Cabot Microelectronics Corporation
Third Fiscal Quarter 2012 Conference Call Script
July 26, 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 third quarter of fiscal year 2012, which ended June 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, 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 strong financial results for our third fiscal quarter of 2012. During the quarter, we achieved record revenue of $115.7 million, gross profit margin of 47.7 percent of revenue, and earnings per share of 55 cents, all of which are significantly higher than last quarter. Our record quarterly revenue for the company represents 16.6 percent growth over last quarter. We also set quarterly revenue records for most of our business areas, including our Pads business, which achieved double digit sequential revenue growth. In addition, our revenue grew sequentially in every geographic region, and we continue to leverage our global footprint to sell to virtually every semiconductor manufacturer in the world. We believe our overall strong financial performance this quarter reflects the continued successful execution of our strategic initiatives to provide high quality solutions to our customers, coupled with strengthening overall semiconductor industry demand that we had anticipated would occur during the quarter. Bill Johnson will provide more detail on the financial performance of our business later in the call.

Looking across the semiconductor industry we serve, reports and comments from industry analysts and customers generally indicate that their outlook for demand in the next quarter is relatively firm, although they appear somewhat cautious due to current macroeconomic concerns. Industry analysts are forecasting IC unit growth of three to five percent in calendar year 2012, which is slightly lower than previous growth forecasts of four to six percent. Additionally, inventory levels of semiconductor devices seem generally in a slight oversupply position, due to sluggish demand for mobile devices and weaker than anticipated tablet, notebook and PC sales during the first half of the calendar year. However, industry reports suggest that seasonal growth will occur during the second half of the calendar year, although somewhat weaker than originally forecast. In addition, some of our strategic customers are forecasting growth for the third quarter of the calendar year in line with normal seasonality. We are entering into the back to school and holiday seasons, which have historically increased end use demand for consumer electronics. Key drivers for end use consumption, which ultimately drives the demand for our CMP consumables products, include 4G mobile devices, cloud and server infrastructure expansion, tablets, ultrabooks and emerging markets.

Also contributing to the positive near term industry outlook is high capacity utilization. During the quarter, overall fab utilization was greater than 90 percent, and it is anticipated that fabs will continue to run at full capacity for 28 nanometer technologies in the near term. In addition, the larger semiconductor manufacturers continue to invest heavily to increase capacity at advanced technology nodes and enable key technologies to continue the progression of Moore’s law.

Turning now to company-related matters, we are happy to report that our CMP polishing Pads business reported record revenue of $9 million this quarter and double digit sequential revenue growth for a second consecutive quarter. Year over year quarterly revenue growth of our Pads business is around twenty percent. We continue to leverage our existing CMP global infrastructure and expertise to serve the $600 million CMP pad market, which is a natural strategic adjacency to the CMP slurry market.

Our company continues to make progress on more than fifty new business opportunities for our D100 and D200 pad products around the world that are in various stages of evaluation and qualification. We believe our pad products continue to compete on the basis of lower cost of ownership for our customers by providing longer pad life and lower defectivity. The ability to tune a number of parameters on our Epic D200 pad platform enables us to modify our pads to meet very specific customer performance requirements. During the quarter, we secured two additional D200 business wins at advanced technology nodes for emerging applications. We look forward to continuing to expand our pad customer base and winning more business.

Turning to our CMP slurry business, we achieved record revenue during the third fiscal quarter in both our Tungsten and Dielectrics business areas. As demand for memory devices continues to strengthen and as memory technologies advance over time, we continue to collaborate with our customers to provide high quality solutions for Tungsten applications.

In addition, we attained double digit growth in our Advanced Dielectrics application area, both sequentially and year over year, and captured several new business wins during the third quarter with leading edge customers for advanced applications.

We are also pleased with the growth we are seeing with our slurry products for polishing Aluminum, which is an emerging CMP application for use in advanced, high-K metal gate device integration, where we believe we hold an early leadership position. This solution is the result of extensive research and development conducted in close collaboration with our customers to help enable their integration schemes, while meeting their challenging removal rate, defectivity and cost of ownership targets.

Within our Copper slurry business, we are assisting our customers in lowering their cost of ownership by actively transitioning them from our legacy Copper slurry products, which are sold ready-to-use, onto our newer products. These new Copper slurry products are delivered as concentrates, designed to be diluted by our customers. This reduces transportation costs, since we are shipping less water, and also improves the gross margin percentage of our Copper business, but at a trade-off to the size of the total available market.

Throughout the quarter, we experienced heavy sampling of products by our customers for a variety of applications and technology nodes and our opportunity pipeline remains healthy. As a result of these collaborative efforts, we qualified another product for a strategic customer from our South Korean manufacturing facility this quarter for an Advanced Dielectrics application. Our teams around the world continue to focus on working closely with our customers through joint development programs to enable us to provide them with innovative and high quality products and solutions.

Finally, we are very pleased with the performance of our Engineered Surface Finishes, or ESF, business this quarter, which includes our QED business. QED achieved record revenue during our third fiscal quarter as customers continue to embrace our innovative metrology and polishing technology for the most advanced optical components.

Concluding my prepared remarks this morning, we believe our Company is strategically positioned to continue to be a key supplier of advanced engineered materials to the consumer electronics supply chain. In our view, our global network of employees and facilities and our strategic initiative to closely collaborate with our customers have prepared us well for continued success in this marketplace.

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

Thanks, Bill, and good morning everyone.

Revenue for the third quarter of fiscal 2012 was a record $115.7 million, which represents a 3.4 percent increase compared to the same quarter last year and a 16.6 percent increase from last quarter. Revenue from our Dielectrics, Tungsten, Pads and ESF businesses increased this quarter compared to the same quarter last year. Compared to the prior quarter, revenue for all of our business areas increased, except for Data Storage. Year to date revenue of $317.0 million represents a decrease of 5.6 percent from the prior year, driven primarily by softness in demand within the semiconductor industry that we experienced during the first half of our fiscal year.

Drilling down into revenue by business area,
Tungsten slurries contributed 36.4 percent of total quarterly revenue, with revenue up 3.1 percent from the same quarter a year ago and up 10.3 percent sequentially. Our Tungsten business achieved record revenue for the quarter, reflecting strong demand from the memory segment.

Sales of Copper products represented 15.5 percent of our total revenue, and decreased 11.0 percent from the same quarter last year and were up 11.4 percent sequentially. The year over year revenue decrease reflects the execution of our strategy that Bill discussed, related to assisting our customers in lowering their cost of ownership, as well as slower recovery of demand for certain foundry customers.

Dielectrics slurries provided 28.1 percent of our revenue this quarter, with sales up 5.0 percent from the same quarter a year ago and up 19.6 percent sequentially, which represents a record revenue level for this business area. Within Dielectrics, revenue from our Advanced Dielectrics business increased by approximately 25 percent sequentially.

Data Storage slurry products represented 4.6 percent of our quarterly revenue. This revenue was down 22.6 percent from the same quarter last year and down 7.6 percent sequentially. We believe our soft revenue this quarter in Data Storage reflects volatility around the hard disk drive industry related to the recovery from the floods in Thailand last year.

Sales of our polishing pads represented 7.8 percent of our total revenue for the quarter and reflects increases of 19.6 percent from the same quarter last year and 13.9 percent sequentially. As Bill mentioned, our Pads business achieved record revenue this quarter and a second consecutive quarter of double digit sequential revenue growth.

Finally, revenue from our ESF business, which includes QED, generated 7.5 percent of our total sales, and was up approximately 61 percent from the same quarter last year, and up 115 percent sequentially. QED's revenue this quarter represents a record level for this business.

Our gross profit this quarter represented 47.7 percent of revenue, which is up from 47.4 percent in the same quarter a year ago and 46.1 percent in the prior quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to increased utilization of our manufacturing capacity, higher yields in our manufacturing operations and lower logistics costs, partially offset by higher fixed manufacturing costs and selective price reductions. The increase in gross profit percentage versus the previous quarter was primarily due to higher capacity utilization on higher demand and higher yields in our manufacturing operations, partially offset by higher fixed manufacturing costs. Year to date, gross profit represented 47.4 percent of revenue and this is in the upper half of our full year guidance range of 46 to 48 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 $33.6 million were approximately $200 thousand higher than in the third quarter of fiscal 2011 and approximately $3.1 million lower than in the previous quarter. The sequential reduction was primarily due to the absence of bad debt expense related to a customer bankruptcy that we reported last quarter, as well as lower share based compensation expense, partially offset by higher staffing related costs.

Year to date, total operating expenses were $104.2 million, which is 4.6 percent higher than last year. We continue to expect our full year operating expenses to be within a range of $135 to $140 million for fiscal 2012.

Diluted earnings per share were 55 cents this quarter, which is up slightly from the 54 cents reported in the third quarter of fiscal 2011. Diluted EPS this quarter was more than double the 23 cents we reported last quarter primarily due to the higher level of sales, higher gross profit margin and lower operating expenses, including the absence of bad debt expense that we recorded last quarter. These factors were partially offset by an unfavorable impact of foreign exchange rates, which is reflected in “other income” on our income statement, and higher interest expense associated with our term loan. Year to date, diluted earnings per share of $1.24 were down 31.2 percent compared to last year, due to the industry softness and seasonal weakness we experienced during the first half of the fiscal year and 19 cents of certain adverse items recorded during our first and second quarters.

Turning now to cash and balance sheet related items, we generated free cash flow of approximately $20.2 million in our third fiscal quarter. This reflects cash from operations of $22.8 million less capital additions of $2.6 million. Cash from operations includes depreciation and amortization expense of $5.7 million and share-based compensation expense of $3.0 million. In addition, we purchased $10.0 million of our stock during the quarter under our share repurchase program. We ended the quarter with a cash balance of approximately $166.9 million, which is $11.8 million higher than last quarter, and $175.0 million of debt outstanding.

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

Examining revenue patterns, during our third fiscal quarter we saw demand for our CMP consumables products at a level approximately 12 percent above our second fiscal quarter. As we observe orders for our CMP consumables products received to date in July that we expect to ship by the end of the month, we see July results trending generally in line with our third 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.