CABOT MICROELECTRONICS CORPORATION
THIRD QUARTER FISCAL 2017 CONFERENCE CALL SCRIPT
July 27, 2017

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 third quarter of fiscal 2017, which ended June 30, 2017. 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, 2016. 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 third quarter of fiscal 2017, reflecting continued healthy semiconductor industry demand, as expected and discussed during our second quarter earnings conference call in April, as well as the continued successful execution of our strategic initiatives. During the quarter, we experienced sustained robust demand for our tungsten, dielectrics and pad CMP solutions across a wide range of memory and logic applications, including 3D NAND and FinFET technologies. We believe our performance is evidence of our technology leadership, operational excellence, and close collaboration with our customers.

During the quarter, we achieved record revenue of $128.0 million, approximately 18 percent higher than in the same quarter last year. Our gross profit margin was 48.9 percent of revenue and we achieved diluted earnings per share of 77 cents, reflecting continued strong profitability. In addition, we continued our strong cash generation trend, with cash flow from operations of $32.1 million.

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

To provide some context for our third quarter results, let me first offer some perspectives on the global semiconductor industry environment. As forecast by some of our customers and industry analysts, IC demand remained solid during the June quarter, despite isolated softer conditions in certain smartphone applications, primarily affecting some advanced logic and foundry players due to mobile product seasonality. Reports suggest that overall semiconductor demand was driven by a continued robust memory market, generally due to the growing requirements for storage in a wide range of end-use applications. Due to this, and semiconductor device manufacturers' inventory management, some of our customers and industry analysts have reported expectations for continued solid conditions during our fourth fiscal quarter, and through July we are seeing continued healthy demand for our IC CMP consumables products. Later in the call, Bill will provide commentary on our expectations for the September quarter.

Considering longer-term expectations for the semiconductor industry, reports indicate that demand for ICs should continue to increase over time, including rapid growth from data creation, analytics and storage. This is being referred to by some as the "third wave of the semiconductor industry", with PCs and mobile connectivity having represented the first and second waves. We believe that with this evolution, the industry may see more stability of demand, and potentially less pronounced cyclicality and seasonality than in the past.

Related to this, we believe several factors will drive long term growth in semiconductor industry demand: First, the ongoing transition from traditional planar or 2D memory to advanced 3D memory for mobile, server and PC applications. Next, there is expected continued strong need for advanced semiconductor devices for high performance computing, virtual and augmented reality, and smart phone applications. 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, sensors for safety, and autonomous vehicles.

The view from Semicon West earlier this month in San Francisco appears to reflect this longer-term industry outlook. The overall tone at the conference was generally bullish for the remainder of 2017, and into 2018, with commentary mainly focused on the outlook for 3D memory, and semiconductor industry development in China. China continues to be in the spotlight, with a number of fabs under construction, others announced, and additional domestic and international investment in both logic and memory capacity expected in the future.

Semiconductor industry growth, including within the memory market and China, should be a strong driver of demand for our CMP consumables products over the next several years. Based on our global resources, capabilities and infrastructure, which we believe uniquely position us to deliver innovative CMP solutions to our customers around the world, we believe we are well-positioned to benefit from these near and longer-term industry demand trends, and we expect our revenue to grow faster than the IC CMP consumables market.

Now let me turn to company-related matters. During the quarter, we experienced strong demand for our tungsten and dielectrics slurries, and our pads solutions, across a wide range of applications and technology nodes. This drove approximately 16 percent year-on-year revenue growth for the quarter from our IC CMP consumables products. Of particular significance, this quarter we achieved year-on-year revenue growth of approximately 28 percent in China and 25 percent in Korea. Our strong positions in these countries are notable, given expectations for long-term overall semiconductor growth in China, and continued memory growth in Korea. You may recall that during our conference call last April, we discussed the recent expansion of our facilities in Korea. We believe this expansion enhances our global infrastructure, and our ability to provide local development and manufacturing to support our customers in the region, and we look forward to continuing to leverage this facility for future growth.

Now let me provide a brief update on each key product area, beginning with tungsten slurries. During the quarter, we experienced robust demand in this area driven by our continued support of our customers' ramps of 3D NAND and FinFET technologies, as well as our leading supply positions in other applications. As a result, in the third fiscal quarter we achieved revenue growth in tungsten slurries of approximately 18 percent compared to last year. The transition from 2D to 3D memory is significant for our business, since 3D technology requires roughly twice the number of CMP steps as 2D. We expect the industry transition from 2D to 3D to continue over the next several years.

As we have discussed in the past, a key to maintaining our long-standing leadership within tungsten slurries across all areas, foundry, logic and memory, has been our ability to offer a broad, deep and constantly refreshed portfolio of innovative solutions. Our strategy in this product area is focused on technology leadership, enhancing our supply chain capabilities and quality systems, and leveraging our global technical network and infrastructure to provide unmatched support for our customers. We believe the strength of our brand in tungsten slurries, driven by our ongoing delivery of a differentiated, value-added total customer experience, will enable us to maintain and grow our business in this important product area.

Moving on to our second key product area, during the quarter we also experienced strong demand for our dielectrics slurries, with revenue up approximately 19 percent compared to the same quarter last year. We are in the midst of a broad transformation of our dielectrics product area, as we promote our family of higher performing, lower cost and higher profitability colloidal silica-based solutions for a wide range of technology nodes and applications to win new opportunities, displace incumbents and replace some of our own legacy solutions. We continue to see robust customer pull for these products, as well as for our high-performing ceria-based solutions. We won a new business opportunity this quarter for a 3D NAND application with one of our new ceria solutions, which we believe is an example of our ongoing innovation through close collaboration with our technology leading customers to meet their stringent requirements. We expect that the broad transformation underway in this product area will be a driver for continued profitable growth over the next several years and continued evidence of our technology leadership within CMP slurries.

Turning to CMP pads, our third key product area, this quarter we achieved record revenue for the seventh consecutive quarter, and year-over-year revenue growth of approximately 25 percent. On a year-to-date basis, our pad revenue is up approximately 40 percent. This growth has been largely driven by continued strong and broad customer pull for our products across the logic, memory and foundry segments. We continue to leverage our global sales channel, technical resources and infrastructure to speed the qualification and adoption of our pad offerings, based on our NexPlanar acquisition.

During the quarter, we advanced several initiatives in conjunction with driving growth in our pads product area. First, to position our company for sustained growth in China, we continued to make progress with our collaboration with Konfoong Materials International, or KFMI. This collaboration emphasizes our commitment to provide our customers in China with reliable, local manufacture of advanced CMP pad technology. Based on the progress of our combined teams, and consistent with our previously discussed expectations, we began customer sampling during the June quarter. We continue to expect our first KFMI-related revenue in fiscal 2018. Second, as we mentioned several quarters ago, to support expected robust growth of our CMP pad solutions, we are expanding our manufacturing capacity in Hillsboro, Oregon, and we expect production from this additional capacity to begin during the first half of fiscal 2018. Finally, during the quarter we expanded our product offerings with the commercialization of a family of new polishing pad configurations focused on improving both performance and profitability in this product area.
We continue to view CMP pads as the greatest growth opportunity for our company. Based on the strong growth performance and momentum we have achieved in this product area to date, and

consistent with what we have previously discussed, we are confident that we will be able to grow our pad revenue to over $100 million in fiscal 2019.

Across our CMP slurry and pads product areas, we have a strong pipeline of active new business opportunities around the world, covering foundry, logic, and memory customers, including CMP slurry and pad consumable sets. We believe that given our broad product portfolio in CMP slurries along with our technology and capabilities in CMP pads with the NexPlanar acquisition, we are uniquely positioned to deliver best-in-class slurry and pad CMP solutions.

To summarize, we have demonstrated continued momentum in three key product areas – CMP tungsten slurries, dielectrics slurries, and CMP pads – and we believe these will be drivers for continued profitable growth for the company over the next several years. In addition, our focused business model, along with our global resources, capabilities and infrastructure, differentiates our company as a leader among suppliers to the semiconductor industry. Based on all of this, and our results through nine months of fiscal 2017, we believe we are well-positioned to achieve record revenue and profit for the full fiscal year.

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 third quarter of fiscal 2017 was a record $128.0 million, which represents an 18.3 percent increase from the same quarter last year. The increase reflects continued strong global semiconductor industry demand that we have seen over the last five quarters, as well as the continued successful execution of our strategic initiatives. Year to date, revenue of $370.4 million represents a 20.3 percent increase from last year.

Drilling down into revenue by product area:

Tungsten slurries contributed 42.8 percent of total quarterly revenue, with revenue up 17.5 percent compared to the same quarter last year. We continue to see strong demand for our tungsten slurries for advanced applications, including 3D memory and FinFET; and, as Dave discussed earlier, this is a key product area that we expect will drive future profitable growth for our company.

Dielectrics slurries, representing a second key product area, provided 23.7 percent of our revenue this quarter, with sales up 19.4 percent from the same quarter a year ago. Our dielectrics growth was primarily driven by strong demand for our colloidal silica- and ceria-based solutions. We look forward to winning more business in this area with our higher performing, lower cost and higher profitability products.

Sales of our polishing pads – our third key product area – represented 13.8 percent of our total revenue for the quarter, and increased 25.1 percent compared to the same quarter last year. Our pads product area achieved record revenue for the seventh consecutive quarter.

Sales of slurries for polishing metals other than tungsten, including copper, aluminum and barrier, represented 12.6 percent of our total revenue, and increased 0.3 percent from the same quarter last year.

Finally, revenue from our Engineered Surface Finishes area represented 6.1 percent of our quarterly revenue, and data storage products represented 1.1 percent.

Gross profit for the quarter was 48.9 percent of revenue, compared to 48.1 percent that we reported in the same quarter a year ago. This includes $1.2 million of amortization expense related to our NexPlanar acquisition. Excluding this, non-GAAP gross profit was 49.8 percent of revenue. Factors impacting gross profit this quarter compared to last year include higher sales volume and a higher valued product mix, partially offset by higher fixed manufacturing costs, including higher incentive compensation expense.

Year to date, gross profit was 49.7 percent of revenue, compared to 48.5 percent last year. This includes $3.6 million of amortization expense related to NexPlanar. Excluding this, non-GAAP gross profit was 50.7 percent of revenue. Taking into account our results through nine months, we currently expect our GAAP gross profit margin for the full fiscal year to be between 49 and 50 percent of revenue; our prior full year guidance range was 49 to 51 percent of revenue. This includes an adverse effect of approximately 100 basis points related to NexPlanar amortization expense.

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 were $35.6 million, including $0.5 million of NexPlanar amortization expense. Operating expenses were $5.7 million higher than the $29.9 million reported in the same quarter a year ago. This mainly reflects higher staffing related expenses, primarily incentive compensation expense.

Year to date, total operating expenses were $105.1 million, which includes $1.4 million of NexPlanar amortization expense. We currently expect our GAAP operating expenses for the full fiscal year to be between $140 million and $142 million; our prior guidance range was $137 million to $142 million. This includes approximately $2 million of NexPlanar amortization expense.

Our effective tax rate for the third fiscal quarter was 22.4 percent, compared to 9.6 percent in the same quarter last year. The increase is primarily related to changes in the jurisdictional mix of our earnings, and a tax benefit recognized in the same quarter last year.

Year to date, our effective tax rate was 21.1 percent. We currently expect our effective tax rate for the full fiscal year to be within the range of 21 to 22 percent. Previously, we had estimated 19 to 22 percent for the full fiscal year.

Our net income for the quarter was $19.9 million, or $21.0 million on a non-GAAP basis, excluding amortization expense related to NexPlanar. This is 6.6 percent higher than the $18.7 million reported in the same quarter last year. The increase was primarily due to higher revenue and a higher gross profit margin, partially offset by higher operating expenses and a higher tax rate.

Year to date, our net income was $60.4 million, or $63.7 million on a non-GAAP basis, excluding the referenced amortization expense. This is 54.4 percent higher than the $39.1 million reported last year.
Diluted earnings per share were 77 cents this quarter, or 81 cents on a non-GAAP basis, excluding the NexPlanar amortization expense, compared to the 76 cents we reported in the third quarter of fiscal 2016.

Year to date, diluted earnings per share were $2.37, or $2.49 on a non-GAAP basis, which is 49.1 percent higher than the $1.59 reported last year.

Turning now to cash and balance sheet related items, capital investments for the quarter were $4.2 million, bringing our year to date capital spending to $15.9 million. For the full fiscal year, we now expect capital spending to be within the range of $21 million to $23 million; our prior guidance range was $20 million to $25 million. As previously discussed, our capital spending this year includes our facility expansion in South Korea, which we completed during the second fiscal quarter, and expansion of our polishing pads manufacturing capacity to support anticipated growth. Depreciation and amortization expense for the quarter was $6.3 million, and we generated cash flow from operations of $32.1 million. We ended the quarter with a cash balance of $363.9 million and $147.2 million of debt outstanding.

Our strong cash generation model has enabled us to implement a balanced capital deployment strategy over the years, for which our priorities continue to be funding organic investments to improve our global capabilities in our core CMP consumables business, dividends, acquisitions in closely-related areas, and share repurchases. We believe we are well-positioned for continued profitable growth and delivery of significant value to our shareholders.

I'll conclude my remarks with a few comments on demand for our IC CMP consumables products.

During the third fiscal quarter, we saw a six percent increase in revenue from our IC CMP consumables products, compared to the second quarter of fiscal 2017. This is stronger than the expected three percent increase for the third quarter that we referenced during our conference call in April. Earlier, Dave talked about general industry expectations for continued solid demand during our fourth fiscal quarter. Consistent with that outlook, we expect demand for our IC CMP consumables products in the September quarter to be around two percent higher than the record level of revenue we achieved in our third fiscal quarter.

To summarize, from a financial standpoint, we have now delivered strong performance for five consecutive quarters. As we think about the remainder of fiscal 2017, we expect continued solid semiconductor industry demand, and we expect our full fiscal year gross profit margin to be between 49 and 50 percent of revenue. Based on our revenue growth and profitability through nine months of fiscal 2017, and expected continued momentum in tungsten and dielectrics slurries and polishing pads, we believe we are on track to deliver record revenue and profit this year.

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

Those are all the questions we have this morning. As a reminder, we hosted a virtual investor and analyst event on May 23, and we are happy that many of you were able to join. The virtual environment, including a wealth of video content on our company, will be available until September 23. You can access that material through a link in the "Events and Presentations" area of the "Investor Relations" section of our website, cabotcmp.com.

Thank you for your time this morning, and your interest in Cabot Microelectronics; we look forward to talking with you again soon.