Cabot Microelectronics Corporation

2010 First Fiscal Quarter Earnings Report

January 28, 2010

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 2010, which ended December 31, 2009. A copy of our press release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. Today's conference call is being recorded and will be archived for four weeks on our website. The script of this morning's formal comments will also be available there.

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, 2009. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

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

This morning we announced outstanding financial results for our first fiscal quarter of 2010, and we are extremely pleased with our strong start to what we believe will be a very successful year for Cabot Microelectronics. In the first quarter, we achieved record revenue of $97.7 million dollars, a gross profit margin of 51.6 percent of revenue, which represents our highest quarterly level in eight years, and earnings per share of 56 cents, which is a record when compared to historical results that are adjusted to include share-based compensation expense. This establishes the third successive quarter of solid financial results for the company following the severe downturn last year, and we believe reflects improved industry conditions, continued successful execution of our strategies, a robust business model, and prudent financial management.

Last quarter I referenced research indicating that double-digit semiconductor revenue growth typically follows global recessions. Recent industry analyst estimates, which project semiconductor revenue growth generally in the mid-teens, appear to support this trend for 2010. Over the last several quarters, we have seen improvement across all three of our major semiconductor segments, which include foundry, logic and memory. Foundry was the first segment to recover from the downturn last year, and was a large contributor to our strong revenue growth in the June quarter last year.

Following this, the logic IDMs picked up production levels in the September quarter of 2009 driving further revenue growth for our business.
Now, in our first fiscal quarter of 2010, we have seen increased demand from our memory customers. With all three segments experiencing strong demand,

semiconductor inventories at relatively low levels, and generally solid forecasts from our customers, our current internal forecasts point toward a robust revenue environment in fiscal 2010, comparable to or exceeding the level we experienced in fiscal 2008. Having said that, in the near term, we wouldn't be surprised to see a slight sequential pullback in revenue during the March quarter, based on typical seasonal patterns for the industry and our company.

Beyond 2010, we are optimistic about the potential positive impact of new capacity additions by our customers. Many of our customers are currently ordering and installing capital equipment to increase their capacity, and are also focusing on increasing productivity from their existing tools. As an example, TSMC, our largest customer, has announced a significant increase in its 300mm fab capacity to be installed in the current calendar year. Over the long-term, capital investment and increased productivity by our customers generally drive increased demand for CMP consumables due to higher total wafer start capacity.

For the remainder of fiscal 2010, we plan to continue to focus on strengthening and growing our core CMP consumables business through the execution of our three key initiatives – Technology Leadership, Operations Excellence, and Connecting with Customers. We also expect to continue to execute on our strategy to advance our Engineered Surface Finishes business. Our successful execution of these strategies has served us well and we remain dedicated to build on them in 2010 and beyond.

From a technology leadership standpoint, we are confident in our new product pipeline, which contains a number of high value products that we expect will provide customers with enabling solutions in all major CMP application areas. In the current environment, where semiconductor fab capacity utilization is very high, particularly at the leading edge technology nodes, we are getting strong customer interest in our new copper and barrier products, which are designed for low cost and high throughput, achieved through shorter polishing times. By increasing the productivity of our customers' existing tools by decreasing polishing times, these new products have the potential to reduce our customers' capital equipment needs and overall cost of ownership.

We are also making meaningful progress with our next-generation pad platform, the D200. As I mentioned last quarter, we are alpha testing this new product platform with a small group of strategic customers, and we plan to take a disciplined commercialization approach like we did with our D100 pad launch. We are currently targeting copper and barrier applications for advanced technology nodes, and the initial tests are indicating improved defectivity performance compared to both our D100 pad and the competing technologies. We have also begun to increase our D200 sampling capability. We are pleased with the progress we are making with customer demos and evaluations to date for both slurry and pad opportunities, and we are optimistic about the potential for meaningful new product wins.

Our Operations Excellence initiative continued to contribute to our strong performance this quarter.
Over the years we have focused our efforts on variation reduction projects through our company-wide Six Sigma activities, which have driven sustained improvements in manufacturing yields for both our slurry and pad products. As we have maintained our

average selling prices relatively constant over the past three years, we are realizing the positive impact of these and other productivity initiatives on our gross profit margin.

In addition, there are two other structural factors positively impacting our gross profit margin. The first of these factors is Epoch, which we acquired last February. Epoch is a low cost, highly efficient operation in Taiwan, and its gross profit margin is accretive to our company's overall gross profit margin. Additionally, the logistics and purchasing synergies captured through the Epoch integration are reducing overall company costs and helping to boost gross profit margin. We are pleased with the progress of our integration with Epoch, and we are on track to achieve nearly twice the level of synergies that we originally anticipated from the acquisition.

Higher pad revenue is the second structural factor providing a positive impact on our gross profit margin. Although our pad business is currently achieving a lower gross profit margin than our overall company average, we have continued to increase revenue and manufacturing yields in our pad business over the past two years, resulting in increased pad margins. This increase has reduced the drag on our overall company average gross profit margin compared to what we have experienced over the past couple of years as we began to commercialize this new technology. We believe that, over time, with even higher sales, our pad business has the ability to attain a gross profit margin that is in-line with our company-wide gross profit margin.

We also continue to make progress on our third key initiative, Connecting with Customers. During the quarter, we were honored to receive a Supplier Excellence Award from TSMC for the second year in a row in recognition of our high-performance slurry and pad products and the associated strong support we provide. Out of thousands of suppliers, we were one of only ten companies chosen to receive this prestigious award. Recall that during 2009 we installed and qualified our pad finishing equipment in one of TSMC's fabs, and we are now finishing a significant portion of the pads that we sell to TSMC through this newly added production site. This unique collaboration model is driving logistics and packaging savings, providing for a greener supply chain, and enabling a faster turnaround of customer requests.

Closing my remarks this morning, we are optimistic about the future outlook of the semiconductor industry. We are also pleased with the progress we are making on our strategies and key initiatives, which we believe has driven our record setting financial performance over the past couple of quarters. In our view, we are well positioned to take advantage of the current strong environment with our robust product portfolio, world-class quality systems, solid infrastructure of global sales and technical teams and continued prudent financial management.

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

Thanks, Bill, and good morning everyone.

Revenue for the first quarter of fiscal 2010 was a record $97.7 million, which was up by 55.0 percent from the first quarter of last year and up 1.2 percent from the prior quarter. The increase in revenue from the same quarter last year primarily reflects improved economic and industry conditions, as well as contributions from our acquisition of Epoch in February 2009. Compared to the prior quarter, the slight increase in revenue during the December quarter, which is typically a soft seasonal quarter, was primarily driven by higher sales to memory device manufacturers.

Drilling down into revenue by business area,

Tungsten slurries contributed 36.9 percent of total quarterly revenue, with revenue up 38.3 percent from the same quarter a year ago and up 7.8 percent sequentially, reflecting strong demand from the memory segment.

Sales of Copper products represented 17.7 percent of our total revenue, and increased 95.1 percent from the same quarter last year, including the benefit of the Epoch acquisition, and decreased 5.7 percent sequentially. Also included in our Copper business is our Barrier removal product line, revenue from which increased 10.9 percent sequentially.

Dielectric slurries provided 27.5 percent of our revenue this quarter, with sales up 37.1 percent from the same quarter a year ago and down 5.0 percent sequentially.

Data Storage slurry products represented 6.2 percent of our quarterly revenue; this revenue was up nearly 150 percent from the same quarter last year, reflecting an important customer win, and up 10.7 percent sequentially on strong industry demand.

Sales of our polishing pads represented 6.8 percent of our total revenue for the quarter; and increased 91.4 percent from the same quarter last year and 2.1 percent sequentially.

Finally, revenue from our ESF business, which includes QED, generated 4.9 percent of our total sales, and was up 83.5 percent from the same quarter last year and up 6.3 percent sequentially.

Our gross profit this quarter represented 51.6 percent of revenue, compared to 45.6 percent in the same quarter a year ago and 48.4 percent in the prior quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to increased utilization of our manufacturing capacity on significantly higher demand. The increase in gross profit percentage versus the previous quarter was primarily due to a higher valued product mix, as well as the benefit of a $1.6 million raw material supplier credit related to achieving a certain volume threshold.

From October 2006 to April 2009, we had provided full year gross profit margin guidance in the range of 46 to 48 percent of revenue.

However, we suspended this guidance last April due to the uncertainty in the global economic and industry environments caused by the severe economic downturn.
In light of the stabilizing industry environment and resulting increased visibility, we now expect our gross profit margin to be in the range of 46 to 50 percent of revenue for full fiscal year 2010. As Bill discussed, there are two structural changes that are positively impacting our gross profit margin, our acquisition of Epoch and associated synergies, as well as our increased pad revenue levels and improved manufacturing yields. Due to these factors, we are increasing the upper level of our previous guidance range. This

guidance is for the full fiscal year, and quarter to quarter our gross profit percentage may be above or below this new guidance range.

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 $30.1 million were $0.7 million higher than the $29.4 million reported in the first quarter of fiscal 2009. The increase was primarily driven by higher staffing related costs, partially offset by lower professional fees. Operating expenses were $2.2 million higher than the $28.0 million reported in the previous quarter, mainly due to higher staffing related costs, including higher accruals for our annual incentive bonus program and share-based compensation expense. For full fiscal year 2010, we continue to expect our operating expenses to be in the range of $120 million to $125 million.

Diluted earnings per share were 56 cents this quarter, which is the second consecutive quarter of record earnings per share when compared to historical results that are adjusted to include share-based compensation expense. This is up from both the 1 cent reported in the first quarter of fiscal 2009 and 52 cents reported in the prior quarter. Both of these increases were driven by the higher level of revenue and gross profit margin percentage, partially offset by higher operating expenses.

Turning now to cash and balance sheet related items, capital additions for the quarter were $1.0 million, depreciation and amortization expense was $6.4 million and share-based compensation expense was $3.3 million. We ended the quarter with a healthy cash balance of nearly $225 million, which is roughly $25 million higher than last quarter and we have no debt outstanding. Due to our strong cash generating business model and solid balance sheet, we believe we have a great deal of flexibility to take advantage of attractive potential acquisition opportunities that could arise, such as another "Epoch-like" deal, or one that might leverage the capabilities we have developed in supply chain management and quality systems in supplying the semiconductor industry. In addition, we have $50 million available under our current share repurchase program.

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

Examining revenue patterns within the three months of our first fiscal quarter, we saw demand for our CMP consumables products trend relatively even across all three months of the 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 at roughly the same rate as we have seen for the past seven months. 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 this morning and your interest in Cabot Microelectronics. We look forward to the next opportunity to speak with you. Goodbye.