
STARBOARD VALUE[®]



Supplemental Materials

January 2018

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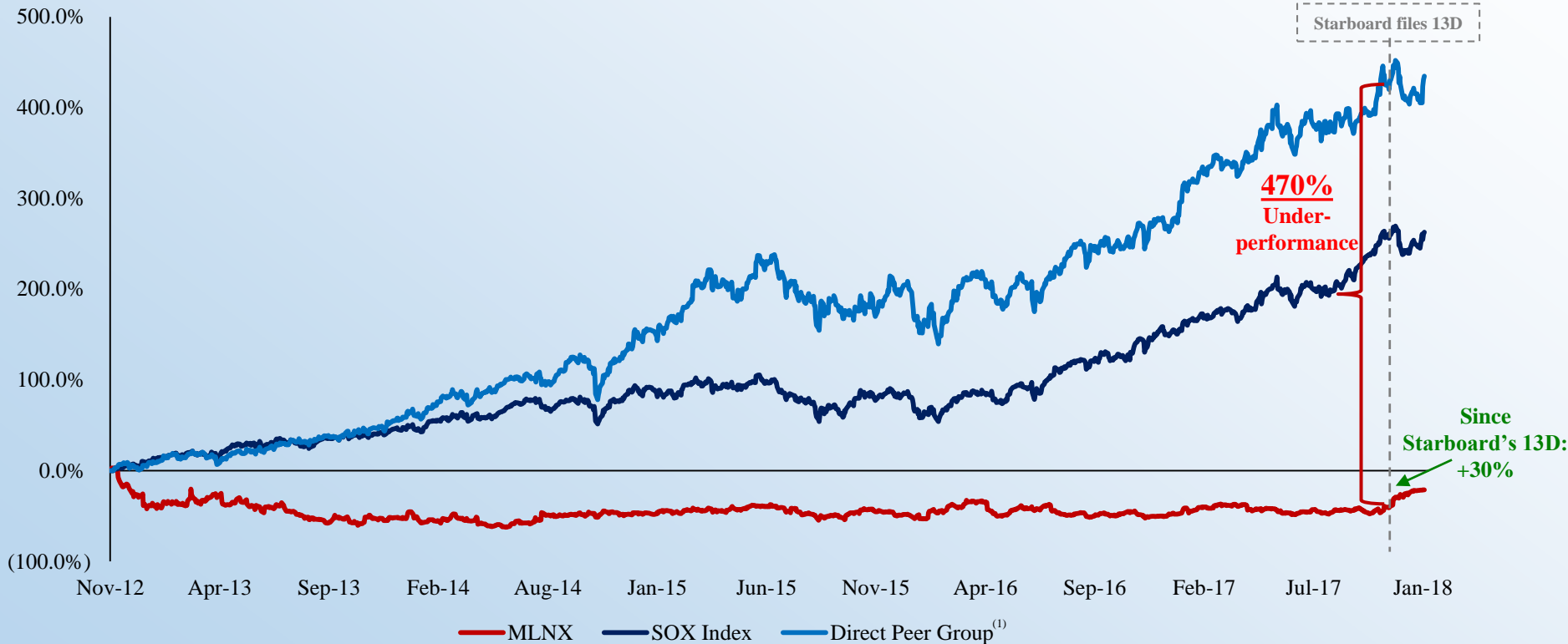
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Substantial Long-Term Underperformance

Mellanox (“MLNX” or the “Company”) has significantly underperformed its Direct Peer Group and the broader semiconductor industry over the last five years.

- In fact, Mellanox underperformed its direct peer group by more than 450% and the SOX Semiconductor Index by almost 300% in the five years prior to our 13D. Since then, MLNX has outperformed its peers and the SOX index by almost 30%.

Five Year Stock Price Performance

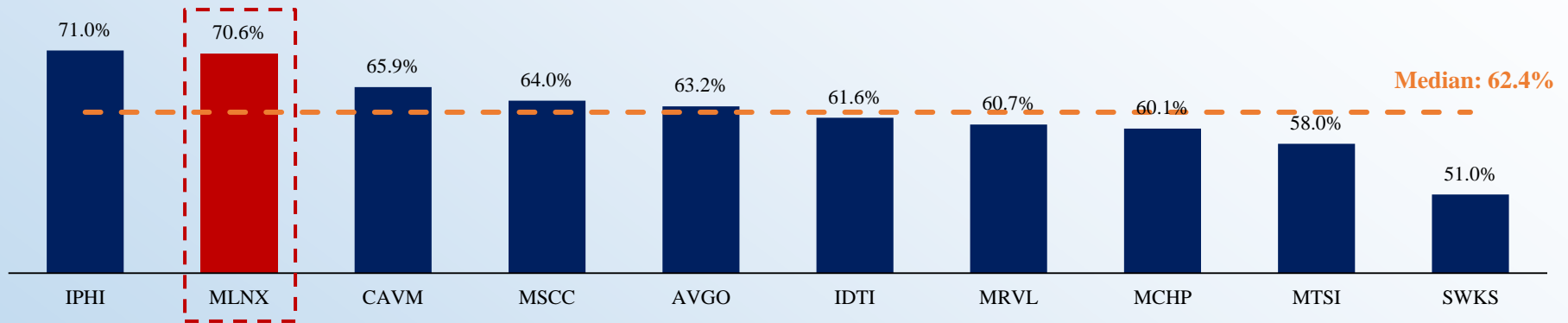


Mellanox has significantly underperformed peers and the market

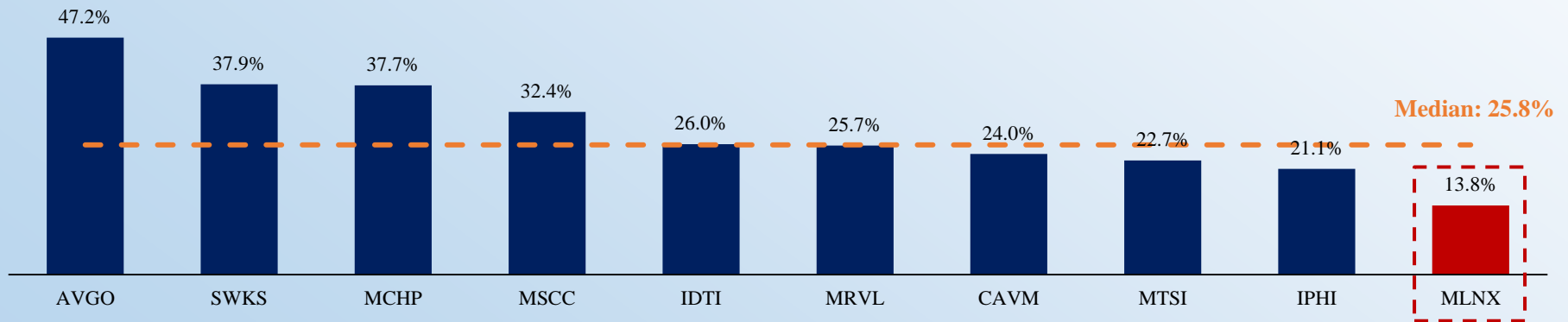
Despite Industry Leading Gross Margins, Mellanox has the Lowest Operating Margins of its Peers

MLNX's generates gross margins of approximately 70%, yet is expected to produce an operating margin of less than 14% for 2017.

2017E Gross Margin



2017E Operating Margin

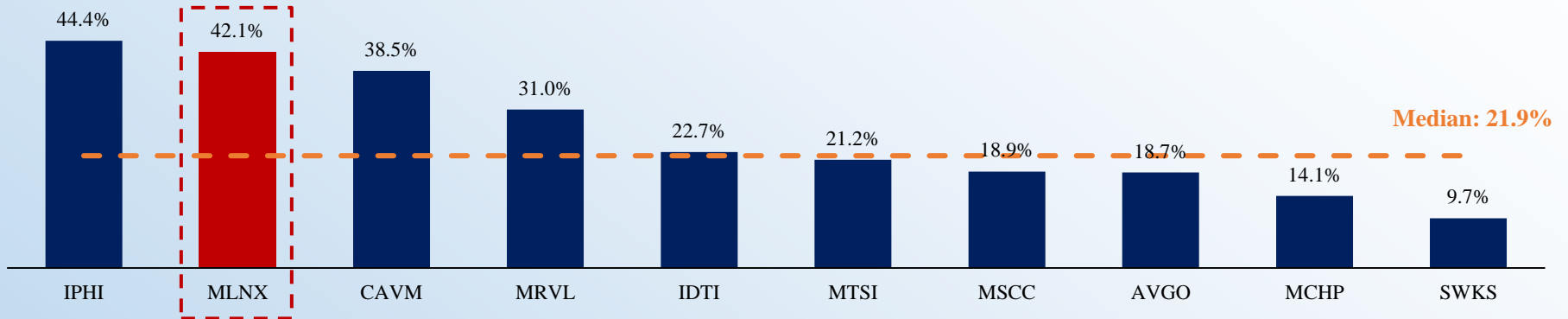


Mellanox's operating margin trails peers despite one of the best gross margin profiles in the industry

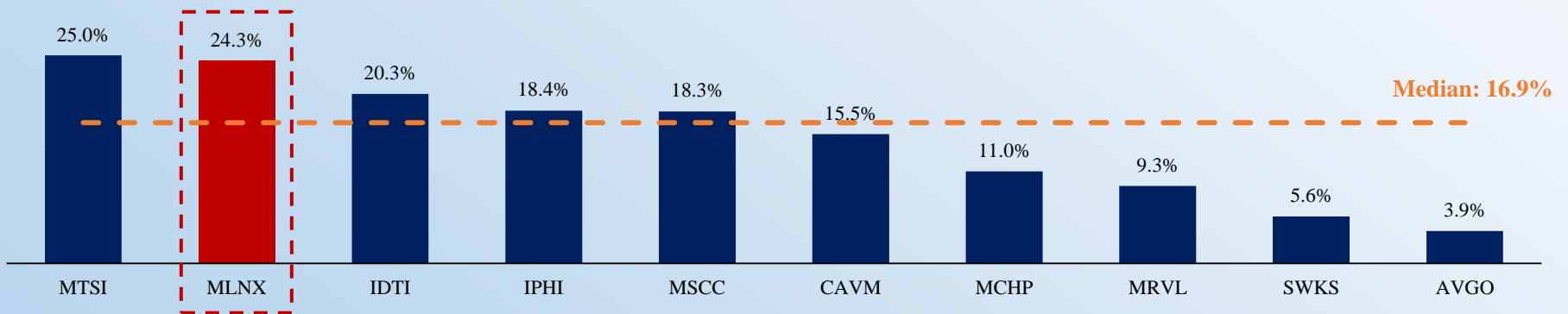
Mellanox's R&D and SG&A Spending Greatly Exceed Peers

The Company's operating expenses are well above peers.

LTM R&D Expense as a Percent of Revenue⁽¹⁾



LTM SG&A Expense as a Percent of Revenue⁽¹⁾



Mellanox's cost structure is out-of-line with peers

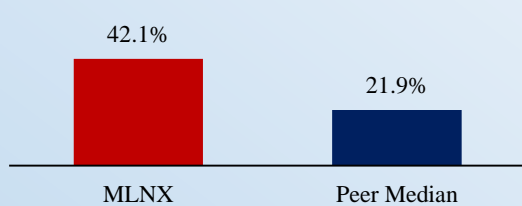
Source: Capital IQ, Bloomberg. Market data as of January 4, 2018.

(1) LTM R&D Expense & SG&A Expense as a percent of sales per Capital IQ and represent GAAP numbers excluding one-time events such as asset impairment.

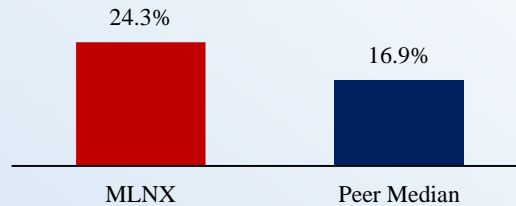
Despite Outsized R&D and SG&A Spending, Mellanox's Revenue Growth Has Lagged Peers

Elevated R&D and SG&A, if wisely spent, should result in a higher revenue growth rate. However, Mellanox is expected to grow slower than the vast majority of its peers.

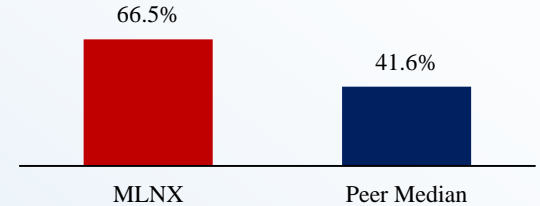
LTM R&D as a Percent of Revenue ⁽¹⁾



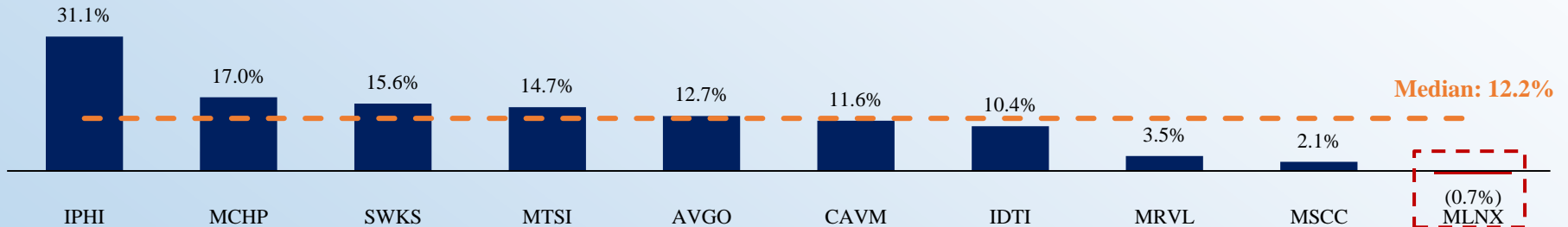
LTM SG&A as a Percent of Revenue ⁽¹⁾



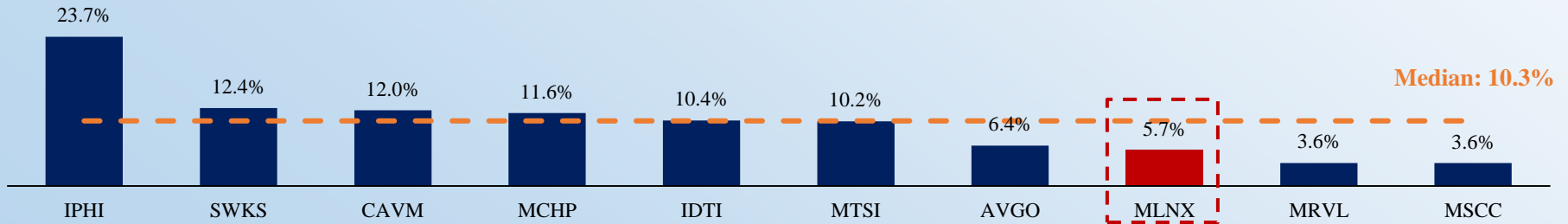
LTM OpEx as a Percent of Revenue ⁽¹⁾



2017E Revenue Growth ⁽²⁾



2016 – 2018E Revenue CAGR ⁽²⁾



Mellanox's revenue growth is towards the bottom of the peer group despite spending significantly more than peers on R&D and SG&A

Source: Capital IQ, Bloomberg. Market data as of January 4, 2018.

(1) LTM R&D Expense, SG&A Expense, and OpEx as a percent of sales per Capital IQ and represent GAAP numbers excluding one-time events such as asset impairment, as shown on previous slide.

(2) CY2017E and CY2018E revenue estimates based on analyst consensus estimates per Bloomberg. Adjusted to account for effects of acquisitions and divestitures during 2016-2017 to measure organic growth.

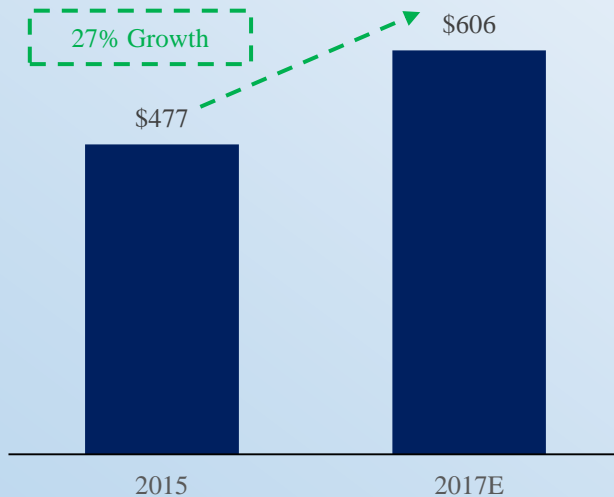
Mellanox Has Failed to Realize Operating Leverage

From 2015 – 2017E, Mellanox’s revenue and gross profit growth were significantly outpaced by growth in operating expenses.

- From 2015 – 2017E, Gross Profit is expected to increase by \$130 million, while operating expenses are expected to increase by \$180 million.

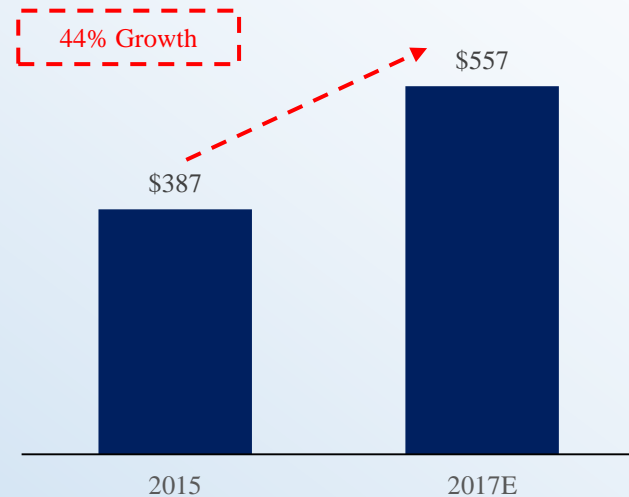
2015 – 2017E Gross Profit Growth⁽¹⁾

(\$ in millions)



2015 – 2017E Operating Expense Growth⁽²⁾

(\$ in millions)



- This means that over the last two years, Mellanox is expected to have spent \$1.30 for every incremental \$1.00 of gross profit.

Mellanox has experienced negative operating leverage over the past two years

Source: Capital IQ, Bloomberg, Company filings, Starboard Value estimates.

- (1) 2017E Gross Profit based on Starboard Value estimates, reflecting non-GAAP gross profit less stock-based compensation.
- (2) 2017E Operating Expenses based on Starboard Value estimates, reflecting non-GAAP expense calculation plus stock-based compensation.

Over the Last Year, Mellanox Has Consistently Underperformed Expectations

In each of the last four quarters, Mellanox has missed consensus expectations on revenue or EPS.

- Mellanox has repeatedly missed consensus expectations over the last four quarters, frustrating shareholders and failing to gain momentum despite industry tailwinds.

Earnings Surprise History – Last 4 Quarters

	Revenue vs. Consensus	EPS vs. Consensus	Rev. Guidance vs. Consensus ⁽¹⁾	Missed On:	Stock Price Reaction
Q4 2016	(1.5%)	(4.2%)	(8.8%)	Revenue, EPS, & Guidance	(6.1%)
Q1 2017	(7.8%)	(40.6%)	(5.1%)	Revenue, EPS, & Guidance	(8.5%)
Q2 2017	0.9%	(1.1%)	(2.3%)	EPS & Guidance	2.2%
Q3 2017	(0.5%)	11.5%	(1.8%)	Revenue & Guidance	(0.1%)

Mellanox's track record of missing expectations has led to shareholder frustration and the Company trading at a discount to peers

Source: Bloomberg.

(1) Based on quarterly revenue consensus estimate per Bloomberg 1 or 2 days prior to Mellanox issuing guidance for the following quarter (i.e. for Q4 2016, based on Q1 consensus revenue 1 day prior to Mellanox issuing Q1 revenue guidance in conjunction with its Q4 earnings report).

Mellanox Has Consistently Disappointed Shareholders

The Company has failed to deliver on stated performance goals, creating skepticism in the investment community.

Mellanox's Promises

“On operating income, we targeted mid-20%-s, today with 21%. So, the strategy for us is to grow operating expenses at a rate lower than revenue growth, and continue leveraging the model.”

- June 6, 2016

“We see 2017 as another year of growth for Mellanox.”

- Q4 2016 Earnings Call

“We expect to continue to see sequential growth and expect full year growth as well [for 2017].”

- Q2 2017 Earnings Call

“...multiple opportunities for revenue growth from BlueField in 2017.”

- Q2 2016 Earnings Call

“We expect to start sampling BlueField in 2017, with initial revenues in 2017 and then more material contribution in 2018.”

- March 13, 2017

Reality

- Per consensus estimates, Mellanox's 2017 operating margin is expected to be **less than 14%**.
- In fact, since 2015, Mellanox has actually grown opex at a significantly faster pace than revenue.
- Per consensus estimates, Mellanox's 2017 revenue growth is expected to be **less than 1%**.
- In fact, when adjusting for revenue from the EZChip acquisition, Mellanox's 2017 **organic growth rate is expected to be negative.**
- Mellanox now states that it expects revenue from BlueField to begin in 2018, with significant contributions pushed out to 2019.
- “Our customers are waiting for key products introductions, such as BlueField, Spectrum-2 and the release of 200 gigabit InfiniBand. We anticipate revenue contribution from all 3 of those products to start in 2018.”

- Q3 2017 Earnings Call

Mellanox's New Financial Targets Are Not Sufficient

Analysts believe these targets are reactionary to Starboard's involvement and do not go far enough to address the financial underperformance at Mellanox.

Sell-side Analyst Reaction

...despite the company's actions announced today, we continue to believe there is more they can do to prune the opex structure and drive operating margins closer to 28-30% at a billion dollars of annualized revenues.

- JP Morgan – December 7, 2017

The Starboard factor: In our time covering the stock MLNX has never before provided this level of detail and FY guidance. While the transparency is welcome we believe that the Starboard ownership is the main driver for the aggressive stand on opex control.

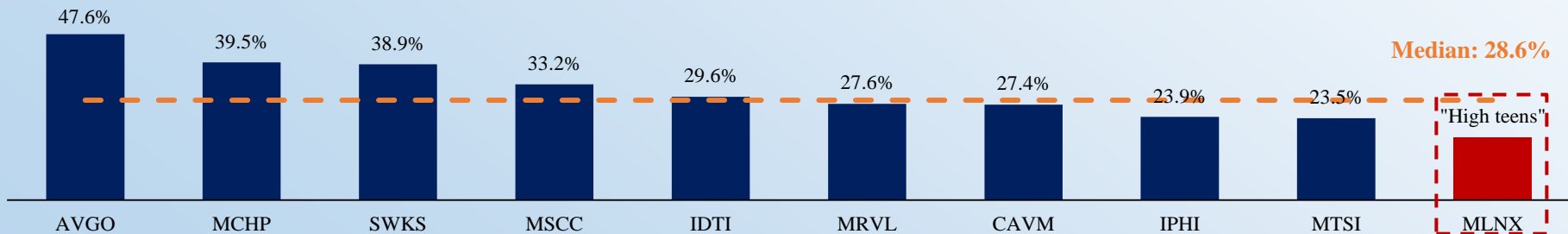
- Barclays – December 8, 2017

It may not be coincidental that MLNX management is focusing on operational efficiencies shortly after Starboard indicated it has taken an activist position in the company.

- DA Davidson – December 7, 2017

- Further, even if the 2018 targets are achieved, Mellanox would *still* be expected to come in dead last among the peer group in terms of operating margins.

2018E Operating Margin



There are concerns around the motivation and extent of the new targets

The 2018 Targets Appear Heavily Reliant on Revenue Growth

The 2018 targets do not align with management's pledge to reduce operating expenses.

2017E to 2018E Operating Margin Bridge Assuming Flat OpEx

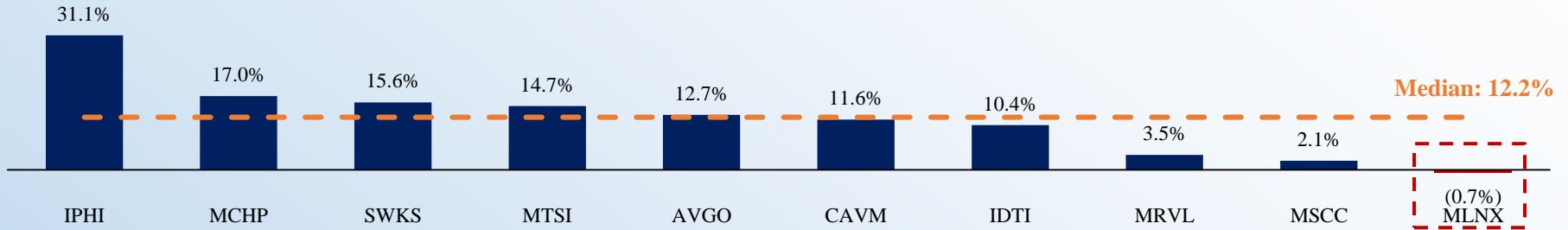
<i>(\$ in millions)</i>	2017E Consensus
Revenue	\$861.5
Operating Income	\$118.6
<i>Operating Margin</i>	<i>13.8%</i>
<i>(\$ in millions)</i>	2018E
Revenue	\$986.4
<i>Growth - Mgmt Guidance</i>	<i>14.5%</i>
Incremental Revenue	\$124.9
<i>Gross Margin - Mgmt Guidance</i>	<i>68.5%</i>
Incremental Gross Profit	\$85.6
2017E Operating Income	\$118.6
Plus: Incremental Gross Profit	\$85.6
Less: GM Compression on 2017 Revenue	(\$18.0)
Implied 2018 Operating Income Assuming Flat OpEx	\$186.1
<i>Implied 2018 Operating Margin</i>	<i>18.9%</i>
<i>Mellanox's 2018 Target</i>	<i>"High Teens"</i>

Mellanox's "high-teens" operating margin target implies expenses will be flattish or increase, not decrease

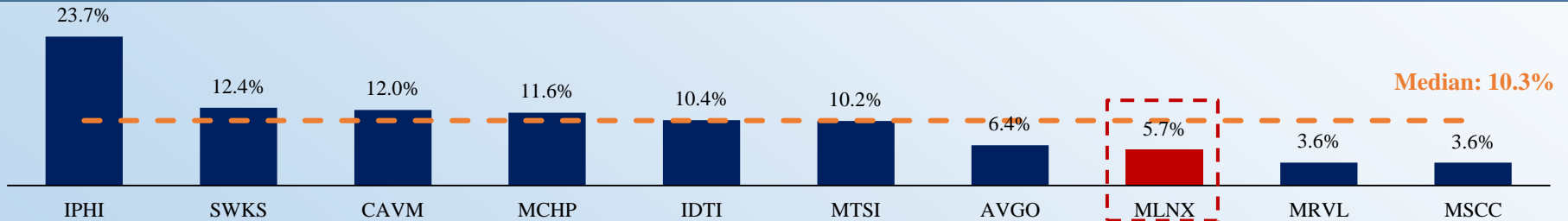
Mellanox's Growth Does Not Justify Current Spending Levels

Even when looking out to 2019, Mellanox's expected multi-year organic growth rates are below peer median levels and do not appear to justify currently increased levels of operating expenses.

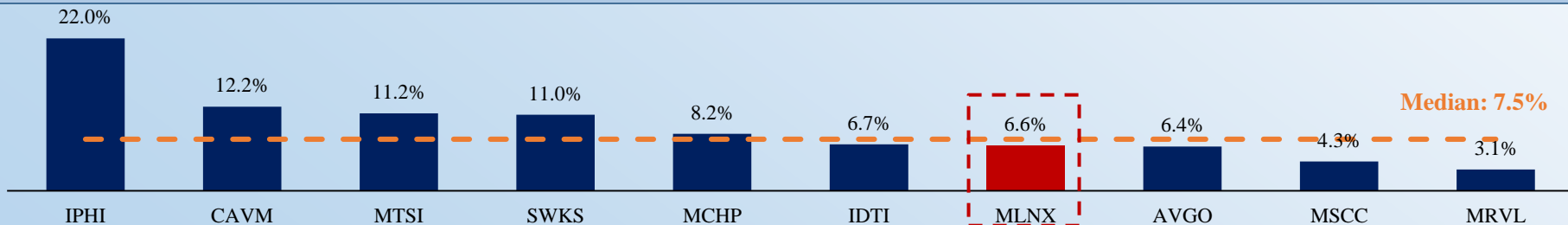
2017E Revenue Growth⁽¹⁾



2016 – 2018E Revenue CAGR⁽¹⁾



2016 – 2019E Revenue CAGR⁽¹⁾



Consensus growth expectations through 2019 still position Mellanox below the median growth rate for its direct peer group

Source: Capital IQ, Bloomberg. Market data as of January 4, 2018. Estimates reflect consensus estimates, which are typically based on non-GAAP metrics.
 (1) Revenue estimates based on analyst consensus estimates per Bloomberg. Adjusted to account for effects of acquisitions and divestitures during 2016-2017 to measure organic growth.

Summary

- *We believe Mellanox is a great company with industry-leading technology.*
- *We believe Mellanox has a strong position in both the InfiniBand and Ethernet markets.*
- *We believe Mellanox has an opportunity to significantly improve operating margins, especially given the Company's industry-leading gross margins.*
- *Mellanox should have operating margins in-line with or better than peers.*
- *Mellanox's newly announced 2018 financial targets are reactionary, do not go nearly far enough, and imply heavy reliance on revenue growth.*
- *We believe Mellanox has an opportunity to create significant value for shareholders by focusing on improved operations and profitability.*



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