

**CABOT MICROELECTRONICS CORPORATION
FOURTH QUARTER AND FULL FISCAL YEAR 2016
CONFERENCE CALL SCRIPT
OCTOBER 27, 2016**

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Good morning. With me today are David Li, President and CEO, who is participating in our call from our office in Shanghai, and Bill Johnson, Executive Vice President and CFO.

This morning we reported results for our fourth quarter and full fiscal year 2016, 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-K for the fiscal year ended September 30, 2015. We assume no obligation to update any of this forward-looking information.

Also, our prepared remarks this morning reference non-GAAP financial measures. Our earnings release includes a reconciliation of GAAP to non-GAAP financial measures.

I will now turn the call over to David.

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

This morning we announced strong results for our fourth quarter and full fiscal year 2016. During the quarter, we achieved record revenue of \$122.7 million dollars, approximately 23 percent higher than in the same quarter last year, and record diluted earnings per share of 83 cents, which represents an increase of 66 percent compared to last year. In addition, we continued our strong cash flow generation trend, with cash flow from operations of \$37.5 million dollars. For full fiscal year 2016, we achieved revenue of \$430.4 million dollars, approximately four percent higher than last year, record diluted earnings per share of \$2.43, which represents an increase of approximately eight percent compared to last year, and cash flow from operations of \$95.2 million dollars.

We believe our record earnings performance this fiscal year, after also achieving record earnings last year, is evidence of our continued successful execution of our strategic initiatives and the strength of our focused business model.

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

Let me start with some perspectives on the global semiconductor industry environment. As forecast by several of our customers and industry analysts, industry demand remained strong during the September quarter, and our results are consistent with this, and also with the expectations we discussed during our third quarter conference call in July. You may recall that at the end of the June quarter, most IC inventories related to smartphone, wireless, network, automotive, and gaming markets were at normal seasonal levels, and reports suggest that exiting the September quarter, inventories related to these markets are now lean. Certain industry participants have indicated that

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this is due to stronger than normal seasonal demand during the third calendar quarter. In particular, it appears that this was driven by new product launches, including better than expected demand for high-end smartphones, and preparation for holiday demand. Also, PC DRAM device inventories appear to be at normal levels, driven by a modest increase in PC shipments in certain regions.

Looking ahead, based on all of this, some of our customers and industry analysts are now reporting expectations of continued solid demand during the December quarter, our first fiscal quarter of 2017. This is also consistent with what I am hearing from customers in Asia, and we have seen continued healthy demand for our CMP consumables products in October. Bill will provide more detail on our orders to date for the quarter.

Considering longer-term expectations for semiconductor demand, industry reports indicate that IC content within electronic devices should continue to increase over time, likely driven by several factors. First, the transition from traditional planar or 2D memory to advanced 3D memory for mobile, server and PC applications. Next, there is expected continued strong demand for high-end chips for smart phones, high performance computing, and virtual and augmented reality. Third, demand for greater connectivity should drive additional semiconductor growth with wearables, peripherals and the internet of things. Finally, automotive applications are also expected to represent a continued strong growth opportunity, as auto makers increase semiconductor content related to the driving experience. Some examples of this are improved telematics for in-vehicle networking and sensors for safety, which require additional ICs. This trend is supported by IC Insights' 2017 forecast, which indicates 22 percent growth since 2013 for IC content per vehicle.

Long term semiconductor demand is expected to drive growth in 3D NAND for advanced memory, and FinFET for advanced logic devices. And both of these technology advancements represent significant growth opportunities for our company, since they require more CMP polishing steps, for both tungsten and dielectrics applications. We are seeing the benefit of our customers' early ramp of production, and industry reports suggest that more will transition to high-volume manufacturing during calendar year 2017, especially related to 3D NAND. We believe we are well-positioned to benefit from these longer-term industry trends and we remain confident about the important role highly engineered materials and highly formulated CMP solutions like ours will play in the semiconductor industry going forward.

Another industry dynamic that we are closely monitoring is semiconductor industry development in China. China is the fastest growing region for our company, and industry projections are for continued strong IC demand over the next several years. This region continues to be in the spotlight, with a number of fab expansions announced, and significant domestic and international investment in both logic and memory capacity expected in the future. Semiconductor development in China should be a strong driver of CMP consumables demand into the foreseeable future and we look forward to building upon our existing strong position in the region.

Within that semiconductor industry context, now let me turn to company related matters. During the quarter, we experienced robust demand for our tungsten and dielectrics slurries, and pad solutions. This drove approximately 21 percent year-on-year revenue growth from our IC CMP consumables products for the quarter, and approximately six percent for the full fiscal year. Also, further to my

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earlier comments related to China, we achieved year-on-year revenue growth in the region of approximately 46 percent for the quarter, and 20 percent for the full fiscal year.

Turning to CMP slurries, during the fiscal year we experienced strong demand for our tungsten slurry products across a wide range of applications and technology nodes. As a result, we achieved record revenue in our Tungsten product area in the fourth fiscal quarter, and for the full year. Robust demand for our unique, high-performing tungsten solutions, which embody broad and deep technology covering a wide range of applications and technology nodes, drove year-over-year revenue growth of approximately nine percent for the quarter, and approximately four percent for the full fiscal year. In particular, over the past year, we continued to support our strategic customers' transitions to 3D NAND and FinFET technologies using our tungsten slurries. For fiscal 2016, approximately 20 percent of our tungsten revenue was driven by early production of these advanced technologies, up significantly compared to the thirteen percent we discussed for fiscal 2015. We believe that our focus on continued innovation combined with our extensive experience, supply chain capabilities, quality systems, and global technical support and infrastructure, have enabled the leadership we have earned in this area. From this strength, we expect continued profitable growth in our Tungsten product area, as the industry continues to move to advanced applications.

Turning now to dielectrics slurries, during the fiscal year we continued to advance the broad transformation of this product area. Our progress on this initiative over the last two fiscal years was a key contributor to the approximately 23 percent year-over-year revenue growth we achieved for the quarter, and approximately three percent growth for the full fiscal year. Throughout fiscal 2016, we continued qualification of our new, high-performing colloidal silica and ceria-based dielectrics slurries, which have provided our customers with higher throughput, improved defectivity and lower cost of ownership. We have won business with new and existing customers, and as a result our combined revenue from our colloidal silica and ceria-based solutions approximately doubled compared to fiscal 2015. We have a strong pipeline of active opportunities around the world covering logic, memory and foundry customers, on both 300 and 200mm platforms, and we look forward to winning more business with these solutions, and in some cases replacing our own legacy products, to drive profitable growth.

To further support growing demand for our CMP solutions, we recently broke ground on a significant expansion of our facility located in Oseong, South Korea, which we opened in 2011. Our Oseong facility has enhanced our global infrastructure by providing local development and manufacturing capabilities to support our memory customers within the region. Since opening this facility our revenue in South Korea has grown by approximately 35 percent, and we believe that additional capital investments are now warranted to support future growth. We expect that this \$8 million dollar expansion project will be completed during the first half of fiscal year 2017.

Turning now to pads, this quarter we achieved record revenue for both the quarter and the full fiscal year. During the quarter we completed the integration of NexPlanar Corporation into our company, less than one year after completing the acquisition, and in line with our expectations. We grew our pad revenue to almost \$16 million dollars this quarter, including 7.7 million dollars from NexPlanar, representing growth of over 130 percent compared to the same quarter last year, and we increased our pad revenue for the full fiscal year by approximately 62 percent.

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During the year, we leveraged our global sales channel and technical resources to speed the qualification and adoption of our NexPlanar pad offerings. We continue to experience significantly shorter qualification times with these pad products, on the order of six months or less, versus 18 months with our prior efforts. In addition, we are leveraging our supply chain capabilities, manufacturing expertise and quality systems to improve supply assurance, productivity and efficiency in our pad operations.

Through the year we made significant progress winning new business across a wide range of applications and technology nodes, and are selling pads to eight of the top ten semiconductor manufacturers in the world. In particular, during our fourth fiscal quarter, we won a CMP consumable set opportunity by delivering a combined colloidal silica-based dielectrics slurry and NexPlanar pad solution to a major memory manufacturer. We continue to have a rich pipeline of new business opportunities with a wide range of customers and applications, and including other slurry and pad consumable sets. Ending this fiscal year at approximately \$52 million dollars in revenue, we now expect to achieve revenue from our Pads product area between \$80 and \$90 million dollars in fiscal year 2018; this is an improvement compared to the expected range we had previously indicated of \$70 to \$90 million dollars. To support our expectations for continued robust demand for our CMP pad solutions, we are currently adding manufacturing capacity and will continue to expand our production capabilities over time to support anticipated growth. We are pleased with our momentum in our Pads product area, and we continue to view this as the greatest growth opportunity for our company.

To summarize, as we enter fiscal 2017, I am confident of continued momentum in each of our Tungsten, Dielectrics and Pads product areas, which we believe provides the foundation for continued profitable growth. In addition, we believe that our focused business model, and our global resources, capabilities and infrastructure, differentiate us among leading suppliers of specialty materials to the semiconductor industry. Further, our strong cash generation model has enabled us to implement a balanced capital deployment strategy, including organic investments, dividends, share repurchases and M&A. We believe we are well-positioned for continued profitable growth, and delivery of significant value to our shareholders.

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

Thanks, Dave, and good morning everyone.

Revenue for the fourth quarter of fiscal 2016 was a record \$122.7 million, which represents a 22.5 percent increase from the same quarter last year, including the benefit of our NexPlanar acquisition. We generated 20.5 percent year-over-year revenue growth from our IC CMP consumables products. Total revenue for the full fiscal year of \$430.4 million represents a 3.9 percent increase from the prior year. Our fourth quarter and full year revenue results reflect stronger global semiconductor industry demand in the second half of the fiscal year.

Drilling down into revenue by product area:

Tungsten slurries contributed 41.2 percent of total quarterly revenue. We achieved record revenue for the quarter, with revenue up 8.8 percent compared to the same quarter last year, and also record

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revenue for the full year, up by 3.7 percent compared to last year. Our Tungsten growth was driven by strong demand from both memory and logic applications.

Dielectrics slurries provided 22.1 percent of our revenue this quarter, with sales up 22.8 percent from the same quarter a year ago. For the full year, dielectric slurry revenue increased by 2.9 percent. As Dave mentioned earlier, during the fiscal year, we saw strong demand for some of our new, high-performing colloidal silica and ceria-based dielectrics slurry products.

Sales of slurries for polishing metals other than tungsten, including copper, aluminum and barrier, represented 14.2 percent of our total revenue, and increased 5.4 percent from the same quarter last year. For the full year, revenue here decreased by 10.7 percent. The decrease was primarily in our aluminum slurries, due to customer efficiencies and repurposing of production capacity for the next technology node, which we have previously discussed.

Sales of polishing pads, which include our NexPlanar acquisition, represented 12.7 percent of our total revenue for the quarter, and increased 131.8 percent compared to the same quarter last year. Our Pads product area achieved record revenue during the quarter. We also achieved record pad revenue for the full year, with revenue up by 62.5 percent compared to the prior year, driven by our NexPlanar acquisition.

Finally, record revenue from our Engineered Surface Finishes area, which includes QED, represented 8.4 percent of our total quarterly sales. QED contributed a record \$8.2 million of revenue for the quarter. Revenue from our data storage products represented 1.5 percent of our quarterly revenue.

Gross profit for the quarter was 49.8 percent of revenue. This reflects \$1.4 million of NexPlanar amortization expense. Excluding this, non-GAAP gross profit was 50.9 percent of revenue, compared to the 52.0 percent of revenue we reported in the same quarter a year ago. Other factors impacting gross profit this quarter compared to last year were higher fixed manufacturing costs, including costs related to NexPlanar, and higher material costs, partially offset by the benefit of a higher valued product mix and higher sales volume.

For the full fiscal year, gross profit was 48.8 percent of revenue, consistent with our prior full fiscal year GAAP guidance of around 49 percent of revenue, including NexPlanar. This includes \$4.5 million of amortization expense and \$0.7 million of acquisition-related costs associated with NexPlanar. Excluding these costs, non-GAAP gross profit was 50.0 percent of revenue, compared to 51.3 percent last year. Other factors impacting gross profit compared to last year were higher fixed manufacturing costs, including costs related to NexPlanar, and higher material costs, partially offset by the benefit of a higher valued product mix and lower incentive compensation costs. For full fiscal year 2017, we currently expect our GAAP gross profit margin to be between 48 and 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 \$35.4 million were \$1.2 million higher than the \$34.2 million reported in the same quarter a year ago. This reflects higher staffing related costs, including costs related to NexPlanar and severance costs, and a \$1.0

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million impairment charge for a NexPlanar intangible asset related to a technology under development. These factors were partially offset by lower incentive compensation costs, lower clean room materials expense and the absence of costs associated with last year's CEO transition.

For the full year, total operating expenses were \$135.7 million, which includes \$1.8 million of amortization expense, \$1.6 million of acquisition-related costs, and the \$1.0 million impairment charge, all related to NexPlanar. Previously, we expected our GAAP operating expenses for the full fiscal year to be between \$133 million and \$135 million, including NexPlanar. Operating expenses were \$1.5 million lower than the \$137.2 million reported in fiscal 2015, primarily due to lower incentive compensation costs, lower clean room materials expense and the absence of costs associated with last year's CEO transition. These factors were partially offset by higher staffing related costs, including costs related to NexPlanar. We currently expect our GAAP operating expenses for full fiscal year 2017 to be between \$137 million and \$142 million; the midpoint of this range represents a three percent increase compared to our full fiscal year 2016 operating expenses.

Diluted earnings per share were a record 83 cents this quarter, or 91 cents on a non-GAAP basis, excluding costs related to the NexPlanar acquisition, which represents an increase of 66.0 percent compared to the 50 cents reported in the fourth quarter of fiscal 2015. The increase in earnings this quarter was primarily driven by higher revenue. We also achieved record diluted earnings per share of \$2.43 for the full year, or \$2.68 on a non-GAAP basis, excluding costs related to the NexPlanar acquisition. GAAP earnings increased by 7.5 percent compared to \$2.26 last year, primarily due to higher revenue and a lower effective tax rate, partially offset by a lower gross profit margin.

Our effective tax rate for the fourth fiscal quarter was 16.5 percent, and 15.0 percent for the full year, consistent with our prior full fiscal year guidance of 15 to 17 percent. We currently expect our effective tax rate for full fiscal year 2017 to be between 17 and 20 percent.

Turning now to cash and balance sheet related items, capital investments for the quarter were \$3.8 million, bringing our full year capital spending to \$17.7 million, consistent with our prior guidance range of \$17 million to \$20 million for the full year. For full fiscal year 2017, we currently expect our capital spending to be within the range of \$20 million to \$25 million; the increase is primarily due to our ongoing facility expansion in South Korea. Depreciation and amortization expense for the quarter was \$6.9 million. We generated cash flow from operations of \$37.5 million in the fourth fiscal quarter, and \$95.2 million for the full year. We ended the year with a cash balance of \$287.5 million and we have \$155.3 million of debt outstanding.

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

During the fourth fiscal quarter, we saw an 8.3 percent increase in revenue for our CMP consumables products, compared to the third quarter of fiscal 2016. Earlier, Dave talked about general expectations of industry participants for solid near-term semiconductor industry demand. Consistent with that, orders to date in October for our CMP consumables products are trending roughly in line with the average rate in our fourth fiscal quarter.

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To summarize, from a financial standpoint, we achieved record earnings for our fourth quarter and full fiscal year 2016, despite soft demand conditions through the first half of the year, and while absorbing costs related to our NexPlanar acquisition. For fiscal year 2017, our expectations are for continuing firm near-term demand, solid gross margin performance, and prudent management of operating expenses on continued cost discipline. Based on all of this, we believe we are well-positioned to deliver another year of successful performance.

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.