

Cabot Microelectronics Corporation
Second Quarter Fiscal Year 2015 Conference Call Script
April 30, 2015

Page 1 of 5

Good morning. With me today are David Li, President and CEO, and Bill Johnson, Executive Vice President and CFO.

This morning we reported results for our second quarter of fiscal year 2015, which ended March 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, 2014. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to David Li.

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

This morning we announced strong financial results for our second quarter of fiscal 2015, which continues the positive momentum we experienced during our first fiscal quarter. During the quarter we achieved revenue of \$104.9 million dollars, five percent higher than the same quarter last year. We recorded a gross profit margin of 52.1 percent of revenue, representing a 530 basis point improvement year-over-year, and earnings per share of 55 cents, an increase of over 35 percent compared to the prior year. The March quarter traditionally has been a seasonally weak quarter for us and we are pleased with these strong financial results. Bill Johnson will provide more detail on our financial results later in the call.

Let me start this morning with our perspective on the global semiconductor industry environment. Over the past three years, the semiconductor industry has demonstrated seasonal trends in demand, likely attributable to the increasing consumer orientation of end products, with seasonal strength during the June and September quarters, around the "back to school" and holiday seasons, and weaker demand during the December and March quarters. For us, that has translated into weaker demand for our CMP consumables products during the first half of our fiscal year, followed by stronger demand in the second half. However, looking back on our first fiscal quarter, we may have seen some changes from normal seasonality, and various recent industry reports and comments made by some of our strategic customers suggest that we could see a further departure from this historical trend during the June quarter. Certain reports indicate that softer than expected demand for some mobile electronic devices and continued slowing PC demand, coupled with challenging macroeconomic conditions, may have led to higher than normal seasonal inventories for some IC devices during the March quarter. Based on this, we believe some IC manufacturers began to lower their utilization rates in March, and it appears that currently overall capacity utilization for IC devices has fallen to around 90 percent, with utilization higher for legacy nodes and lower for advanced nodes. Certain customers are now calling for continued inventory adjustments into the June quarter and therefore, softer near term demand conditions within the semiconductor industry, particularly at leading edge technologies; and through the first month of our third fiscal quarter we have also seen some softness in demand for our CMP

4/30/2015

consumables products. Reports suggest that inventories should return to more normal levels towards the end of June as IC manufacturers align overall capacity utilization with demand.

Despite potential softness in the June quarter, expectations for overall demand of ICs in 2015 remain healthy. Certain industry analysts are forecasting low double digit growth for smartphones, and for the automotive and industrial markets, and mid-single digit growth for the enterprise and IT markets, driven by cloud computing and demand for data centers. While these projections appear modest compared to historical growth rates, we believe demand for greater connectivity and functionality should continue to drive semiconductor growth, and in turn, CMP consumables demand over the long term. Within this environment, we see highly engineered materials and highly formulated products, like our CMP solutions, playing an increasingly important role in the continued growth, development and advancement of the semiconductor industry, as technology continues to advance and device architectures become more complex.

Now let me turn to our core IC CMP consumables business. During the quarter, we achieved double digit year-over-year revenue growth in our Tungsten and Pads product areas. In addition, on a year-to-date basis, our IC CMP consumables business has grown by approximately seven percent compared to last year.

Within our CMP consumables business, I would like to provide an update on three specific areas:

First, we continue to undertake a relatively broad transformation within our Dielectrics slurry product area. We have discussed in the past the revenue headwind we are facing in Dielectrics due to lost business for some lower performing, 200mm applications. We first talked about this during our third fiscal quarter call of 2014, and again during subsequent calls. But as we absorb business loss in this lower performance Dielectrics application, we are encouraged by business opportunities and traction that we are seeing with our new family of much higher performing Dielectrics products, which we think will have very broad applicability and can be a key growth driver for us in the future. We believe these solutions offer our customers a compelling value proposition, including better performance and lower cost of ownership achieved through high dilutability and significantly improved defectivity. We first introduced these products last summer, and we are pleased with the positive customer feedback on performance across multiple tool platforms, as well as different nodes and wafer sizes. We believe this transition from lower to higher performance Dielectrics products should also improve overall profitability for our company.

Second, as we have discussed in the past, we have seen our customers increasingly emphasize development and production of advanced technologies as the industry continues scaling semiconductor devices with smaller geometries and more complex architectures. We were an early leader in 2011 with our CMP solution for Aluminum High-K Metal Gate for 28 nanometer, and then 20 nanometer nodes, and experienced strong growth in this product area with the ramp of these technologies. More recently, we have been working with our strategic customers to support their transition to 3D NAND memory and FinFET for advanced logic IC devices at 16 and 14 nanometer. These technology node progressions and emerging applications generally require additional CMP steps, mainly in Tungsten and Dielectrics, and we believe this can drive growth for our CMP solutions.

During these transitions, and in preparation for advancements to even smaller technology nodes, including ten and seven nanometers, we continue to collaborate closely with our technology leading customers to provide higher performing and lower cost solutions. We believe we are unique in our ability to offer a combination of innovation, quality systems and local expertise to enable our customers' integration schemes and meet their demanding surface modification, quality and consistency requirements.

We believe we have been very successful with this close customer collaboration, and we are proud of our recognition as one of only eleven companies out of thousands of suppliers to Intel to receive its prestigious Supplier Continuous Quality Improvement award, for our performance in 2014. This now marks the third consecutive year we have earned Intel's highest honor for its suppliers. We have earned awards from a wide range of customers over the years, which we believe is broader evidence of our ongoing ability to deliver high-quality, high-performing and reliable CMP products and solutions.

A third area within our CMP consumables business that I would like to address is CMP polishing pads. We achieved double digit year-over-year revenue growth for the quarter, and year-to-date. As we have discussed over the years, pad evaluations and qualifications take time, and this is a highly competitive CMP application area; nevertheless, we continue to leverage our existing product platforms to win more business, and we remain focused on growing this product area. We are working to add new pad products to our portfolio, and continue to develop integrated slurry and pad consumable sets, such as for barrier applications. We believe our pipeline of opportunities for our pad products in various stages of evaluation or qualification remains strong, and we look forward to continuing to convert these customer evaluations into customer adoptions in the future.

In summary, we believe our CMP consumables business is well positioned to be successful over a range of demand environments. Looking ahead, we expect to continue to capitalize on evolving technology trends by innovating, developing and commercializing superior leading-edge CMP solutions, in collaboration with our technology leading customers, while leveraging our global infrastructure. We believe that through the ongoing implementation of our core strategies of technology leadership, collaborating with customers, and operations and quality excellence, we will continue to profitably grow our business over the long term.

And with that, I will turn the call over to Bill Johnson for more detail on our financial results.

Thanks, David, and good morning everyone.

Revenue for the second quarter of fiscal 2015 was \$104.9 million, which represents a 5.4 percent increase from the same quarter last year. Year to date, revenue of \$216.8 million represents an 8.4 percent increase from the prior year. Foreign exchange rate changes, primarily the weaker Japanese yen versus the U.S. dollar, reduced year-over-year revenue by \$1.4 million for the quarter and \$2.5 million for the first half.

Drilling down into revenue by product area:

Tungsten slurries contributed 41.6 percent of total quarterly revenue, with revenue up 16.2 percent from the same quarter a year ago. This represents the fifth consecutive quarter of year-over-year revenue growth in Tungsten.

Dielectrics slurries provided 22.8 percent of our revenue this quarter, with overall sales down 18.0 percent from the same quarter a year ago. The revenue decrease reflects the loss of the lower performing, 200mm Dielectrics business we have discussed. As Dave mentioned earlier, we continue to make progress on the commercialization of our new family of much higher performing Dielectrics slurry products.

Sale of slurries for polishing metals other than Tungsten, including Copper, Aluminum and Barrier, represented 17.5 percent of our total revenue, and increased 5.7 percent from the same quarter last year.

Sales of our polishing pads represented 8.4 percent of our total revenue for the quarter, and increased 13.9 percent from the same quarter last year; we have now grown our pad revenue year-over-year for five consecutive quarters. As Dave emphasized earlier, this continues to be a highly competitive area.

Data Storage products represented 3.8 percent of our quarterly revenue. Our Data Storage revenue was down 12.3 percent from the same quarter last year on continued soft PC demand, and some business loss that we first mentioned several quarters ago.

Finally, revenue from our Engineered Surface Finishes, or ESF area, which includes QED, generated 5.9 percent of our total quarterly sales. Our ESF revenue was up around 95 percent from the same quarter last year. Volatility in our QED revenue is common, since it is primarily a capital equipment-oriented business.

Our gross profit this quarter represented 52.1 percent of revenue. This is up 530 basis points from 46.8 percent in the same quarter a year ago. Compared to the year ago quarter, our gross margin benefited from a richer product mix; with relatively more Tungsten and less legacy Dielectrics. Other factors affecting gross margin were the absence of an asset impairment charge recorded during the same quarter last year, and benefits associated with foreign exchange rate changes, partially offset by higher accruals for incentive compensation.

Year to date, gross profit was 51.5 percent of revenue, which represents a 440 basis point improvement over the first half of fiscal 2014. Taking into account our results in the first half of the fiscal year, and in light of the prospect of softer near term demand, we currently expect our gross profit for the full fiscal year to be around the upper end of our guidance range of 48 to 50 percent of revenue.

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 \$35.2 million were \$3.3 million higher than in the second quarter of fiscal 2014. The increase was primarily due to higher accruals for incentive compensation and costs associated with our CEO transition, which we announced last December and discussed in our call last quarter.

Year to date, total operating expenses were \$69.6 million, which is 8.9 percent higher than last year, primarily due to higher accruals for incentive compensation, costs associated with the previously announced departure of three executive officers recorded in the first fiscal quarter, and the CEO transition. We currently expect operating expenses for the full fiscal year, including costs associated with all of the executive officer changes, to be toward the upper end of our guidance range of \$132 million to \$137 million.

Diluted earnings per share were 55 cents this quarter, which represents an increase of 37.5 percent compared to 40 cents reported in the second quarter of fiscal 2014; last year's results included the six cent adverse impact from the asset impairment charge. Year to date, diluted earnings per share were \$1.36, which represents an increase of 58.1 percent compared to 86 cents last year, which included the asset impairment charge.

Our effective income tax rate for the second fiscal quarter was 23.6 percent, and 17.3 percent year-to-date. We continue to expect our effective tax rate for full fiscal 2015 to be within the range of 16 to 18 percent

Turning now to cash and balance sheet related items, capital investments for the quarter were \$2.8 million, bringing our year to date capital spending to \$5.3 million. For the full fiscal year, we continue to expect capital spending to be within the range of \$10 million to \$15 million. Depreciation and amortization expense for the quarter was \$4.6 million. In addition, we purchased \$10.0 million of our stock during the quarter; we have approximately \$100 million of authorization remaining. In addition to share repurchases, our Board considers on an ongoing basis, a range of capital deployment alternatives, including funding organic growth opportunities, acquisition opportunities in closely related areas, as well as various other means of distributing capital to our shareholders through additional share repurchase programs and dividends. We generated cash flow from operations of \$27.0 million, and we ended the quarter with a cash balance net of debt outstanding of \$165.2 million.

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

During the second fiscal quarter, we saw a seven percent decrease in revenue for our CMP consumables products, compared to the first quarter of fiscal 2015. Through the first month of our third fiscal quarter we have seen some softness in demand for our CMP consumables products, consistent with some industry reports and statements from some of our strategic customers. Orders for our CMP consumables products received in April are trending approximately five percent lower than the average rate in our second 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.

Now I'll turn the call back to the operator, as we prepare to take your questions.

That is all the questions we have this morning. Thank you for your time and your interest in Cabot Microelectronics.