CABOT MICROELECTRONICS CORPORATION
FOURTH QUARTER FISCAL 2012 CONFERENCE CALL SCRIPT
OCTOBER 25, 2012

Good morning. With me today are Bill Noglows, Chairman and CEO, and Bill Johnson, Chief Financial Officer.

This morning we reported results for our fourth quarter and full fiscal year 2012, which ended September 30. A copy of our earnings release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. A webcast of today's conference call and the script of this morning's formal comments will also be available on our website.

Please remember that our discussions today may include "forward-looking statements" that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from these forward-looking statements. These risk factors are discussed in our SEC filings, including our report filed on Form 10-Q for the third quarter of fiscal 2012, ended June 30, 2012, and Form 10-K for the fiscal year ended September 30, 2011. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

Thanks, Trisha. Good morning, everyone, and thanks for joining us.

This morning we announced solid financial results for our fourth quarter and full fiscal year 2012. During the fourth quarter, we reported revenue of $110.6 million dollars, gross profit margin of 48.6 percent of revenue, and diluted earnings per share of 49 cents. For the full fiscal year 2012, we reported annual revenue of $427.7 million dollars, gross profit margin of 47.7 percent and earnings per share of $1.75. Our full year revenue results reflect strengthening in demand for our products in the second half of the fiscal year after soft industry demand during the first half of the year. Bill Johnson will provide more detail on our financial results later in the call.

During fiscal year 2012, we continued to execute on our strategies to strengthen and grow our core CMP consumables business, while also further developing our Engineered Surface Finishes business. Despite the challenging macroeconomic and semiconductor industry environments in fiscal 2012, we achieved record revenue levels for our CMP polishing pads and Engineered Surface Finishes businesses, commercialized new products from our research, development and manufacturing facility in South Korea, and continued to receive special recognition by our customers for our ability to provide them with high quality, reliable products. As a leading supplier of CMP consumables to the semiconductor industry, we continue to demonstrate our commitment and ability to provide leading edge solutions as we collaborate with our customers around the world to pursue and win new business opportunities.

The fiscal year was also highlighted by our new capital management initiative, which included the implementation of a leveraged recapitalization with a payment of a $15 per share special cash dividend in the second fiscal quarter, and a significant increase to our share repurchase authorization in the first quarter. As a result of the leveraged recapitalization, we achieved a more efficient balance sheet while also distributing approximately 30 percent of our market value to our shareholders through the special cash dividend. This capital management initiative represents a significant change in our capital allocation strategy, and has enabled us to provide additional value to our shareholders while maintaining the resources necessary to implement our business strategies and support future growth opportunities. Ultimately, this capital management initiative exemplifies the confidence we have in the future performance of our company.

Let me turn now to other highlights from the year within our CMP consumables business. Our CMP Pads business continued to grow during fiscal 2012. We achieved record annual revenue of $33.7 million dollars in our Pads business, representing an 8.6 percent increase over last year's record level. We also achieved record quarterly revenue in the fourth quarter, approximately 33 percent higher than in the same quarter last year, and this was our third consecutive quarter of revenue growth from our pad products during the year.

We believe this momentum in our Pads business was fueled by the fundamental value proposition offered by our pad products of providing lower cost of ownership through longer pad life and lower defectivity. Through the year, our first generation D100 and second generation D200 pad products were adopted for a number of advanced node applications. Since reporting our first D200 pad business win last year, we continue to gain traction with this tunable platform, which allows us to modify several important properties of the pad material to meet specific customer performance requirements. We believe we have made significant progress in our Pads business during the year, and we continue to engage closely with our customers on new business opportunities around the world that are in various stages of evaluation and qualification.

Turning to our CMP slurry business, highlights included winning new business across our slurry product portfolio and continued progress on developing reliable and innovative solutions to address both performance and cost of ownership. Our collaborative efforts with customers in the development and commercialization of high quality, high performing products and solutions were rewarded with customer adoptions of our slurry products for Tungsten, Advanced Dielectrics, Copper and Data Storage applications. We are also pleased with the growth we are seeing with our slurry products for polishing Aluminum, and we look forward to continuing to leverage our technology within this important emerging application.

Let me take a few moments to discuss our progress toward commercializing and qualifying products and solutions from our new research, development and manufacturing facility in Korea. We are pleased with the performance of our business in Korea, where we achieved annual revenue growth of 22 percent year over year. South Korea is the second largest CMP consumables market in the world, and we have placed strategic emphasis over the past several years on increasing our business there. We believe our revenue growth demonstrates that we have been successful in this endeavor. During fiscal 2012, we commercialized and qualified several Advanced Dielectrics products from our Korean facility, and we are actively leveraging our expanded capabilities to qualify additional products with an emphasis on Advanced Dielectrics for memory applications. We expect this region to continue to provide strong growth opportunities for our business going forward.

Other notable business highlights for fiscal 2012 relate to our Engineered Surface Finishes, or ESF, business, where we are leveraging our technology for perfecting surfaces within the semiconductor industry into other demanding surface applications. Within our ESF business, QED, which is a leader in polishing and metrology systems for precision optics applications, achieved another year of record revenue, following a record revenue performance last year. We also made progress during the year commercializing slurries for silicon wafer polish applications to meet the needs of customers in an approximately $200 million market adjacent to the CMP consumables market.

Finally, during the fiscal year, we were delighted to have received Intel's Preferred Quality Supplier Award for the third consecutive year, demonstrating our ability to provide industry leading technology and performance. In addition, we were recently awarded SMIC's Best Supplier Award, for providing CMP polishing slurries deemed essential to their success and for our support of SMIC's operations in Beijing, Shanghai and Tianjin. We believe these supplier awards reflect the recognition of our unyielding commitment to consistently deliver high-quality, reliable CMP solutions through a robust supply chain.

Now let me provide a few comments on the overall semiconductor industry. After softness in the first half of fiscal 2012, we saw strengthening demand in our business in our third quarter and continued firm demand into our fourth fiscal quarter. However, we are now seeing early signs of some potential softening in the near term. Further, some of our strategic customers are cautioning that they may see softness in their business over the next two quarters, with possible strengthening thereafter, similar to the patterns we saw in fiscal 2012. This uncertainty within the semiconductor industry is being compounded by ongoing macroeconomic uncertainty.

However, within this uncertain near term environment, we see attractive longer term growth opportunities with the continuation of positive trends in mobile connectivity, mobile internet devices, including tablets and smart phones, cloud computing and emerging markets. We believe these trends should drive growth in demand for CMP consumables in the future. However, we remain mindful of the potential impact of global macroeconomic uncertainties on the semiconductor industry, and we intend to continue to proactively manage our business activities so as to be able to respond quickly to changing trends and market conditions.

To conclude my remarks this morning, we participate in a dynamic consumer electronics driven industry, and we are optimistic about the long term outlook for growth in the semiconductor industry, which drives demand for our core products. Recognizing the near term uncertainty, we believe that Cabot Microelectronics is well positioned as a leading supplier of CMP consumables to the semiconductor industry for continued success as we leverage our global capabilities to consistently deliver high-quality, reliable and innovative solutions to our customers around the world.

And with that, I'll turn the call over to Bill Johnson.

Thanks, Bill.

Total fourth fiscal quarter revenue of $110.6 million represents a 0.8 percent increase from the same quarter last year and a 4.4 percent decrease from the record level in the prior quarter. We believe the decrease in revenue from the prior quarter primarily reflects softening demand that we began to see late in the fourth fiscal quarter.

Total revenue for the full fiscal year was $427.7 million, which represents a 4.0 percent decrease from the record level we achieved in fiscal 2011. As Bill mentioned, despite industry softness in the first half of the fiscal year and our overall year over year revenue reduction, our performance was especially strong in Korea, with revenue growth there of approximately 22 percent compared to last year.

Drilling down into revenue by business area, Tungsten slurries contributed 36.7 percent of total quarterly revenue, with revenue down 0.9 percent from the same quarter a year ago and down 3.6 percent sequentially. For the full year, Tungsten slurry revenue decreased by 1.4 percent.

Dielectrics slurries provided 28.5 percent of our revenue this quarter, with sales up 6.6 percent from the same quarter a year ago and down 3.0 percent sequentially. For the full year, Dielectric slurry revenue decreased by 1.8 percent.

Sales of Copper products, including slurries for polishing Barrier and Aluminum, represented 15.5 percent of our total revenue, and increased 6.1 percent from the same quarter last year and decreased 4.1 percent sequentially. For the full year, our Copper product revenue decreased by 12.0 percent, reflecting lower utilization at certain foundry customers, and our intentional cannibalization of some of our lower margin legacy products with our higher gross profit margin, more advanced, concentrated products that we have discussed in the past.

Sales of polishing pads represented 8.9 percent of our total revenue for the quarter, and increased 32.8 percent from the same quarter last year and 8.6 percent sequentially. For the full year, polishing pad revenue was up by 8.6 percent. As Bill indicated, our Pads business achieved record revenue levels for both the quarter and full fiscal year.

Data Storage products represented 4.3 percent of our quarterly revenue. This revenue was down 30.1 percent from the same quarter last year and down 10.0 percent sequentially. For the full year, revenue for Data Storage slurries decreased by 25.1 percent. All these comparisons reflect the aftermath of severe flooding in Thailand that significantly impacted the hard disk drive industry, as well as a soft global PC market.

Finally, revenue from our ESF business, which includes QED, generated 6.0 percent of our total quarterly sales. Our ESF revenue was down 23.6 percent from the same quarter last year and down 23.7 percent sequentially. For the full year, ESF revenue increased by 0.8 percent. Recall that most of our QED business is capital equipment related, and so revenue can fluctuate significantly quarter to quarter. Having said that, our QED business achieved a record revenue level again in fiscal 2012.

Our gross profit this quarter represented 48.6 percent of revenue, compared to 46.4 percent in the same quarter last year and 47.7 percent last quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to increased utilization of our manufacturing capacity and lower variable manufacturing costs, partially offset by pricing impacts. The increase in gross profit percentage versus the third fiscal quarter was primarily due to lower manufacturing costs and lower sample costs, partially offset by pricing impacts.

For the full fiscal year, gross profit represented 47.7 percent of revenue, which is near the upper end of our full fiscal year guidance range of 46 to 48 percent of revenue. Gross profit margin decreased from 48.1 percent of revenue in fiscal 2011 primarily due to higher fixed manufacturing costs, pricing impacts and lower sales and production volume, partially offset by lower variable manufacturing costs and higher manufacturing yields. For full fiscal year 2013, we expect our gross profit margin to be between 46 and 48 percent of revenue, unchanged from our guidance for full fiscal year 2012.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses this quarter of $33.3 million were $0.8 million lower than the same quarter a year ago and $0.3 million lower than in the previous quarter. The year over year decrease was driven primarily by lower professional fees and lower staffing related costs.

For the full fiscal year, total operating expenses were $137.5 million, which is within our guidance range for full fiscal year 2012 of $135 million to $140 million. Operating expenses were $3.8 million higher than fiscal year 2011, primarily due to bad debt expense related to a customer bankruptcy reported during the second fiscal quarter, costs associated with our leveraged recapitalization with a special cash dividend, and higher research and development supplies expense, partially offset by lower staffing related costs.

Looking forward, we expect our operating expenses for full fiscal year 2013 to be in the range of $132 million to $136 million.

Diluted earnings per share were 49 cents this quarter, up from 40 cents in the same quarter last year and down from 55 cents reported in the previous quarter. Compared to the same quarter last year, earnings per share increased primarily due to a higher gross profit margin and a lower effective tax rate. The decrease compared to the prior quarter was primarily due to lower revenue and a higher effective tax rate, partially offset by a higher gross profit margin.

Diluted earnings per share for the full year were $1.75, which is down by 45 cents from our record level of $2.20 last year. Earnings per share this year reflect 20 cents of adverse items, including bad debt expense from the customer bankruptcy and costs associated with our leveraged recapitalization with a special cash dividend, which we recorded earlier in the fiscal year. It also includes 6 cents related to interest expense from our term loan that funded a portion of the special cash dividend, which was not a factor in last year's results.

Turning now to cash and balance sheet related items, capital investments for the quarter were $5.3 million, bringing our full year capital spending to $19.6 million, which is slightly below our prior guidance range of $20 to $25 million. For fiscal 2013, we expect capital spending to be between $20 million and $25 million. Depreciation and amortization expense for the quarter was $6.0 million. In addition, we purchased $10.0 million of our stock during the quarter. We ended the quarter with a cash balance of $178.5 million and have $172.8 million of debt outstanding.

I'll conclude my remarks with a few comments on recent sales and order patterns.

Examining revenue patterns within the three months of our fourth fiscal quarter, we saw demand for our CMP consumables products in July and August at roughly the average of the three months in our June quarter. Then we saw CMP consumables sales in the month of September down somewhat. As we observe orders for our CMP consumables products received to date in October that we expect to ship by the end of the month, we see October results at a level similar to what we saw in the month of September. However, I would caution, as I always do, that several weeks of CMP related orders out of a quarter represent only a limited window on full quarter results.

Thank you for your time and your interest in Cabot Microelectronics.