

Mellanox Delivers Record Fourth Quarter and Annual 2019 Financial Results

Achieved \$380 million revenue in the fourth quarter, up 13% vs. prior quarter and 31% vs. prior year Annual Revenue of \$1.33 billion in 2019, up 22% vs. prior year Annual GAAP operating income of \$208 million and operating margin of 15.6%; Annual non-GAAP operating income of \$384 million and operating margin of 28.9%

Mellanox® Technologies, Ltd. (NASDAQ: MLNX), a leading supplier of high-performance, end-to-end interconnect solutions for data center servers and storage systems, today announced preliminary financial results for its fourth quarter and fiscal year 2019.

"Mellanox delivered record revenue, operating income, and cash flow from operations in both the fourth quarter and the full year 2019. All our major product lines grew in the fourth quarter, demonstrating the advantages of our broad product portfolio. We are shipping over 1.2 million units per quarter of ConnectX and Bluefield adapters, driven by strong adoption of our smart offload and secure in-network compute capabilities. We continue to lead with our Ethernet adapters at data rates of 25 gigabits per second and above. Our Ethernet switch business is expanding at a healthy rate as well, attaining sequential revenue growth of 25% for two quarters in a row. Powered by our Spectrum product line with data rates of up to 400 gigabits per second, our Ethernet switch solutions are being deployed in a wide range of applications for hyperscale, cloud, storage, and financial markets. We expect to see continued growth with the introduction of Spectrum-3 products very soon," said Eyal Waldman, president and CEO of Mellanox Technologies. "Fourth quarter revenue for our InfiniBand solutions grew 19% sequentially, and 2019 annual revenue grew 29% compared to 2018, driven by the strong adoption of our 200 gigabit per second HDR solutions in the high performance computing, artificial intelligence, cloud, and storage market segments. HDR InfiniBand accelerates nearly one-third of the new InfiniBand platforms on the recent TOP500 supercomputing list and has been selected to connect some of the most powerful supercomputing installations in 2020, including Meteo France, the European Centre for Medium-Range Weather Forecasts (ECMWF), the Eni Supercomputing platform, and several national and Exascale programs," continued Waldman. "We are pleased with the robust adoption of our adapters, switches, and cables for leading data centers, as well as our superb financial performance throughout 2019, culminating in record revenue, operating income, and cash flow from operations. We are also proud to end 2019 with \$876 million cash and short-term investments."

Fourth Quarter 2019 - Financial Results Summary

- Revenue of \$379.8 million in the fourth quarter, an increase of 30.9 percent, compared to \$290.1 million in the fourth quarter of 2018.
- GAAP gross margins of 66.2 percent in the fourth quarter, compared to 65.4 percent in the fourth quarter of 2018.
- Non-GAAP gross margins of 69.1 percent in the fourth quarter, compared to 69.0 percent in the fourth quarter of 2018.
- GAAP operating income of \$72.2 million in the fourth quarter, or 19.0 percent of revenue, compared to \$44.0 million, or 15.2 percent of revenue in the fourth quarter of 2018.
- Non-GAAP operating income of \$118.2 million in the fourth quarter, or 31.1 percent of revenue, compared to \$78.7 million, or 27.1 percent of revenue in the fourth quarter of 2018.
- GAAP net income of \$73.9 million in the fourth quarter, compared to \$42.8 million in the fourth quarter of 2018.
- Non-GAAP net income of \$129.3 million in the fourth quarter, compared to \$77.1 million in the fourth quarter of 2018.
- GAAP net income per diluted share of \$1.29 in the fourth quarter, compared to \$0.78 in the fourth quarter of 2018.
- Non-GAAP net income per diluted share of \$2.31 in the fourth quarter, compared to \$1.42 in the fourth quarter of 2018.
- \$147.8 million in cash provided by operating activities in the fourth quarter of 2019, compared to \$96.4 million in the fourth quarter of 2018.
- Cash and short-term investments totaled \$875.9 million at December 31, 2019, compared to \$742.5 million at September 30, 2019.

Fiscal Year 2019 - Financial Highlights

- Revenue of \$1,330.6 million in 2019, an increase of 22.2 percent, compared to \$1,088.7 million in 2018.
- GAAP gross margins of 65.1 percent in 2019, compared to 64.3 percent in 2018.
- Non-GAAP gross margins of 68.3 percent in 2019, compared to 69.2 percent in 2018.
- GAAP operating income of \$207.9 million in 2019, an increase of 85.5 percent, compared to \$112.1 million in 2018.
- Non-GAAP operating income of \$384.3 million in 2019, or 28.9 percent of revenue, compared to \$270.2 million, or 24.8 percent of revenue in 2018.
- GAAP net income of \$205.1 million in 2019, an increase of 52.8 percent, compared to \$134.3 million in 2018.
- Non-GAAP net income of \$393.5 million, an increase of 47.7 percent, compared to \$266.5 million in 2018.

- GAAP net income per diluted share of \$3.62, compared to \$2.46 in 2018.
- Non-GAAP net income per diluted share of \$7.13, compared to \$5.01 in 2018.
- Cash provided by operating activities in 2019 was \$424.8 million, compared to \$264.9 million in 2018.

Commentary Regarding Mellanox Acquisition by NVIDIA

As announced on March 11, 2019, NVIDIA Corporation intends to acquire all the issued and outstanding common shares of Mellanox for \$125 per share in cash. Due to the pending acquisition, Mellanox will not hold an earnings conference call and has suspended the practice of providing forward-looking guidance.

The two companies have now received regulatory antitrust approval for the deal from the European Commission and Mexico. In addition, the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with the proposed acquisition expired at 11:59 p.m., Eastern time, on May 23, 2019. The transaction remains subject to customary closing conditions and the remaining regulatory approval from the Anti-Monopoly Bureau of the State Administration for Market Regulation of the People's Republic of China.

Recent Mellanox Press Release Highlights

- January 20, 2020 - OpenStack Software Adds Native Upstream Support for HDR 200 Gigabit InfiniBand for Building High-Performance Clouds
- January 13, 2020 - 200G HDR InfiniBand to Accelerate the New European Centre for MediumRange Weather Forecasts (ECMWF) Supercomputer
- November 21, 2019 - Mellanox 200 Gigabit HDR InfiniBand Advances Innovations in HighPerformance Computing and Artificial Intelligence
- November 20, 2019 - HDR InfiniBand Selected by Meteo France to Accelerate Two New Large Scale Supercomputers
- November 19, 2019 - 200 Gigabit HDR InfiniBand to Accelerate Eni Supercomputing Platform, to Become World's Most Powerful Industrial Supercomputer
- November 19, 2019 - IT4Innovations National Supercomputing Center, a EuroHPC Supercomputing Site, Selected Mellanox 200G HDR InfiniBand to Accelerate Their New Research Infrastructure
- November 19, 2019 - Beijing Meteorological Service Selects 200 Gigabit HDR InfiniBand to Accelerate New Supercomputing Platform
- November 18, 2019 200 - Gigabit HDR InfiniBand Boosts Microsoft Azure High-Performance Computing Cloud Instances
- November 18, 2019 - 200G HDR InfiniBand Accelerates 31% of New InfiniBand Systems on November's TOP500, Including Fastest 2019-Built TOP500 Supercomputer
- November 18, 2019 - Fujitsu Selects InfiniBand to Accelerate Their New Arm-Based PRIMEHPC FX700 Supercomputer Platform
- November 14, 2019 - Mellanox Introduces Mellanox Skyway™ 200 Gigabit HDR InfiniBand to Ethernet Gateway Appliance for High Performance and Cloud Data Centers
- November 14, 2019 - Mellanox Introduces Quantum LongReach Appliance, Extending 100G EDR and 200G HDR InfiniBand Connectivity to 10 and 40 Kilometers
- October 30, 2019 - Mellanox Delivers Record Revenue for the Third Quarter of 2019

Note: See attached download for complete financial results.

About Mellanox

Mellanox Technologies (NASDAQ: MLNX) is a leading supplier of end-to-end Ethernet and InfiniBand intelligent interconnect solutions and services for servers, storage, and hyper-converged infrastructure. Mellanox's intelligent interconnect solutions increase data center efficiency by providing the highest throughput and lowest latency, delivering data faster to applications, unlocking system performance and improving security. Mellanox offers a choice of high-performance solutions: network and multicore processors, network adapters, switches, cables, software and silicon, that accelerate application runtime and maximize business results for a wide range of markets including high performance computing, enterprise data centers, cloud, storage, cyber security, telecom and financial services.

Mellanox has achieved and maintained the highest ISS Quality Score possible beginning in May of 2017 and through the date of this release, January 29, 2020.

GAAP to Non-GAAP Reconciliation

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), Mellanox uses non-GAAP measures of net income which are adjusted from results based on GAAP to exclude sharebased compensation expense, amortization expense of acquired intangible assets, settlement costs, acquisition and other charges, restructuring and impairment charges, gain on investments in privately-held companies, non-operating foreign exchange gains and losses, and income tax effects and adjustments. Settlement costs represent the charges related to the settlement of a contingent royalty obligation. Acquisition and other charges include expenses related to acquisitions of other companies, expenses related to the proxy contest, and expenses related to the pending acquisition of Mellanox by NVIDIA.

Restructuring and impairment charges include impairment charges related to our investment in privately-held companies, as well as costs that are the result of restructuring, consisting of employee termination and severance costs, facilities related costs, contract cancellation charges, and impairment of long-lived assets. Gain on investments in privately-held companies represents the realized and unrealized gain related to our private company investees. Non-operating foreign exchange gains and losses include the gains and losses as a result of remeasuring our balance sheet items denominated in foreign currencies and the gains and losses associated with the related hedging instruments. The purpose of income tax effects and adjustments is to exclude tax consequences associated with the above excluded income and expense items, the non-cash impact on the tax provision pertaining to changes in deferred tax assets associated with carryforward losses, and reversals of valuation allowances. Shares used in computing non-GAAP diluted earnings per share represents GAAP basic shares plus total options vested and exercisable. The company believes the non-GAAP results provide useful information to both management and investors, as these non-GAAP results exclude income and expenses that are not indicative of our core operating results. Management believes it is useful to exclude share-based compensation expense, amortization expense of acquired intangible assets, settlement costs, acquisition and other charges, restructuring and impairment charges, gain on investments in privately-held companies, non-operating foreign exchange gains and losses, and income tax effects and adjustments because it enhances investors' ability to understand our business from the same perspective as management, which believes that such items are not directly attributable to nor reflect the underlying performance of the company's business operations. Further, management believes certain non-cash charges such as share-based compensation, amortization of acquired intangible assets, impairment charges, changes related to the utilization of deferred taxes and the net impact on the company's tax provision for non-GAAP adjustments do not reflect the cash operating results of the business. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. These non-GAAP measures may be different than the non-GAAP measures used by other companies. A reconciliation of GAAP to non-GAAP condensed consolidated statements of operations is also presented in the financial statements portion of this release and is posted under the "Investor Relations" section on our website.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

All statements included or incorporated by reference in this release, other than statements or characterizations of historical fact, are forward-looking statements, statements related to trends in the market for our solutions and services, opportunities for our company in 2020 and beyond, future product capabilities and the acquisition of Mellanox by NVIDIA. These forward-looking statements are based on our current expectations, estimates and projections about our industry and business, management's beliefs and certain assumptions made by us, all of which are subject to change.

Forward-looking statements can often be identified by words such as "projects," "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions and variations or negatives of these words. These forward-looking statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause our actual results to differ materially and adversely from those expressed in any forward-looking statement. The risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements include the continued expansion of our product line, customer base and the total available market of our products, the continued growth in demand for our products, the continued, increased demand for industry standards-based technology, our ability to react to trends and challenges in our business and the markets in which we operate, our ability to anticipate market needs or develop new or enhanced products to meet those needs, the adoption rate of our products, our ability to establish and maintain successful relationships with our OEM partners, our ability to effectively compete in our industry, fluctuations in demand, sales cycles and prices for our products and services, our success converting design wins to revenue-generating product shipments, the continued launch and volume ramp of large customer sales opportunities, our ability to protect our intellectual property rights, our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses, our success in realizing the anticipated benefits of mergers and acquisitions, and our ability to obtain debt at competitive rates or in sufficient amounts in order to fund our contractual commitments. Furthermore, the majority of our quarterly revenue are derived from customer orders received and fulfilled in the same quarterly period. We have limited visibility into actual end-user demand as such demand impacts us and our OEM customer inventory balances in any given quarter. Consequently, this introduces risk and uncertainty into our revenue and production forecasts and business planning and could negatively impact our financial results. In addition, current uncertainty in the global economic environment poses a risk to the overall economy as businesses may defer purchases in response to tighter credit conditions, changing overall demand for our products, and negative financial news. Consequently, our results could differ materially from our prior results due to these general economic and market conditions, political events and other risks and uncertainties described more fully in our documents filed with or furnished to the Securities and Exchange Commission. Additionally, there are risks, uncertainties and assumptions in connection with the proposed transaction with NVIDIA including, (i) the risk that the proposed transaction may not be completed in a timely manner or at all, which may adversely affect Mellanox's business and the price of the ordinary shares of Mellanox, (ii) the failure to satisfy any of the conditions to the consummation of the proposed transaction, including the approval of the merger agreement by the shareholders of Mellanox and the receipt of certain governmental and regulatory approvals, (iii) the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement, (iv) the effect of the announcement or pendency of the proposed transaction on Mellanox's business relationships, operating results and business generally, (v) risks that the proposed transaction disrupts current plans and operations and the potential difficulties in employee retention as a result of the proposed transaction, (vi) risks related to

diverting management's attention from Mellanox's ongoing business operations, (vii) the outcome of any legal proceedings that may be instituted against us related to the merger agreement or the proposed transaction; and (viii) unexpected costs, charges or expenses resulting from the proposed transaction.

More information about the risks, uncertainties and assumptions that may impact our business is set forth in our Annual Report on Form 10-K filed with the SEC on February 21, 2019. All forward-looking statements in this press release, are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements. Amounts reported in this release are preliminary and subject to finalization prior to the filing of our next Annual Report on Form 10-K.

Mellanox is a registered trademark of Mellanox Technologies, Ltd. All other trademarks are property of their respective owners.

Alex Shapiro
Enterprise Networking
1-415-608-5044
ashapiro@nvidia.com