Cabot Microelectronics Corporation
First Fiscal Quarter 2013 Conference Call Script
January 24, 2013

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

This morning we reported results for our first quarter of fiscal year 2013, which ended December 31. 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-K for the fiscal year ended September 30, 2012. 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 first fiscal quarter of 2013. During the quarter, we achieved revenue of $106.5 million dollars, gross profit margin of 47.0 percent of revenue, and earnings per share of 41 cents, which includes an adverse impact of approximately 7 cents associated with a tax adjustment related to the operations of our facility in Korea since its opening in 2011. Though we experienced continued soft industry conditions and macroeconomic uncertainty, in addition to the usual seasonality, during the quarter, we achieved revenue increases in both our core CMP slurry and pads businesses when compared to last year. In addition, during this past quarter we continued to prudently manage our operating costs and generate a strong gross margin despite the slight sequential decline in demand for our CMP consumables products. Bill

Johnson will provide more detail on our solid financial results later in the call.

Let me start this morning with our views on the industry environment. Industry reports indicate that IC inventories decreased during the December quarter, although they still remain slightly above normal levels. Given the current inventory situation, the collective view of industry analysts and some of our strategic customers appears to be that softness in semiconductor demand will continue through the March quarter, as manufacturers continue to reduce their inventory to more normal levels. Sources within the industry are forecasting that inventories will return to normal levels during the June quarter, while global fab utilization is expected to approach ninety percent sometime during the second half of calendar 2013. In addition, some of the industry's technology leaders continue to reinforce expectations for longer term demand growth by increasing their capital expenditure forecasts as part of aggressive capital plans.

Industry analysts are forecasting stronger IC unit growth in calendar 2013, when compared to 2012. The analysts' consensus for IC unit growth this year is between three and seven percent, a meaningful increase from their zero to three percent unit growth estimates for calendar 2012. We expect the continuation of positive trends in mobile connectivity, mobile devices, including tablets and smart phones, cloud computing and emerging markets, to be key drivers for IC unit growth in 2013 and beyond.

We are cautiously optimistic that these positive industry trends indicated through calendar 2013 leave us well positioned for another solid year of performance, particularly in the second half of the year. However, we acknowledge that we have very limited visibility into near term demand, and so we intend to continue to vigilantly watch evolving trends and market conditions, and will respond accordingly.

Now let me discuss company-related matters. As the leading supplier of CMP slurries and a growing supplier of CMP pads, we believe that technology and innovation, coupled with a focused approach towards partnering with semiconductor industry leaders, are vital to success in our business. We believe our unique global capabilities and CMP expertise, position us well for continued success in providing reliable, cost-effective solutions as semiconductor technology advances.

Within our core CMP consumables business, I am pleased to report that our CMP polishing pads business achieved revenue growth of approximately twenty-two percent year over year, this quarter. However, after achieving three consecutive quarters of growth, our pad revenue decreased sequentially in the first fiscal quarter of 2013. We believe this sequential revenue decrease is due to the soft industry conditions I mentioned earlier, particularly at certain foundries. During the quarter, we continued to leverage our D100 and tunable D200 pad product platforms, and we won new business across a number of applications and technology nodes.

As I mentioned earlier, we believe our ability to partner with key strategic customers is critical to our success. Our Pads business team is focused on several joint development projects with customers and semiconductor tool manufacturers to address business opportunities with advanced technology. In addition to this development activity, we continue to improve our manufacturing processes to gain efficiencies and drive profitable growth. We are selling our pads to more than thirty customers and we have a rich pipeline of opportunities for our D100 and D200 pad products around the world in various stages of evaluation or qualification.

Turning to our CMP slurry business, I am pleased that our CMP slurry revenue held essentially even during the first fiscal quarter when compared to the prior quarter, despite soft industry demand conditions. We remain focused on technology trends and supporting our customers' activities related to leading edge applications. As a result, we continue to strive to be a key technology enabler by developing and commercializing reliable and innovative solutions for our customers to address both performance and cost of ownership requirements. During the quarter, we experienced heavy sampling of our new products by customers across a variety of applications and technology nodes, in addition to intense collaboration with several customers focused on new product development. These activities led to business wins during the quarter in advanced node Tungsten and Through Silicon Via, or TSV, applications at leading edge customers.

During the quarter, our Advanced Dielectrics business continued to gain traction and achieved record revenue in the quarter. We also remain pleased with the growth we are experiencing with our slurry products for polishing Aluminum. We believe this growth is a good example of our ability to meet our customer's challenging removal rate, defectivity and cost of ownership targets for advanced node technologies.

Our Data Storage business grew this quarter after two quarters of sequential revenue decreases, and during a period of generally weak PC demand. We believe that continued growth in cloud computing will drive the need for more data centers utilizing hard disk drive storage technology, helping to mitigate the impact of weak demand for PCs on this industry.

Concluding my remarks today, we actively participate in a dynamic, consumer electronics driven industry by supplying CMP consumables products to the semiconductor industry. With the continuation of positive trends in mobile connectivity, mobile devices, including tablets and smart phones, cloud computing and emerging markets, we expect long term growth in demand for CMP consumables. In addition, we believe we have a robust business model, which has been characterized by solid revenue growth, relatively high profitability, limited capital intensity, and strong consistent cash generation through a range of industry environments. We remain mindful of the potential impact of near term industry softness and global macroeconomic uncertainties, but we believe we are positioned well for continued success and profitable growth.

And with that, I will turn the call over to Bill.

Thanks, Bill, and good morning everyone.

Revenue for the first quarter of fiscal 2013 was $106.5 million, which was up by 4.3 percent from the first quarter of last year and down by 3.7 percent from the prior quarter. We believe the decrease in revenue from the prior quarter primarily reflects generally soft industry conditions that we began to see late in the fourth fiscal quarter of 2012. Despite the overall sequential revenue reduction, on a geographic basis our revenue in Korea was up 9.3 percent sequentially, and up 18.4 percent year over year.

Drilling down into revenue by business area, Tungsten slurries contributed 38.2 percent of total quarterly revenue, with revenue essentially even with the same quarter a year ago and with the prior quarter.

Dielectrics slurries provided 28.5 percent of our revenue this quarter, with sales up 8.4 percent from the same quarter a year ago and down 3.8 percent sequentially.

Sales of Copper products, including slurries for polishing Barrier and Aluminum, represented 16.9 percent of our total revenue, and increased 12.1 percent from the same quarter last year, and increased 4.8 percent sequentially.

Sales of our polishing pads represented 7.9 percent of our total revenue for the quarter, and increased 22.1 percent from the same quarter last year and decreased 13.8 percent sequentially. As Bill mentioned earlier, we believe the sequential revenue decrease is the result of soft industry conditions, particularly at certain foundries.

Data Storage products represented 4.8 percent of our quarterly revenue; this revenue was up 1.7 percent from the same quarter last year, and up 5.9 percent sequentially.

Finally, revenue from our Engineered Surface Finishes business, which includes QED, generated 3.7 percent of our total sales, and was down 27.2 percent from the same quarter last year and down 40.5 percent sequentially. Volatility in our QED revenue is expected, given that it is primarily a capital equipment oriented business.

Our gross profit this quarter represented 47.0 percent of revenue, which is at the midpoint of our guidance range of 46 to 48 percent of revenue for the full fiscal year. This is down from 48.3 percent in the same quarter a year ago and down from 48.6 percent in the prior quarter. Compared to the year ago quarter, our gross profit percentage decreased primarily due to certain higher manufacturing costs and a lower valued product mix, partially offset by higher sales volume. The decrease in gross profit percentage versus the previous quarter was primarily due to higher variable manufacturing costs and lower manufacturing yields, partially offset by lower fixed manufacturing costs and a higher valued product mix.

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 $33.4 million were $0.6 million lower than the $34.0 million reported in the first quarter of fiscal 2012. The decrease was primarily driven by the absence of professional fees related to our leveraged recapitalization with a special cash dividend that we executed during fiscal 2012. Operating expenses were approximately $100,000 higher than the $33.3 million reported in the previous quarter. We continue to 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 41 cents this quarter, which includes an adverse impact of approximately 7 cents associated with a tax adjustment related to the operations of our facility in Korea since its opening in 2011. This is down from 45 cents reported in the first quarter of fiscal 2012 and down from 49 cents reported in the previous quarter. Compared to the same quarter last year, earnings per share decreased primarily due to the tax adjustment I mentioned and higher interest expense, partially offset by higher revenue, foreign exchange gains and lower operating expenses. The decrease compared to the prior quarter was primarily due to lower revenue and a lower gross profit margin, partially offset by foreign exchange gains.

Turning now to cash and balance sheet related items, capital investments for the quarter were $3.0 million, and depreciation and amortization expense was $5.6 million. In addition, we purchased $10.0 million of our stock during the quarter. We ended the quarter with a cash balance of $169.6 million and have $168.4 million of debt outstanding.

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

During the first fiscal quarter, we saw a decrease in demand for our CMP consumables products of approximately two percent compared to the prior quarter. As we observe orders for our CMP consumables products received to date in January that we expect to ship by the end of the month, we see January results trending slightly lower than the average rate in our first fiscal quarter. 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.

We appreciate your questions this morning. Thank you for your time and your interest in Cabot Microelectronics.