6 million in the three-month period ended September 24, 2021 from \$136.6 million in the three-month period ended September 25, 2020. This increase was primarily due to the continued economic recovery and increase in demand across most major solutions. Much of the favorable growth in total net sales was attributable to higher demand for our advanced driver assistance systems and xEV applications. Additionally, industrial automation, motors, green energy and gaming applications contributed to the increase in total net sales.

Sales Trends by Market

The following table summarizes total net sales by market. The categorization of net sales by market is based on the characteristics of the end product and application into which our product will be designed.

	Three-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	Amount	%
	(Dollars in thousands)			
Automotive	\$ 126,031	\$ 89,479	\$ 36,552	40.8 %
Industrial	36,321	21,650	14,671	67.8 %
Other	31,258	25,520	5,738	22.5 %
Total net sales	\$ 193,610	\$ 136,649	\$ 56,961	41.7 %

The increase in net sales by market was driven by increases in automotive of \$36.6 million, or 40.8%, industrial of \$14.7 million, or 67.8%, and other of \$5.7 million, or 22.5%.

Automotive net sales increased in the three-month period ended September 24, 2021 compared to the three-month period ended September 25, 2020 primarily due to our customers' increased vehicle production across most markets due to the on-going recovery from the COVID-19 pandemic. ADAS and xEV continued to increase year-over-year, and we experienced strong recoveries in comfort and convenience and internal combustion engine ("ICE") applications during the second quarter of 2022.

Industrial and other net sales improved in the three-month period ended September 24, 2021 compared to the three-month period ended September 25, 2020 due primarily to the growth across our industrial applications, particularly in our gaming, renewable energy, personal mobility and industrial motor applications.

Sales Trends by Product

The following table summarizes net sales by product:

	Three-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	Amount	%
(Dollars in thousands)				
Power integrated circuits	\$ 65,523	\$ 50,271	\$ 15,252	30.3 %
Magnetic sensors	127,621	86,097	41,524	48.2 %
Photonics	466	281	185	65.8 %
Total net sales	\$ 193,610	\$ 136,649	\$ 56,961	41.7 %

The increase in net sales by product was driven by increases of \$41.5 million, or 48.2%, in magnetic sensor IC product sales, \$15.3 million, or 30.3%, in power integrated circuit product sales, and \$0.2 million in Photonics sales.

Sales Trends by Geographic Location

The following table summarizes net sales by geographic location based on ship-to location.

	Three-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	Amount	%
(Dollars in thousands)				
Americas:				
United States	\$ 27,785	\$ 20,962	\$ 6,823	32.5 %
Other Americas	5,427	3,249	2,178	67.0 %
EMEA:				
Europe	32,466	24,374	8,092	33.2 %
Asia:				
Japan	37,165	22,511	14,654	65.1 %
Greater China	50,683	37,935	12,748	33.6 %
South Korea	19,746	12,515	7,231	57.8 %
Other Asia	20,338	15,103	5,235	34.7 %
Total net sales	\$ 193,610	\$ 136,649	\$ 56,961	41.7 %

Net sales increased across all geographic locations in the three-month period ended September 24, 2021 compared to the three-month period ended September 25, 2020 primarily due to content and market share gains as many countries continue to experience economic expansion coming out of the COVID-19 pandemic and demand for many of our products and applications continues to rise.

Net sales in Japan grew \$14.7 million, or 65.1%, which was primarily driven by higher demand for our automotive offerings, including safety, comfort and convenience, xEV and ADAS. The increase in net sales of \$12.8 million, or 33.6%, in Greater China related to higher automotive demand, primarily in our industrial, ICE and ADAS sectors. The increase in net sales of \$8.1 million, or 33.2%, in Europe, predominantly comprised of Germany and France, was primarily driven by increases in automotive demand. The increase in net sales in the United States of \$6.8 million, or 32.5%, was primarily

driven by gains in our industrial and automotive sectors. South Korea and Other Asia experienced sales growth of \$7.2 million and \$5.2 million, respectively, mainly due to higher automotive demand, specifically in ICE and ADAS.

Cost of goods sold, gross profit and gross margin

Cost of goods sold increased by \$16.2 million, or 21.6%, to \$91.1 million in the three-month period ended September 24, 2021 from \$74.9 million in the three-month period ended September 25, 2020. The increase in cost of goods sold was primarily attributable to higher production volume and increases in amortization of manufacturing cost absorptions and excess inventory reserves.

Gross profit increased by \$40.7 million, or 66.0%, to \$102.5 million in the three-month period ended September 24, 2021 from \$61.8 million in the three-month period ended September 25, 2020. The increase in gross profit was driven by a \$57.0 million operational increase in net sales to all markets discussed above, partially offset by the impacts to cost of goods sold discussed above.

R&D expenses

R&D expenses increased by \$4.5 million, or 17.7%, to \$29.6 million in the three-month period ended September 24, 2021 from \$25.1 million in the three-month period ended September 25, 2020. This increase was primarily due to a combined \$3.2 million increase in personnel costs and general operating expenses, including inventory and supplies, and higher stock-based compensation expense of \$1.0 million.

R&D expenses represented 15.3% of our total net sales for the three-month period ended September 24, 2021, a decrease from 18.4% of our total net sales for the three-month period ended September 25, 2020. This percentage decrease was primarily due to the growth in net sales in the three-month period ended September 24, 2021.

SG&A expenses

SG&A expenses increased by \$9.9 million, or 40.6%, to \$34.1 million in the three-month period ended September 24, 2021 from \$24.2 million in the three-month period ended September 25, 2020. This increase was primarily due to a combined increase in contract labor and higher personnel costs of \$6.9 million, as well as higher stock-based compensation expense of \$3.9 million. These higher costs were partially offset by lower facilities costs and professional fees of \$0.8 million and \$0.5 million, respectively.

SG&A expenses represented 17.6% of our total net sales for the three-month period ended September 24, 2021, a decrease from 17.7% of our total net sales for the three-month period ended September 25, 2020. This percentage decrease was primarily due to the growth in net sales in the three-month period ended September 24, 2021.

Interest (expense) income, net

Interest expense, net was \$1.2 million in the three-month period ended September 24, 2021 compared to interest income, net of \$0.4 million in the three-month period ended September 25, 2020. The increase in interest expense was primarily due to mandatory interest payments on the Term Loan Facility in the second quarter of 2022 compared to higher interest income received from related parties during the same period last year.

Foreign currency transaction gain (loss)

We recorded a foreign currency transaction gain of \$0.2 million in the three-month period ended September 24, 2021 compared to a loss of \$1.3 million in the three-month period ended September 25, 2020. The foreign currency transaction gain recorded in the three-month period ended September 24, 2021 was primarily due to the realized and unrealized gains from our UK location of \$0.4 million, offset in part by \$0.2 million realized and unrealized losses from our Philippines locations. The foreign currency transaction loss recorded in the three-month period ended September 25, 2020 was primarily due to the realized and unrealized losses of \$1.0 million and \$0.3 million from our UK and Thailand locations, respectively.

Income in earnings of equity investment

Income in earnings of equity investment reflected a \$0.2 million gain in the three-month period ended September 24, 2021, representing the earnings on our 30% investment in PSL.

Other, net

Other, net increased by \$1.5 million to \$1.5 million of miscellaneous gains in the three-month period ended September 24, 2021 from less than \$0.1 million of miscellaneous gains in the three-month period ended September 25, 2020. This increase was largely attributable to \$1.0 million of unrealized gains on equity securities recognized during the second quarter of 2022.

Income tax provision

Income tax expense and the effective income tax rate were \$6.1 million, or 15.6%, and \$2.1 million, or 17.8%, respectively, in the three-month periods September 24, 2021 and September 25, 2020, respectively. The fluctuation in our effective income tax rate relates primarily to differences in our U.S. taxable income, estimated FDII benefits, GILTI income, research credits, non-deductible stock-based compensation charges, and discrete tax items.

Six-Month Period Ended September 24, 2021 Compared to Six-Month Period Ended September 25, 2020

The following table summarizes our results of operations for the six-month periods ended September 24, 2021 and September 25, 2020.

	Six-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	\$	%
	(Dollars in thousands)			
Total net sales ⁽¹⁾	\$ 381,752	\$ 251,650	\$ 130,102	51.7 %
Cost of goods sold	185,060	134,179	50,881	37.9 %
Gross profit	196,692	117,471	79,221	67.4 %
Operating expenses:				
Research and development	59,144	49,510	9,634	19.5 %
Selling, general and administrative	66,152	51,027	15,125	29.6 %
Change in fair value of contingent consideration	600	—	600	100.0 %
Total operating expenses	125,896	100,537	25,359	25.2 %
Operating income	70,796	16,934	53,862	318.1 %
Other (expense) income, net:				
Interest (expense) income, net	(1,495)	663	(2,158)	(325.5)%
Foreign currency transaction loss	(52)	(1,186)	1,134	(95.6)%
Income in earnings of equity investment	505	458	47	10.3 %
Other, net	1,582	213	1,369	642.7 %
Total other income, net	540	148	392	264.9 %
Income before provision for income taxes	71,336	17,082	54,254	317.6 %
Income tax provision	10,406	2,610	7,796	298.7 %
Net income	60,930	14,472	46,458	321.0 %
Net income attributable to non-controlling interests	75	68	7	10.3 %
Net income attributable to Allegro MicroSystems, Inc.	\$ 60,855	\$ 14,404	\$ 46,451	322.5 %

(1) Our total net sales for the periods presented above include related party net sales generated through our distribution agreement with Sanken. See our unaudited consolidated financial statements included elsewhere in this Quarterly Report for additional information regarding our related party net sales for the periods set forth above.

The following table sets forth our results of operations as a percentage of total net sales for the periods presented.

	Six-Month Period Ended	
	September 24, 2021	September 25, 2020
Total net sales	100.0 %	100.0 %
Cost of goods sold	48.5 %	53.3 %
Gross profit	51.5 %	46.7 %
Operating expenses:		
Research and development	15.5 %	19.7 %
Selling, general and administrative	17.3 %	20.3 %
Change in fair value of contingent consideration	0.2 %	— %
Total operating expenses	33.0 %	40.0 %
Income from operations	18.5 %	6.7 %
Other (expense) income, net:		
Interest (expense) income, net	(0.4)%	0.3 %
Foreign currency transaction loss	— %	(0.5)%
Income in earnings of equity investment	0.1 %	0.2 %
Other, net	0.5 %	0.1 %
Total other income, net	0.2 %	0.1 %
Income before provision for income taxes	18.7 %	6.8 %
Income tax provision	2.8 %	1.1 %
Net income	15.9 %	5.7 %
Net income attributable to non-controlling interests	— %	— %
Net income attributable to Allegro MicroSystems, Inc.	15.9 %	5.7 %

Total net sales

Total net sales increased by \$130.1 million, or 51.7%, to \$381.8 million in the six-month period ended September 24, 2021 from \$251.7 million in the six-month period ended September 25, 2020. This increase was primarily due to the continued economic recovery and increase in demand for advanced driver assistance systems, as well as higher demand for xEV, data center and industrial automation applications. Gaming and other consumer applications also contributed to the increase in total net sales.

Sales Trends by Core End Market and Application

The following table summarizes total net sales by market. The categorization of net sales by market is based on the characteristics of the end product and application into which our product will be designed.

	Six-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	Amount	%
	(Dollars in thousands)			
Automotive	\$ 259,554	\$ 165,857	\$ 93,697	56.5 %
Industrial	66,630	42,056	24,574	58.4 %
Other	55,568	43,737	11,831	27.1 %
Total net sales	\$ 381,752	\$ 251,650	\$ 130,102	51.7 %

Net sales to our core end markets increased by \$130.1 million, or 51.7%, to \$381.8 million in the six-month period ended September 24, 2021 from \$251.7 million in the six-month period ended September 25, 2020.

Automotive net sales increased in the six-month period ended September 24, 2021 compared to the six-month period ended September 25, 2020 as we continued to experience higher demand for our ADAS, xEV, comfort and convenience and ICE applications.

Industrial and other net sales increased in the six-month period ended September 24, 2021 compared to the six-month period ended September 25, 2020 primarily due to increased demand in data center, gaming, personal mobility, and industrial motor applications, as well as in our grid infrastructure that includes renewable energy and EV charging.

Sales Trends by Product

The following table summarizes net sales by product:

	Six-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	Amount	%
(Dollars in thousands)				
Power integrated circuits ("PIC")	\$ 132,195	\$ 91,870	\$ 40,325	43.9 %
Magnetic sensors ("MS")	248,263	159,499	88,764	55.7 %
Photonics	1,294	281	1,013	— %
Total	\$ 381,752	\$ 251,650	\$ 130,102	51.7 %

The growth in net sales by product was driven by increases in magnetic sensor IC product sales of \$88.8 million and in power IC product sales \$40.3 million during the six-month period ended September 24, 2021 compared to the same period last year.

Sales Trends by Geographic Location

The following table summarizes net sales by geographic location based on ship-to location.

	Six-Month Period Ended		Change	
	September 24, 2021	September 25, 2020	Amount	%
(Dollars in thousands)				
Americas:				
United States	\$ 54,626	\$ 33,958	\$ 20,668	60.9 %
Other Americas	11,776	5,177	6,599	127.5 %
EMEA:				
Europe	67,217	42,220	24,997	59.2 %
Asia:				
Japan	72,618	46,131	26,487	57.4 %
Greater China	93,462	70,006	23,456	33.5 %
South Korea	41,679	26,127	15,552	59.5 %
Other Asia	40,374	28,031	12,343	44.0 %
Total	\$ 381,752	\$ 251,650	\$ 130,102	51.7 %

The increase in net sales across geographic locations in the six-month period ended September 24, 2021 compared to the six-month period ended September 25, 2020 was primarily due to content and market share gains as many countries continue to experience economic expansion coming out of the COVID-19 pandemic and demand for many of our products and applications rose.

Net sales were higher by \$27.3 million, or 69.7%, in the United States and Other Americas (predominantly Mexico), primarily driven by the COVID-19 recovery, as well as content and market share gains in ADAS, xEV, ICE, comfort and convenience and industrial applications. The increase in net sales in Japan of \$26.5 million, or 57.4%, which was primarily driven by higher demand for our industrial, xEV, ADAS, safety and comfort and convenience and offerings. The increase in net sales of \$25.0 million, or 59.2%, in Europe, predominantly comprised of Germany and France, was primarily driven by increases in automotive demand, particularly ADAS, comfort and convenience, and ICE offerings. The increase in net sales of \$23.5 million, or 33.5%, in Greater China related to higher automotive demand, primarily in our industrial, ICE, ADAS,

safety and comfort and convenience sectors. South Korea and Other Asia experienced sales growth of \$15.6 million and \$12.4 million, respectively, mainly due to higher automotive demand, specifically in ICE, ADAS and other customer and peripherals.

Cost of goods sold, gross profit and gross margin

Cost of goods sold increased by \$50.9 million, or 37.9%, to \$185.1 million in the six-month period ended September 24, 2021 from \$134.2 million in the six-month period ended September 25, 2020. The increase in cost of goods sold was primarily attributable to higher production volume and increases in amortization of manufacturing cost absorptions and excess inventory reserves, specifically expenses of \$3.1 million related to the discontinuation of a legacy Voxel product line during the first half of 2022.

Gross profit increased by \$79.2 million, or 67.4%, to \$196.7 million in the six-month period ended September 24, 2021 from \$117.5 million in the six-month period ended September 25, 2020. The increase in gross profit was driven by a \$130.1 million operational increase in net sales to core end markets, and the impacts to cost of goods sold discussed above.

R&D expenses

R&D expenses increased by \$9.6 million, or 19.5%, to \$59.1 million in the six-month period ended September 24, 2021 from \$49.5 million in the six-month period ended September 25, 2020. This increase was primarily due to a combined \$5.6 million increase in employee salaries, contract labor, and inventory and supplies costs, a combined \$1.8 million reduction in office supplies and travel and meeting costs, and a \$1.7 million increase in stock-based compensation expense.

R&D expenses represented 15.5% of our total net sales for the six-month period ended September 24, 2021, a decrease from 19.7% of our total net sales in the six-month period ended September 25, 2020. This percentage decrease was primarily due to the growth in net sales in the six-month period ended September 24, 2021.

SG&A expenses

SG&A expenses increased by \$15.2 million, or 29.6%, to \$66.2 million in the six-month period ended September 24, 2021 from \$51.0 million in the six-month period ended September 25, 2020. This increase was primarily due to a combined \$9.4 million increase in employee salaries, and inventory and supplies costs, a \$7.2 million increase in stock-based compensation expense, partially offset by a combined reduction of \$2.6 million in professional fees, severance and travel and meeting costs.

SG&A expenses represented 17.3% of our total net sales in the six-month period ended September 24, 2021, an increase from 20.3% of our total net sales in the six-month period ended September 25, 2020. This percentage decrease was primarily due to the growth in net sales in the six-month period ended September 24, 2021.

Interest (expense) income, net

Interest expense, net was \$1.5 million in the six-month period September 24, 2021 compared to interest income, net of \$0.7 million in the six-month period September 25, 2020. The increase in interest expense was primarily due to mandatory interest payments on the Term Loan Facility in the six-month period ended September 24, 2021 compared to higher interest income received from related parties during the same period last year.

Foreign currency transaction loss

Foreign currency transaction losses decreased by \$1.3 million to \$0.1 million in the six-month period ended September 24, 2021 compared to \$1.2 million in the six-month period ended September 25, 2020. The foreign currency transaction loss recorded in the six-month period September 24, 2021 was primarily due to \$0.2 million of realized and unrealized losses from our UK location. The foreign currency transaction loss recorded in the six-month period ended September 25, 2020 was primarily attributable to \$2.1 million of realized and unrealized losses from our UK location, partially offset by \$1.2 million of realized and unrealized losses from our Thailand location.

Income in earnings of equity investment

Income in earnings of equity investment reflected a \$0.5 million gain in the six-month period ended September 24, 2021, representing the earnings on our 30% investment in PSL.

Other, net

Other, net decreased by \$1.4 million to \$1.6 million of miscellaneous gains in the six-month period September 24, 2021 from \$0.2 million of miscellaneous gains in the six-month period September 25, 2020. This increase was largely attributable to \$1.0 million of unrealized gains on equity securities recognized during the second quarter of 2022.

Income tax provision

Income tax expense and the effective income tax rate were \$10.4 million, or 14.6%, and \$2.6 million, or 15.3%, respectively, in the six-month periods ended September 24, 2021 and September 25, 2020. The fluctuation in our effective income tax rate relates primarily to differences in our U.S. taxable income, estimated FDII benefits, GILTI income, research credits, non-deductible stock-based compensation charges, and discrete tax items.

Non-GAAP Financial Measures

In addition to the measures presented in our consolidated financial statements, we regularly review other metrics, defined as non-GAAP financial measures by the SEC, to evaluate our business, measure our performance, identify trends, prepare financial forecasts and make strategic decisions. The key metrics we consider are non-GAAP Gross Profit, non-GAAP Gross Margin, non-GAAP Operating Expenses, non-GAAP Operating Income, non-GAAP Operating Margin, non-GAAP Profit before Tax, non-GAAP Provision for Income Tax, non-GAAP Net Income, non-GAAP Net Income per Share, EBITDA, Adjusted EBITDA and Adjusted EBITDA margin (collectively, the “Non-GAAP Financial Measures”). These Non-GAAP Financial Measures provide supplemental information regarding our operating performance on a non-GAAP basis that excludes certain gains, losses and charges of a non-cash nature or that occur relatively infrequently and/or that management considers to be unrelated to our core operations, and in the case of non-GAAP Provision for Income Tax, management believes that this non-GAAP measure of income taxes provides it with the ability to evaluate the non-GAAP Provision for Income Taxes across different reporting periods on a consistent basis, independent of special items and discrete items, which may vary in size and frequency. By presenting these Non-GAAP Financial Measures, we provide a basis for comparison of our business operations between periods by excluding items that we do not believe are indicative of our core operating performance, and we believe that investors’ understanding of our performance is enhanced by our presenting these Non-GAAP Financial Measures, as they provide a reasonable basis for comparing our ongoing results of operations. Management believes that tracking and presenting these non-GAAP Financial Measures provides management and the investment community with valuable insight into matters such as: our ongoing core operations, our ability to generate cash to service our debt and fund our operations; and the underlying business trends that are affecting our performance. These Non-GAAP Financial Measures are used by both management and our board of directors, together with the comparable GAAP information, in evaluating our current performance and planning our future business activities. In particular, management finds it useful to exclude non-cash charges in order to better correlate our operating activities with our ability to generate cash from operations and to exclude certain cash charges as a means of more accurately predicting our liquidity requirements. We believe that these Non-GAAP Financial Measures, when used in conjunction with our GAAP financial information, also allow investors to better evaluate our financial performance in comparison to other periods and to other companies in our industry.

These Non-GAAP Financial Measures have significant limitations as analytical tools. Some of these limitations are that:

- such measures do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- such measures exclude certain costs which are important in analyzing our GAAP results;
- such measures do not reflect changes in, or cash requirements for, our working capital needs;
- such measures do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- such measures do not reflect our tax expense or the cash requirements to pay our taxes;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future;
- such measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate such measures differently than we do, thereby further limiting their usefulness as comparative measures.

The Non-GAAP Financial Measures are supplemental measures of our performance that are neither required by, nor presented in accordance with, GAAP. These Non-GAAP Financial Measures should not be considered as substitutes for GAAP financial measures such as gross profit, gross margin, net income or any other performance measures derived in accordance with GAAP. Also, in the future we may incur expenses or charges such as those added back in the calculation of these Non-GAAP Financial Measures. Our presentation of these Non-GAAP Financial Measures should not be construed as an inference that future results will be unaffected by unusual or nonrecurring items.

Our prior disclosure referred to non-GAAP Gross Profit and non-GAAP Gross Margin as Adjusted Gross Profit and Adjusted Gross Margin, respectively. No changes have been made to how we calculate these measures.

Non-GAAP Gross Profit and Non-GAAP Gross Margin

We calculate non-GAAP Gross Profit and non-GAAP Gross Margin excluding the items below from cost of goods sold in applicable periods, and we calculate non-GAAP Gross Margin as non-GAAP Gross Profit divided by total net sales.

- Voxel inventory impairment—Represents costs related to the discontinuation of one of our product lines manufactured by Voxel.
- PSL and Sanken distribution agreement—Represents the elimination of inventory cost amortization and foundry service payment related to one-time costs incurred in connection with the disposition of PSL during the fiscal year ended March 26, 2021 (the “PSL Divestiture”).
- Stock-based compensation—Represents non-cash expenses arising from the grant of stock-based awards.
- AMTC Facility consolidation one-time costs—Represents one-time costs incurred in connection with closing of the AMTC Facility and transitioning of test and assembly functions to the AMPI Facility announced in fiscal year 2020, consisting of: moving equipment between facilities, contract terminations and other non-recurring charges. The closure and transition of the AMTC Facility was substantially completed in March 2021 and closed on the sale in August 2021. These costs are in addition to, and not duplicative of, the adjustments noted in note (*) below.
- Amortization of acquisition-related intangible assets—Represents non-cash expenses associated with the amortization of intangible assets in connection with the acquisition of Voxel, which closed in August 2020.
- COVID-19 related expenses—Represents expenses attributable to the COVID-19 pandemic primarily related to increased purchases of masks, gloves and other protective materials, and overtime premium compensation paid for maintaining 24-hour service at the AMPI Facility.

(*) Non-GAAP Gross Profit and the corresponding calculation of non-GAAP Gross Margin do not include adjustments consisting of:

- Additional AMTC-related costs—Represents costs relating to the closing of the AMTC Facility and the transitioning of test and assembly functions to the AMPI Facility in the Philippines announced in fiscal year 2020 consisting of the net savings expected to result from the movement of work to the AMPI Facility, which facility had duplicative capacity based on the buildouts of the AMPI Facility in fiscal years 2019 and 2018. The elimination of these costs did not reduce our production capacity and therefore did not have direct effects on our ability to generate revenue. The closure and transition of the AMTC Facility was substantially completed in March 2021 and closed on the sale in August 2021.
- Out of period adjustment for depreciation expense of giant magnetoresistance assets (“GMR assets”)—Represents a one-time depreciation expense related to the correction of an immaterial error, related to 2017, for certain manufacturing assets that have reached the end of their useful lives.

Non-GAAP Operating Expenses, non-GAAP Operating Income and non-GAAP Operating Margin

We calculate non-GAAP Operating Expenses and non-GAAP Operating Income excluding the same items excluded above to the extent they are classified as operating expenses, and also excluding the items below in applicable periods. We calculate non-GAAP Operating Margin as non-GAAP Operating Income divided by total net sales.

- Transaction fees—Represents transaction-related legal and consulting fees incurred primarily in connection with (i) the acquisition of Voxtel in fiscal year 2020, and (ii) one-time transaction-related legal and consulting fees in fiscal 2021.
- Severance—Represents severance costs associated with (i) labor savings initiatives to manage overall compensation expense as a result of the declining sales volume during the applicable period, including a voluntary separation incentive payment plan for employees near retirement and a reduction in force, (ii) the closing of the AMTC Facility and the transitioning of test and assembly functions to the AMPI Facility announced and initiated in fiscal year 2020, and (iii) costs related to the discontinuation of one of our product lines manufactured by Voxtel in fiscal year 2022.
- Change in fair value of contingent consideration—Represents the change in fair value of contingent consideration payable in connection with the acquisition of Voxtel.

(**) Non-GAAP Operating Income does not include adjustments consisting of those set forth in note (*) to the calculation of non-GAAP Gross Profit, and the corresponding calculation of non-GAAP Gross Margin, above or:

- Labor savings—Represents salary and benefit costs related to employees whose positions were eliminated through voluntary separation programs or other reductions in force (not associated with the closure of the AMTC Facility or any other plant or facility) and a restructuring of overhead positions from high-cost to low-cost jurisdictions net of costs for newly hired employees in connection with such restructuring.

EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin

We calculate EBITDA as net income minus interest income (expense), tax provision (benefit), and depreciation and amortization expenses. We calculate Adjusted EBITDA as EBITDA excluding the same items excluded above and also excluding the items below in applicable periods. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by total net sales.

- Non-core (gain) loss on sale of equipment—Represents non-core miscellaneous losses and gains on the sale of equipment.
- Foreign currency translation (gain) loss—Represents losses and gains resulting from the remeasurement and settlement of intercompany debt and operational transactions, as well as transactions with external customers or vendors denominated in currencies other than the functional currency of the legal entity in which the transaction is recorded.
- Income in earnings of equity investment—Represents our equity method investment in PSL.
- Unrealized gains on investments—Represents mark-to-market adjustments on equity investments with readily determinable fair values.

Non-GAAP Profit before Tax, Non-GAAP Net Income, and Non-GAAP Basic and Diluted Earnings Per Share

We calculate non-GAAP Profit before Tax as Income before Tax Provision excluding the same items excluded above and also excluding the item below in applicable periods. We calculate non-GAAP Net Income as Net Income excluding the same items excluded above and also excluding the item below in applicable periods.

Non-GAAP Provision for Income Tax

In calculating non-GAAP Provision for Income Tax, we have added back the following to GAAP Income Tax Provision:

- Tax effect of adjustments to GAAP results—Represents the estimated income tax effect of the adjustments to non-GAAP Profit Before Tax described above and elimination of discrete tax adjustments.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of Gross Profit					
GAAP Gross Profit	\$ 102,532	\$ 94,160	\$ 61,770	\$ 196,692	\$ 117,471
Voxtel inventory impairment	271	2,835	—	3,106	—
PSL and Sanken distribution agreement	—	—	2,815	—	6,198
Stock-based compensation	722	528	53	1,250	150
AMTC Facility consolidation one-time costs	7	137	408	144	952
Amortization of acquisition-related intangible assets	273	273	105	546	105
COVID-19 related expenses	316	343	73	659	73
Total Non-GAAP Adjustments	\$ 1,589	\$ 4,116	\$ 3,454	\$ 5,705	\$ 7,478
Non-GAAP Gross Profit*	\$ 104,121	\$ 98,276	\$ 65,224	\$ 202,397	\$ 124,949
Non-GAAP Gross Margin* (% of net sales)	53.8%	52.2%	47.7%	53.0%	49.7%

* Non-GAAP Gross Profit and the corresponding calculation of non-GAAP Gross Margin do not include adjustments for the following components of our net income: (i) additional AMTC related costs of \$—, \$—, and \$2,281 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$—, \$—, and \$768 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and (ii) additional AMTC related costs of \$— and \$5,355 for the six months ended September 24, 2021 and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$— and \$768 for the six months ended September 24, 2021 and September 25, 2020, respectively.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of Operating Expenses					
GAAP Operating Expenses	\$ 63,978	\$ 61,918	\$ 49,368	\$ 125,896	\$ 100,537
Research and Development Expenses					
GAAP Research and Development Expenses	29,590	29,554	25,130	59,144	49,510
Stock-based compensation	1,043	752	32	1,795	53
AMTC Facility consolidation one-time costs	—	2	—	2	—
COVID-19 related expenses	8	6	—	14	—
Non-GAAP Research and Development Expenses	28,539	28,794	25,098	57,333	49,457
Selling, General and Administrative Expenses					
GAAP Selling, General and Administrative Expenses	34,088	32,064	24,238	66,152	51,027
Stock-based compensation	4,431	3,551	495	7,982	822
AMTC Facility consolidation one-time costs	151	324	1,358	475	2,519
Amortization of acquisition-related intangible assets	16	29	9	45	9
COVID-19 related expenses	551	381	398	932	4,398
Transaction fees	6	23	1,871	29	1,988
Severance	—	168	—	168	337
Non-GAAP Selling, General and Administrative Expenses	28,933	27,588	20,107	56,521	40,954
Change in fair value of contingent consideration	300	300	—	600	—
Total Non-GAAP Adjustments	6,506	5,536	4,163	12,042	10,126
Non-GAAP Operating Expenses *	\$ 57,472	\$ 56,382	\$ 45,205	\$ 113,854	\$ 90,411

* Non-GAAP Operating Expenses do not include adjustments for the following components of our net income: (i) additional AMTC related costs of \$—, \$—, and \$380 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and (ii) additional AMTC related costs of \$— and \$704 for the six months ended September 24, 2021 and September 25, 2020, respectively, and labor savings costs of \$— and \$109 for the six months ended September 24, 2021 and September 25, 2020, respectively.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of Operating Income					
GAAP Operating Income	\$ 38,554	\$ 32,242	\$ 12,402	\$ 70,796	\$ 16,934
Voxtel inventory impairment	271	2,835	—	3,106	—
PSL and Sanken distribution agreement	—	—	2,815	—	6,198
Stock-based compensation	6,196	4,831	580	11,027	1,025
AMTC Facility consolidation one-time costs	158	463	1,766	621	3,471
Amortization of acquisition-related intangible assets	289	302	114	591	114
COVID-19 related expenses	875	730	471	1,605	4,471
Change in fair value of contingent consideration	300	300	—	600	—
Transaction fees	6	23	1,871	29	1,988
Severance	—	168	—	168	337
Total Non-GAAP Adjustments	\$ 8,095	\$ 9,652	\$ 7,617	\$ 17,747	\$ 17,604
Non-GAAP Operating Income*	\$ 46,649	\$ 41,894	\$ 20,019	\$ 88,543	\$ 34,538
Non-GAAP Operating Margin* (% of net sales)	24.1 %	22.3 %	14.6 %	23.2 %	13.7 %

* Non-GAAP Operating Income and the corresponding calculation of non-GAAP Operating Margin do not include adjustments for the following components of our net income: (i) additional AMTC related costs of \$—, \$—, and \$2,330 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$—, \$—, and \$768 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and (ii) additional AMTC related costs of \$— and \$5,728 for the six months ended September 24, 2021 and September 25, 2020, respectively, labor savings costs of \$— and \$109 for the six months ended September 24, 2021 and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$— and \$768 for the six months ended September 24, 2021 and September 25, 2020, respectively.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of EBITDA and Adjusted EBITDA					
GAAP Net Income	\$ 33,223	\$ 27,707	\$ 9,618	\$ 60,930	\$ 14,472
Interest expense (income), net	1,150	345	(350)	1,495	(663)
Income tax provision	6,143	4,263	2,082	10,406	2,610
Depreciation & amortization	12,339	12,172	12,487	24,511	24,026
EBITDA	\$ 52,855	\$ 44,487	\$ 23,837	\$ 97,342	\$ 40,445
Non-core (gain) loss on sale of equipment	(296)	(35)	331	(331)	293
Voxtel inventory impairment	271	2,835	—	3,106	—
Foreign currency translation (gain) loss	(202)	254	1,318	52	1,186
Income in earnings of equity investment	(226)	(279)	(246)	(505)	(458)
Unrealized gains on investments	(978)	—	—	(978)	—
Stock-based compensation	6,196	4,831	580	11,027	1,025
AMTC Facility consolidation one-time costs	158	463	1,766	621	3,471
COVID-19 related expenses	875	730	471	1,605	4,471
Change in fair value of contingent consideration	300	300	—	600	—
Transaction fees	6	23	1,871	29	1,988
Severance	—	168	—	168	337
PSL and Sanken distribution agreement	—	—	2,815	—	6,198
Adjusted EBITDA*	\$ 58,959	\$ 53,777	\$ 32,743	\$ 112,736	\$ 58,956
Adjusted EBITDA Margin* (% of net sales)	30.5%	28.6%	24.0%	29.5%	23.4%

* Adjusted EBITDA and the corresponding calculation of Adjusted EBITDA Margin do not include adjustments for the following components of our net income: (i) additional AMTC related costs of \$—, \$—, and \$2,330 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and (ii) additional AMTC related costs of \$— and \$5,728 for the six months ended September 24, 2021 and September 25, 2020, respectively, and labor savings costs of \$— and \$109 for the six months ended September 24, 2021 and September 25, 2020, respectively.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of Income before Tax Provision					
GAAP Income before Tax Provision	\$ 39,366	\$ 31,970	\$ 11,700	\$ 71,336	\$ 17,082
Non-core (gain) loss on sale of equipment	(296)	(35)	331	(331)	293
Voxtel inventory impairment	271	2,835	—	3,106	—
Foreign currency translation (gain) loss	(202)	254	1,318	52	1,186
Income in earnings of equity investment	(226)	(279)	(246)	(505)	(458)
Unrealized gains on investments	(978)	—	—	(978)	—
PSL and Sanken distribution agreement	—	—	2,815	—	6,198
Stock-based compensation	6,196	4,831	580	11,027	1,025
AMTC Facility consolidation one-time costs	158	463	1,766	621	3,471
Amortization of acquisition-related intangible assets	289	302	114	591	114
COVID-19 related expenses	875	730	471	1,605	4,471
Change in fair value of contingent consideration	300	300	—	600	—
Transaction fees	6	23	1,871	29	1,988
Severance	—	168	—	168	337
Total Non-GAAP Adjustments	\$ 6,393	\$ 9,592	\$ 9,020	\$ 15,985	\$ 18,625
Non-GAAP Profit before Tax*	\$ 45,759	\$ 41,562	\$ 20,720	\$ 87,321	\$ 35,707

* Non-GAAP Profit before Tax does not include adjustments for the following components of our net income: (i) additional AMTC related costs of \$—, \$—, and \$2,661 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$—, \$—, and \$768 for the three months ended September 24, 2021 and September 25, 2020, respectively, and (ii) additional AMTC related costs of \$— and \$6,059 for the six months ended September 24, 2021 and September 25, 2020, respectively, labor savings costs of \$— and \$109 for the six months ended September 24, 2021 and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$— and \$768 for the six months ended September 24, 2021 and September 25, 2020, respectively.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of Income Tax Provision					
GAAP Income Tax Provision	\$ 6,143	\$ 4,263	\$ 2,082	\$ 10,406	\$ 2,610
GAAP effective tax rate	15.6%	13.3%	17.8%	14.6%	15.3%
Tax effect of adjustments to GAAP results	946	2,091	859	3,037	2,667
Non-GAAP Provision for Income Taxes *	\$ 7,089	\$ 6,354	\$ 2,941	\$ 13,443	\$ 5,277
<i>Non-GAAP effective tax rate</i>	15.5%	15.3%	14.2%	15.4%	14.8%

* Non-GAAP Provision for Income Taxes does not include tax adjustments for the following components of our net income: additional AMTC related costs and labor savings costs. The related tax effect of those adjustments to GAAP results were \$—, \$— and \$768 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and \$— and \$1,554 for the six months ended September 24, 2021 and September 25, 2020, respectively.

	Three-Month Period Ended			Six-Month Period Ended	
	September 24, 2021	June 25, 2021	September 25, 2020	September 24, 2021	September 25, 2020
(Dollars in thousands)					
Reconciliation of Net Income					
GAAP Net Income	\$ 33,223	\$ 27,707	\$ 9,618	\$ 60,930	\$ 14,472
GAAP Basic Earnings per Share	\$ 0.18	\$ 0.15	\$ 0.96	\$ 0.32	\$ 1.45
GAAP Diluted Earnings per Share	\$ 0.17	\$ 0.14	\$ 0.96	\$ 0.32	\$ 1.45
Non-core (gain) loss on sale of equipment	(296)	(35)	331	(331)	293
Voxtel inventory impairment	271	2,835	—	3,106	—
Foreign currency translation (gain) loss	(202)	254	1,318	52	1,186
Income in earnings of equity investment	(226)	(279)	(246)	(505)	(458)
Unrealized gains on investments	(978)	—	—	(978)	—
PSL and Sanken distribution agreement	—	—	2,815	—	6,198
Stock-based compensation	6,196	4,831	580	11,027	1,025
AMTC Facility consolidation one-time costs	158	463	1,766	621	3,471
Amortization of acquisition-related intangible assets	289	302	114	591	114
COVID-19 related expenses	875	730	471	1,605	4,471
Impairment of long-lived assets	—	—	—	—	—
Change in fair value of contingent consideration	300	300	—	600	—
Transaction fees	6	23	1,871	29	1,988
Severance	—	168	—	168	337
Tax effect of adjustments to GAAP results	(946)	(2,091)	(859)	(3,037)	(2,667)
Non-GAAP Net Income*	\$ 38,670	\$ 35,208	\$ 17,779	\$ 73,878	\$ 30,430
Basic weighted average common shares	189,673,788	189,585,381	10,000,000	189,629,535	10,000,000
Diluted weighted average common shares	191,676,422	191,163,074	10,000,000	191,416,250	10,000,000
Non-GAAP Basic Earnings per Share	\$ 0.20	\$ 0.19	\$ 1.78	\$ 0.39	\$ 3.04
Non-GAAP Diluted Earnings per Share	\$ 0.20	\$ 0.18	\$ 1.78	\$ 0.39	\$ 3.04

* Non-GAAP Net Income does not include adjustments for the following components of our net income: (i) additional AMTC related costs of \$—, \$—, and \$2,661 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$—, \$—, and \$768 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and (ii) additional AMTC related costs of \$— and \$6,059 for the six months ended September 24, 2021 and September 25, 2020, respectively, labor savings costs of \$— and \$109 for the six months ended September 24, 2021 and September 25, 2020, respectively, and out of period adjustment for depreciation expense of GMR assets of \$— and \$768 for the six months ended September 24, 2021 and September 25, 2020, respectively, and (iii) the related tax effect of adjustments to GAAP results \$—, \$—, and \$768 for the three months ended September 24, 2021, June 25, 2021, and September 25, 2020, respectively, and \$— and \$1,554 for the six months ended September 24, 2021 and September 25, 2020, respectively.

Liquidity and Capital Resources

As of September 24, 2021, we had \$248.6 million of cash and cash equivalents and \$357.5 million of working capital compared to \$197.2 million of cash and cash equivalents and \$313.9 million of working capital as of March 26, 2021. Working capital is impacted by the timing and extent of our business needs.

Our primary requirements for liquidity and capital are working capital, capital expenditures, principal and interest payments on our outstanding debt and other general corporate needs. Historically, these cash requirements have been met through cash provided by operating activities and cash and cash equivalents. Our current capital deployment strategy for 2022 is to utilize excess cash on hand to support our growth initiatives into select markets and planned capital expenditures. As of September 24, 2021, the Company is not party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources. The cash requirements for the upcoming fiscal year relate to our leases, operating and capital purchase commitments and expected contributions to our defined benefit and contribution plans. For information regarding the Company's expected cash requirements and timing of payments related to debt and borrowing capacity, leases and noncancellable purchase commitments and pension and defined contribution plans, see Note 15, "Commitments and Contingencies", Note 12, "Debt and Other Borrowings" and Note 14, "Retirement Plans" to the Company's 2021 Annual Report.

We have experienced and expect to continue to experience—to a smaller degree—increases in accounting, legal and professional fees and other costs associated with being a public company. We believe that our existing cash resources, together with the proceeds from our IPO and our access to the capital markets, will be sufficient to finance our continued operations, growth strategy, planned capital expenditures and the additional expenses we expect to incur as a public company for at least the next twelve months. In order to support and achieve our future growth plans, we may need or seek advantageously to obtain additional funding through equity or debt financing. We believe that our current operating structure will facilitate sufficient cash flows from operations to satisfy our expected long-term liquidity requirements beyond the next twelve months. If these resources are not sufficient to satisfy our liquidity requirements due to changes in circumstances, we may be required to seek additional financing. If we raise additional funds by issuing equity securities, our stockholders will experience dilution. Debt financing, if available, may contain covenants that significantly restrict our operations or our ability to obtain additional debt financing in the future. Any additional financing that we raise may contain terms that are not favorable to us or our stockholders. We cannot assure you that we would be able to obtain additional financing on terms favorable to us or our existing stockholders, or at all.

Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows for the six-month periods ended September 24, 2021 and September 25, 2020:

	Six-Month Period Ended	
	September 24, 2021	September 25, 2020
	(dollars in thousands)	
Net cash provided by operating activities	\$ 69,876	\$ 28,640
Net cash used in investing activities	(23,297)	(42,644)
Net cash provided by financing activities	1,291	—
Effect of exchange rate changes on cash and cash equivalents	3,939	2,480
Net increase in cash and cash equivalents and restricted cash	<u>\$ 51,809</u>	<u>\$ (11,524)</u>

Operating Activities

Net cash provided by operating activities was \$69.9 million in the six-month period September 24, 2021, resulting primarily from our net income of \$60.9 million and noncash charges of \$35.5 million, partially offset by a net decrease in operating assets and liabilities of \$26.5 million. Net changes in operating assets and liabilities consisted of a \$17.2 million decrease in accrued expenses and other current and long-term liabilities, a \$6.8 million increase in prepaid expenses, a \$6.2 million decrease in trade accounts payable, and a \$2.3 million increase in trade accounts receivable, net, partially offset by a \$4.4 million decrease in inventories and a \$1.3 million increase in net amounts due from related parties. The decrease in accrued expenses and other current and long-term liabilities was primarily the result of management incentive payments, partially offset by higher accrued personnel costs. The decrease in accrued expenses and other current and long-term liabilities was primarily due to the release of deposits related to the sale of our AMTC Facility and reduction of the balance due on the Voxel acquisition. The increase in prepaid expenses and other assets were primarily due to an increase in prepaid contracts and deposits, investments in marketable equity securities, and the timing of tax payments, including value-added taxes receivable, insurance and contract costs. Accounts payable decreased mainly due to the timing of payments to suppliers and vendors, partially offset by higher operating purchases, including unpaid capital expenditures of \$3.2 million. The

increase in trade accounts receivable, net was primarily a result of increased sales year-over-year, as well as the timing of receipts from customers. The decrease in inventories was primarily a result of the continued drawdown after building inventory up in prior periods to support anticipated sales growth and recovery from the COVID-19 pandemic. The increase in net amounts due to related parties was primarily due to variations in the timing of such payments in the ordinary course of business.

Net cash provided by operating activities was \$28.6 million in the six-month period ended September 25, 2020, resulting primarily from our net income of \$14.5 million and non-cash charges of \$26.9 million, partially offset by a net decrease in operating assets and liabilities of \$12.7 million. Net changes in operating assets and liabilities consisted of a \$16.7 million increase in prepaid expenses and other assets, a \$8.8 million increase in inventories, a \$5.6 million decrease in accrued expenses and other current and long-term liabilities, and a \$1.3 million increase in accounts receivable – other, partially offset by a decrease of \$10.7 million in due from/to related parties, a \$6.2 million decrease in trade accounts receivable, net and a \$2.8 million increase in trade accounts payable. The increase in prepaid expenses and other assets, excluding the impact of the non-cash removal of PSL-related assets of \$5.2 million and acquisition of Voxel, included a \$2.9 million increase in prepaid taxes, a \$2.4 million increase in deferred IPO costs, a \$1.7 million increase in amortizable patent costs, a \$0.8 million increase in prepaid contracts and deposits and a \$7.7 million increase in other prepaid expenses. The \$8.8 million inventory increase is the result of a \$22.4 million reduction in balances from March 27, 2020, offset by a \$32.2 million impact of the non-cash removal of PSL and Sanken distribution business related assets and \$2.1 million of non-cash inventory provisions, reduced by \$3.1 million of inventory added in the acquisition of Voxel. The decrease in accrued expenses and other current and long-term liabilities is the result of a \$13.4 million reduction in balances from March 27, 2020, adjusted for \$26.5 million of non-cash increases related to the Voxel acquisition primarily for deferred and contingent consideration, offset by the \$7.6 million impact of the non-cash removal of PSL and Sanken distribution related assets. Trade accounts payable were impacted by the non-cash removal of PSL-related liabilities of \$4.2 million, with the difference due to timing of such payments in the ordinary course of business. Changes related to trade accounts receivable, net, accounts receivable – other, and due from/to related parties was primarily due to variations in the timing of such payments in the ordinary course of business.

Investing Activities

Net cash used in investing activities primarily consists of purchases and sales of property, plant and equipment, partially offset by proceeds from sales of property, plant and equipment. We expect our multi-year transition from an integrated device manufacturer to our current fabless, asset-lite manufacturing model, including the completion of the PSL Divestiture, will result in a decrease in capital expenditures in the future.

Net cash used in investing activities was \$23.3 million in the six-month period September 24, 2021, consisting of purchases of property, plant and equipment of \$33.8 million, payments related to the acquisition of Voxel of \$12.5 million, and purchases of marketable securities of \$4.3 million, partially offset by \$27.4 million of cash received for the sale of the AMTC Facility.

Net cash used in investing activities was \$42.6 million in the six-month period ended September 25, 2020, consisting of \$18.1 million of purchases of property, plant and equipment, \$8.5 million of cash expended for the acquisition of Voxel and \$16.3 million of cash removed as result of the PSL Divestiture, partially offset by \$0.3 million of proceeds from sales of property, plant and equipment.

Financing Activities

Net cash provided by financing activities was \$1.3 million in the six-month period September 24, 2021, consisting of proceeds received in connection with the issuance of common stock under our employee stock purchase plan.

There was no net cash provided by financing activities in the six-month period ended September 25, 2020.

Debt Obligations

On September 30, 2020, we entered into a term loan credit agreement with Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent, and the other agents, arrangers and lenders party thereto, providing for a \$325.0 million senior secured term loan facility due in 2027 (the “Term Loan Facility”). On September 30, 2020, we also entered into a revolving facility credit agreement with Mizuho Bank, Ltd., as administrative agent and collateral agent, and the other agents, arrangers and lenders party thereto, providing for a \$50.0 million senior secured revolving credit facility expiring in 2023 (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Senior Secured Credit Facilities”). As

of September 24, 2021, we had \$25.0 million in aggregate principal amount of debt outstanding under our Senior Secured Credit Facilities.

Description of Credit Facilities

Term Loan Facility

The Term Loan Facility bears interest at a rate per year of, at our option, either (i) the Base Rate (as defined in the credit agreement) plus an applicable margin from 2.75% to 3.00% depending on our net leverage ratio, or (ii) the Eurodollar Rate (as defined in the credit agreement) plus an applicable margin from 3.75% to 4.00% depending on our net leverage ratio. The Eurodollar Rate is subject to a floor of 0.50%. At September 24, 2021, all term loan borrowings were designated as Eurodollar loans and bore interest of 4.25%.

We incurred deferred financing costs of \$9.4 million in connection with the Term Loan Facility, the total of which was amortized into interest expense or recognized as loss on debt extinguishment as of March 26, 2021.

The Term Loan Facility contains certain covenants that may, among other things and subject to certain exceptions, restrict the ability of us to:

- create, incur, assume or suffer to exist any lien upon any of its property, assets, or revenue;
- create, incur, or assume indebtedness;
- merge, consolidate or amalgamate with or into any other entity;
- purchase or otherwise acquire all or substantially all of the assets, liabilities or properties of any other entity;
- sell, lease, transfer or otherwise dispose of all or substantially all of its assets or properties;
- enter into transactions with affiliates;
- pay dividends or make other distributions; or
- change the nature of its business activities, its fiscal year, or its governing documents.

Borrowings under the Term Loan Facility are secured by 100% of the stock of our domestic subsidiaries, portions of the stock of certain of our foreign subsidiaries, and substantially all of our and our subsidiaries' other property and assets, in each case subject to various exceptions.

We may be required to make mandatory prepayments of the Term Loan Facility if we have Excess Cash Flow (as defined in the credit agreement) if we make certain sales of assets outside the ordinary course of business, or if we suffer certain property loss events. We may make optional prepayments from time to time without premium or penalty.

Revolving Credit Facility

The Revolving Credit Facility bears interest at a rate per year of, at our option, the Base Rate plus 1.5%, the Cost of Funds Rate (as defined in the credit agreement) plus 2.5%, or the Eurodollar Rate plus 2.5%. In addition, commencing on the last business day of December 2020, we are required to pay, on a quarterly basis, a non-refundable commitment fee of 0.50% per year on the average daily unused commitments under the Revolving Credit Facility.

We incurred financing costs of \$0.3 million in connection with the Revolving Credit Facility, which we classified the related short-term and long-term portions within Prepaid expenses and other current assets and Other assets on our unaudited consolidated balance sheet and are amortizing these costs over the term of the facility. The unamortized portion of the deferred financing costs associated with the Revolving Credit Facility was \$0.2 million at September 24, 2021.

The Revolving Credit Facility contains certain financial and non-financial covenants, including a maximum net leverage ratio applicable to the Revolving Credit Facility in the event that utilization exceeds 35% of the revolving loan commitment.

Borrowings under the Revolving Credit Facility are secured by 100% of the stock of our domestic subsidiaries, portions of the stock of certain of our foreign subsidiaries, and substantially all of our subsidiaries' other property and assets, in each case subject to various exceptions.

AMPI Credit Facilities

On November 26, 2019, AMPI entered into a line of credit agreement with Union Bank of the Philippines, Inc. that provides for a maximum borrowing capacity of 60.0 million Philippine pesos (approximately \$1.8 million) at the bank's prevailing interest rate. While this line of credit initially expired on August 21, 2021 (in connection with certain delays as a result of the COVID-19 pandemic and its impact on bank operations), the line of credit was extended in September 2021 and is now expected to expire on August 21, 2022. There were no borrowings outstanding under this line of credit as of September 24, 2021 and March 26, 2021.

On November 20, 2019, AMPI entered into a line of credit agreement with BDO Unibank that provides for a maximum borrowing capacity of 75.0 million Philippine pesos (approximately \$2.2 million) at the bank's prevailing interest rate. While this line of credit initially expired on June 30, 2021 (in connection with certain delays as a result of the COVID-19 pandemic and its impact on bank operations), the line of credit was extended in September 2021 and is now expected to expire on June 30, 2022. There were no borrowings outstanding under this line of credit as of September 24, 2021 and March 26, 2021.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" in the unaudited consolidated financial statements included elsewhere in this Quarterly Report for a full description of recent accounting pronouncements, including the respective dates of adoption or expected adoption and effects on our condensed consolidated financial statements contained in Item 1 of this Quarterly Report.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our significant accounting policies are described in Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in our 2021 Annual Report. There have been no material changes in our critical accounting policies and estimates since March 26, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our exposures to market risk since March 26, 2021. For details on the Company's interest rate, foreign currency exchange, and inflation risks, see "Item 7A. Quantitative and Qualitative Information About Market Risks" in our 2021 Annual Report.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Senior Vice President, Chief Financial Officer and Treasurer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 24, 2021. Based on the evaluation of our disclosure controls and procedures as of September 24, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be involved in claims and proceedings arising in the course of our business. The outcome of any such claims or proceedings, regardless of the merits, is inherently uncertain. We are not currently party to any material legal proceedings, and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

Item 1A. Risk Factors.

There have been no material changes to the “Risk Factors” disclosed in Item 1A of our 2021 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description of Exhibit
10.1	<u>Addendum to Stockholders Agreement of Allegro MicroSystems, Inc., dated as of June 30, 2021, by and among Allegro MicroSystems, Inc., OEP SKNA, L.P. and Sanken Electric Co., Ltd. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 2, 2021).</u>
31.1	<u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	Inline XBRL Instance Document. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLEGRO MICROSYSTEMS, INC.

Date: October 29, 2021

By: _____
/s/ Ravi Vig
Ravi Vig
President and Chief Executive Officer
(principal executive officer)

Date: October 29, 2021

By: _____
/s/ Paul V. Walsh, Jr.
Paul V. Walsh, Jr.
Senior Vice President, Chief Financial Officer and Treasurer
(principal financial and accounting officer)

CERTIFICATION

I, Ravi Vig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Allegro MicroSystems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Omitted];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2021

By:

/s/ Ravi Vig

Ravi Vig
President and Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Paul V. Walsh Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Allegro MicroSystems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Omitted];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2021

By:

/s/ Paul V. Walsh, Jr.

Paul V. Walsh, Jr.
Chief Financial Officer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Allegro MicroSystems, Inc. (the "Company") for the quarterly period ended September 24, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2021

By:

/s/ Ravi Vig

Ravi Vig
President and Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Allegro MicroSystems, Inc. (the "Company") for the quarterly period ended September 24, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2021

By:

/s/ Paul V. Walsh, Jr.

Paul V. Walsh, Jr.
Chief Financial Officer
(principal financial officer)