FACT SHEET:
CHIPS Program Office Approach to Applicant Capital Allocation Policies

The CHIPS Program Office (CPO) is focused on two core priorities: building a reliable and resilient semiconductor industry that protects America's technological leadership for the coming decades and serving as good stewards of taxpayer dollars. CPO has designed its approach to Applicant capital allocation policies to advance those objectives and will seek to ensure strong protection for taxpayers while advancing the economic and national security interests of the United States.

To carry out these priorities, CPO rigorously reviews each application based on an objective set of evaluation criteria and intends to only provide the smallest CHIPS Incentive amount necessary to incentivize investment in meritorious semiconductor projects in the United States. CPO has implemented a number of safeguards to ensure that the Department of Commerce (Department) and companies are responsible stewards of taxpayer resources, including via its approach to applicant capital allocation, or stock buyback, policies.

In accordance with the Notice of Funding Opportunity for Commercial Fabrication Facilities (the NOFO), CPO seeks to support Applicants that commit to domestic investment in 1) manufacturing activities and 2) research and development (R&D) activities. Commitments to domestic investment are evaluated during the CPO's merit review of applications, and further negotiated with Applicants through the terms of final award agreements. CPO's merit review also includes a rigorous review of Applicants' commercial viability and financial health. The goal of this merit review is ultimately to prioritize and support companies that are committed to long-term investment in the United States and on strong financial footing. In connection with this goal, CPO has articulated a preference for Applicants that prioritize investment in U.S. manufacturing and R&D over distributing capital to shareholders. Additionally, under the CHIPS and Science Act, Applicants are prohibited by law from using CHIPS funds to pay shareholder dividends or stock buybacks.

The final award terms relating to shareholder distributions are determined on a case-by-case basis and are considered comprehensively in the context of the aforementioned programmatic goals and key merit review criteria outlined in the NOFO. In determining the appropriate limitations on shareholder dividends and stock buybacks for an Applicant, CPO considers a number of factors, including:

- <u>Absolute and relative size of CHIPS award</u>: CPO will seek stronger limitations for larger awards and for awards that comprise a greater share of the Applicant's market and enterprise value.
- <u>Financial health and credit quality of the applicant</u>: CPO will seek stronger limitations in instances where CPO determines limitations on shareholder distributions are important to preserve or increase the financial strength of the Applicant.
- <u>Commitment to future investment in the U.S.</u>: CPO will prioritize Applicants that make credible commitments to investment in U.S. manufacturing and/or R&D. Therefore, in certain cases, CPO may allow for a higher level of shareholder distributions after the Applicant executes on its

domestic investment commitments and maintains the financial strength to continue those investments in the future.

In general, CPO seeks to secure limitations on shareholder distributions for a period of five years from award date. While CPO will generally seek the strongest terms possible in the context of fulsome negotiations, CPO may allow targeted exceptions based on the facts and circumstances of an individual Applicant. Examples include:

- Buybacks for anti-dilution purposes: CPO may permit share buybacks intended to limit ownership dilution in connection with existing and normal-course equity and employee compensation plans.
- Customary or ordinary-course dividends: CPO generally permits the continuation of pre-existing dividend policies with reasonable ordinary-course increases, though will generally seek to limit (1) non-typical increases in dividends and (2) special or one-time dividends.
- Investment metrics: CPO may permit shareholder distributions after an Applicant meets minimum metrics relating to U.S. investment in manufacturing and/or R&D.
- Financial metrics: CPO may permit shareholder distributions after an Applicant meets minimum metrics relating to financial health, such as annual cash flows, net debt levels, and/or third-party credit ratings.

As mentioned above, in addition to the agreed-upon limitations or exceptions, the CHIPS Act prohibits CHIPS funds from being used by any Applicant to purchase an equity security listed on a national securities exchange of such Applicant or any parent company of such Applicant or to pay dividends or make other capital distributions with respect to the common stock of the Applicant.