

Second Quarter of Fiscal 2019 Earnings Call

May 9, 2019



Safe Harbor Statement

The information contained in and discussed during this presentation may include “forward-looking statements” within the meaning of federal securities regulations. These forward-looking statements involve a number of risks, uncertainties, and other factors, including those described in Cabot Microelectronics’ filings with the Securities and Exchange Commission (SEC), that could cause actual results to differ materially from those described by these forward-looking statements. Cabot Microelectronics Corporation assumes no obligation to update this forward-looking information.

Second Quarter Highlights

- › **Record Revenue of \$265M; exceeded prior year revenue by \$122M, or 86%**
 - Driven by acquisition of KMG Chemicals, Inc. (“KMG”), and growth in CMP pads business

- › **Adjusted Pro Forma Revenue* exceeded prior year by \$6M, or 2%**
 - Driven by growth in CMP pads, electronic chemicals and pipeline performance products
 - CMP slurries revenue declined due to challenging market conditions for memory and foundry customers

- › **Net Income of \$27M**
 - Adjusted Pro Forma Net Income* of \$46M, up \$5M, or 13%, over prior year, and represents 17% of revenue

- › **Diluted EPS of \$0.92**
 - Adjusted Pro Forma EPS* of \$1.55, up \$0.17, or 12%, over prior year

- › **Adjusted Pro Forma EBITDA* of \$86M, up \$11M, or 16%, and represents 32% of revenue**

Data reflects rounded values

**Adjusted pro forma results are presented as if the KMG acquisition had been consummated on October 1, 2017 and exclude the impact of non-recurring acquisition and integration related costs, acquisition related amortization expenses, and the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States (“tax act”)
Reference Appendix for Pro Forma to Adjusted Pro Forma reconciliation*

Financial Details

	GAAP Results		Adjusted Pro Forma Results*			Comments on Adjusted Results
	2019 Q2	2018 Q2	2019 Q2	2018 Q2		
Revenue	\$265.4M	\$143.0M	\$265.4M	\$259.4M	↑	Increases were driven by: <ul style="list-style-type: none"> • Improved gross margin • Lower selling, general and administrative expenses, primarily from synergies • Operating leverage
Gross Margin	43.3%	52.5%	46.3%	44.4%	↑	
Net Income	\$27.1M	\$29.7M	\$45.8M	\$40.6M	↑	
Diluted EPS	\$0.92	\$1.14	\$1.55	\$1.38	↑	
EBITDA	-----	-----	\$85.5M	\$74.0M	↑	
EBITDA Margin	-----	-----	32.2%	28.5%	↑	

Data reflects rounded values

*Adjusted pro forma results are presented as if the KMG acquisition had been consummated on October 1, 2017 and exclude the impact of non-recurring acquisition and integration related costs, acquisition related amortization expenses, and the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States ("tax act")

Reference Appendix for Pro Forma to Adjusted Pro Forma reconciliation



Segment and Business Revenue

	As Reported			Pro Forma*		
	2019 Q2	2018 Q2		2019 Q2	2018 Q2	
Total Revenue	\$265M	\$143M	↑	\$265M	\$259M	↑
Electronic Materials	\$213M	\$136M	↑	\$213M	\$211M	↑
CMP Slurries**	\$110M	\$115M	↓	\$110M	\$115M	↓
CMP Pads	\$24M	\$21M	↑	\$24M	\$21M	↑
Electronic Chemicals	\$79M	-		\$79M	\$75M	↑
Performance Materials	\$53M	\$7M	↑	\$53M	\$49M	↑

Quarter Highlights:

- › CMP slurries was negatively impacted by lower demand in memory and foundry due to slower wafer starts
- › Growth in CMP pads continues to be driven by customer adoption
- › Electronic chemicals benefited from increased demand in advanced logic, partially offset by industry weakness
- › Performance Materials growth was driven by pipeline performance products

Data reflects rounded values

**Pro Forma data represents calculations as if KMG results were included in total company results for the full quarter of each period represented*

***Includes Electronic Substrates*

Segment Financial Details

	2019 Q2
Electronic Materials Revenue	\$213M
Adjusted EBITDA*	\$75M
Adjusted EBITDA Margin	35%

Performance Materials Revenue	\$53M
Adjusted EBITDA*	\$23M
Adjusted EBITDA Margin	43%

Data reflects rounded values

*Adjusted EBITDA for the Electronic Materials and Performance Materials segments is presented in conformity with Accounting Standards Codification Topic 280, Segment Reporting. This measure is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For these reasons, this measure is excluded from the definition of non-GAAP financial measures under the SEC's Regulation G and Item 10(e) of Regulation S-K.



Balance Sheet and Cash Flow

*as of March 31, 2019
(unless stated otherwise)*

- › **Cash balance of \$192M**

- › **Year-to-date Operating Cash Flow was \$54M**
 - Year-to-Date Capital Expenditures were \$19M
 - Therefore, Year-to-Date Free Cash Flow was \$35M

- › **Prepaid \$45M of Debt in March**
 - Prepaid an additional \$55M of debt at the end of April

- › **Continued appropriate deleveraging of the balance sheet remains a priority**
 - Targeting 2x Debt/EBITDA by the end of FY2020

Data reflects rounded values

Closing Remarks

- › **Adjusted Pro Forma Revenue* of \$265M increased \$6M, or 2%, from last year**
 - Driven by growth in CMP pads, electronic chemicals, and pipeline performance products
 - CMP slurries revenue was negatively impacted by weakness in memory and foundry

- › **Adjusted Pro Forma Gross Margin* of 46.3% increased 190 bps from last year**

- › **Adjusted Pro Forma Net Income* of \$46M increased \$5M, or 13%, from last year**

- › **Activities taken through April 2019 to achieve the synergies are expected to deliver \$20M annually on a run-rate basis**
 - Delivered \$3.5M in synergies to the second quarter P&L
 - On track to meet our goal of \$25M of synergies on a run-rate basis at the end of the second year following the transaction

Data reflects rounded values

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Current Financial Guidance

		2019 Q3	FY2019
Segment	Electronic Materials Revenue	Approximately flat*	
	Performance Materials Revenue	Up mid single digit %*	
Total Company	Revenue	Approximately flat to up low single digit %*	
	Adjusted EBITDA		\$325M-\$345M
	Depreciation and Amortization**		\$35M-\$45M
	Interest Expense	~\$13M	\$45M-\$47M
	Tax Rate***		23%-26%
	Capital Spending		\$45M-\$55M

Data reflects rounded values

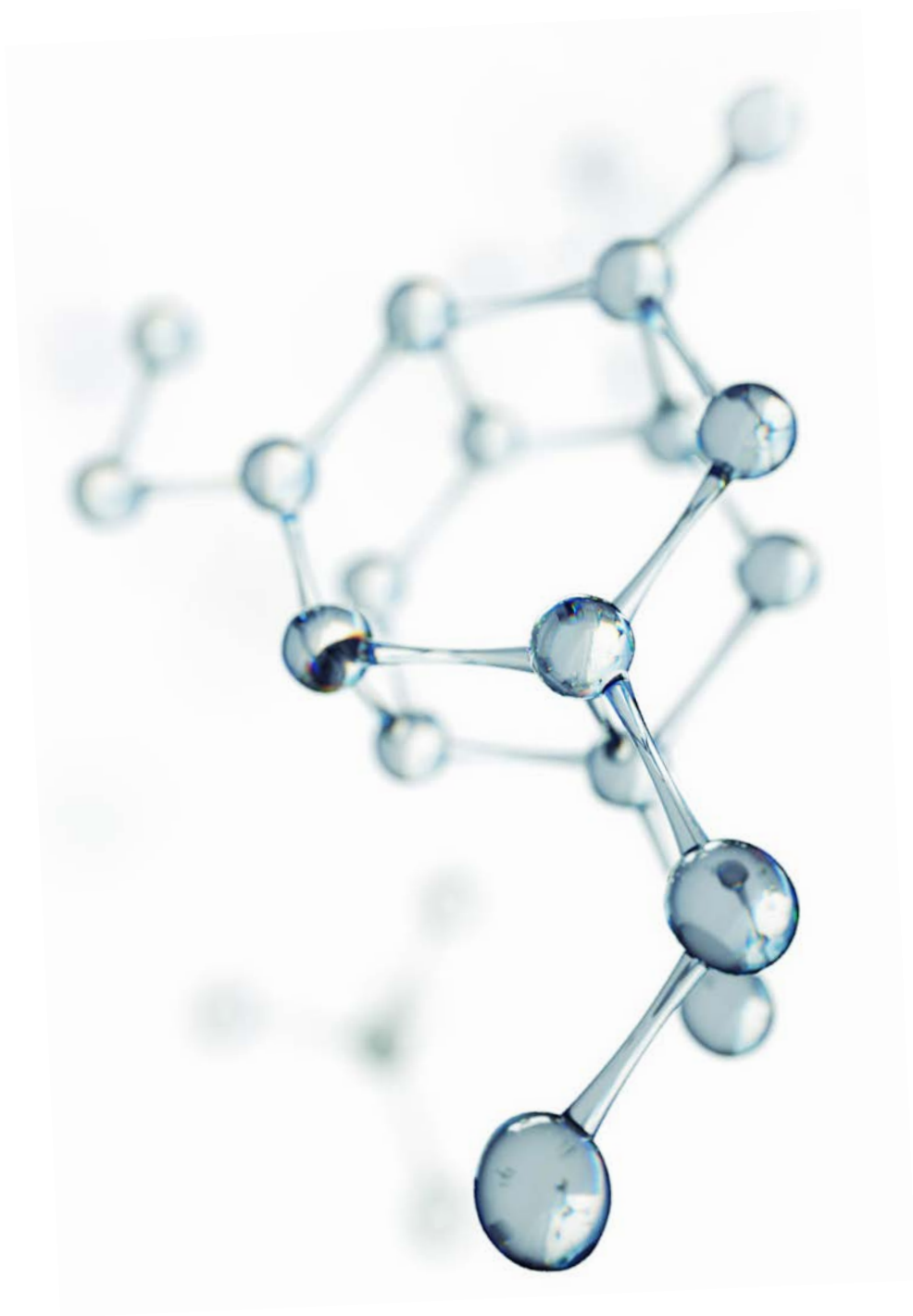
**Based on sequential changes compared to second quarter of fiscal 2019*

***Excludes approximately \$60 million in amortization of intangibles related to acquisitions*

****Excludes tax impact from acquisitions-related expenses*



Appendix



Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA

(in thousands, except per share and percentage amounts)

	Quarter Ended	
	March 31, 2019	March 31, 2018
Net Income	\$27,137	\$29,737
Interest expense	13,331	1,158
Interest income	(568)	(1,156)
Income taxes	10,800	7,255
Depreciation & amortization	27,348	6,638
EBITDA*	\$78,048	\$43,632
Acquisition and integration-related expenses	2,904	—
Charge for fair value write-up of acquired inventory sold	4,566	—
Adjusted EBITDA**	\$85,518	\$43,632
Adjusted EBITDA margin	32.2%	30.5%

*EBITDA represents earnings before interest, taxes, depreciation and amortization

** Adjusted EBITDA is calculated by excluding items from EBITDA that are believed to be infrequent or not indicative of the company's continuing operating performance



Pro Forma Condensed Combined Statement of Income

For the Three Months Ended March 31, 2019 (in thousands, except per share data)

	Reported	Adjustments ¹	Pro Forma Combined	Adjustments ²	Adjusted Pro Forma
Revenue	\$265,391		\$265,391		\$265,391
Gross Profit	114,820	4,576	119,396	3,470	122,866
Gross Margin	43.3%		45.0%		46.3%
Total Operating Expenses	63,106	3,325	66,431	(19,707)	46,725
Operating Income	51,714	1,251	52,965	23,176	76,141
Income before income taxes	37,937	1,173	39,110	23,254	62,364
Net Income	27,137	919	28,056	17,716	45,773
Diluted earnings per share	\$0.92	\$0.03	\$0.95	\$0.60	\$1.55
Weighted average diluted shares outstanding	29,479		29,479		29,479

¹ Pro forma adjustments are related to non-recurring items directly attributable to the transaction as well as recurring differences related to depreciation, amortization or financing costs that were included as if the companies were combined as of October 1, 2017

² Primarily reflects the elimination of acquisition related amortization expense and non-recurring integration costs



Pro Forma Condensed Combined Statement of Income

For the Three Months Ended March 31, 2018 (in thousands, except per share data)

	Cabot Microelectronics Reported	KMG Reported	Adjustments ¹	Pro Forma Combined	Adjustments ²	Adjusted Pro Forma
Revenue	\$142,978	\$116,394		\$259,372		\$259,372
Gross Profit	75,045	48,898	(12,298)	111,645	3,469	115,114
Gross Margin	52.5%	42.0%		43.0%		44.4%
Total Operating Expenses	37,957	27,422	(1,427)	63,952	(13,453)	50,499
Operating Income	37,088	21,476	(10,871)	47,693	16,922	64,615
Income before income taxes	36,992	17,687	(21,168)	33,511	16,922	50,433
Net Income	29,737	14,423	(16,211)	27,949	12,681	40,630
Diluted earnings per share	\$1.14	\$0.91		\$0.95	\$0.43	\$1.38
Weighted average diluted shares outstanding	26,161	15,903		29,398		29,398

¹ Pro forma adjustments are related to the reclassification of KMG distribution expenses from operating expenses to cost of sales, in order to conform with Cabot Microelectronics' accounting policies. In addition, depreciation, amortization, financing and share-based compensation costs were adjusted as if the companies were combined as of October 1, 2017

² Primarily reflects the elimination of acquisition related amortization expense and an incremental tax adjustment related to the U.S. Tax Act



Thank you for your interest in Cabot Microelectronics Corporation

For additional information, please contact:

✉ investor_relations@cabotcmp.com

☎ 630.499.2600

