

Photonics, Inc.

Q4 2019 Financial Results Conference Call
December 11, 2019

Safe Harbor Statement

This presentation and some of our comments may contain projections or other forward-looking statements regarding future events, our future financial performance, and/or the future performance of the industry. These statements are predictions, and contain risks and uncertainties. Actual events or results may differ materially from those presented. These statements include words like “anticipate”, “believe”, “estimate”, “expect”, “forecast”, “may”, “plan”, “project”, “in our view” or the negative thereto. We cannot guarantee the accuracy of any forecasts or estimates, and we are not obligated to update any forward-looking statements if our expectations change. If you would like more information on the risks involved in forward-looking statements, please see the documents we file from time to time with the Securities and Exchange Commission.

Q4 2019 Summary

- ▶ **Record revenue, up 13% Q/Q and 8% Y/Y**
 - Record FPD revenue driven by mobile displays and Hefei production ramp
 - Record IC revenue as China design activity accelerates
 - Record revenue of products shipped to China, representing 33% of total revenue
- ▶ **Operating margin expanded to 13.7% on operating leverage and cost control**
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$9.7M (\$0.15/share)**
- ▶ **Cash balance grew to \$207M on strong operating cash flow**
- ▶ **Repurchased 1.0M shares for \$11M**
- ▶ **China production contributed \$11M to revenue**

Successfully repositioned the business; China investments driving long-term, profitable growth

Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q419</u>	<u>Q319</u>	<u>Q/Q</u>	<u>Q418</u>	<u>Y/Y</u>
Revenue	\$ 156.3	\$ 138.1	13%	\$ 144.7	8%
Gross Profit	\$ 38.2	\$ 30.6	25%	\$ 35.4	8%
<i>Gross Margin</i>	<i>24.4%</i>	<i>22.1%</i>	<i>230 bps</i>	<i>24.5%</i>	<i>(10 bps)</i>
Operating Income	\$ 21.5	\$ 13.4	60%	\$ 18.0	19%
<i>Operating Margin</i>	<i>13.7%</i>	<i>9.7%</i>	<i>400 bps</i>	<i>12.5%</i>	<i>120 bps</i>
Other income (expense)	(\$ 6.1)	(\$ 0.3)	(\$ 5.8)	\$ 2.3	(\$ 8.4)
Income tax provision	\$ 2.3	\$ 3.2	(\$ 0.9)	\$ 3.6	(\$ 1.2)
Minority interest	\$ 3.3	\$ 3.5	(\$ 0.1)	\$ 4.3	(\$ 0.9)
Net Income*	\$ 9.7	\$ 6.3	53%	\$ 12.5	(22%)
Diluted EPS*	\$ 0.15	\$ 0.10	\$ 0.05	\$ 0.18	(\$ 0.03)
<i>Days in quarter</i>	<i>95</i>	<i>91</i>	<i>4</i>	<i>94</i>	<i>1</i>

- ▶ **Gross and operating margin improved Q/Q on revenue growth, operating leverage and cost controls**
- ▶ **China operations were \$4.1M negative impact to operating income**
- ▶ **Other income/expense primarily attributable to FX gain/loss**
- ▶ **Minority interest reflects Taiwan JV gain partially offset by China JV loss**

*Net income attributable to Photronics, Inc. shareholders

IC Photomask Revenue

<u>\$M</u>	<u>Q419</u>	<u>Q319</u>	<u>Q/Q</u>	<u>Q418</u>	<u>Y/Y</u>
High-End*	\$ 45.0	\$ 38.5	17%	\$ 39.4	14%
Mainstream	\$ 67.6	\$ 61.7	9%	\$ 71.4	(5%)
Total	\$ 112.5	\$ 100.2	12%	\$ 110.9	1%

Total may differ due to rounding

Q419 Revenue by Technology



- High-End* 40%
- Mainstream 60%

*28nm and smaller

- ▶ Revenue grew with increase in broad-based design activity
- ▶ China revenue rebounded as firms accelerate product development
 - +72% Q/Q; +32% Y/Y
 - Represents 22% of Q419 IC revenue
- ▶ Outlook
 - Expect stable to improving high-end demand
 - Anticipate production ramping in Xiamen
 - Potential impact from US-China trade discussions
 - Seasonal headwinds

FPD Photomask Revenue

<u>\$M</u>	<u>Q419</u>	<u>Q319</u>	<u>Q/Q</u>	<u>Q418</u>	<u>Y/Y</u>
High-End*	\$ 28.5	\$ 25.9	10%	\$ 22.0	29%
Mainstream	\$ 15.2	\$ 12.0	27%	\$ 11.8	30%
Total	\$ 43.7	\$ 37.9	15%	\$ 33.8	29%

Total may differ due to rounding

Q419 Revenue by Technology



■ High-End* 65%

■ Mainstream 35%

*≥G8 and AMOLED

▶ **Record FPD revenue driven by mobile displays and China production ramp, including G10.5+**

▶ **China revenue**

■ +32% Q/Q; +118% Y/Y

■ Represents 61% of Q419 FPD revenue

▶ **Outlook**

■ Mobile display demand expected to remain high

■ LCD industry downturn continues

■ Hefei shipments should continue to ramp

Select Financial Data

<u>\$M</u>	<u>Q419</u>	<u>Q319</u>	<u>Q418</u>
Cash	\$ 207	\$ 197	\$ 329
Debt	\$ 53	\$ 49	\$ 57
Net Cash*	\$ 154	\$ 148	\$ 272
Operating Cash Flow	\$ 48	\$ 26	\$ 44
Capital Expenditures	\$ 17	\$ 20	\$ 28
Share repurchase	\$ 11	-	\$ 16

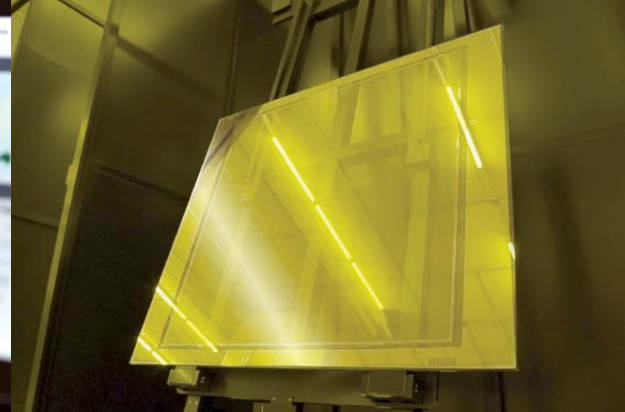
- ▶ **Deploying cash balance to fund China investments**
- ▶ **Debt is local China borrowing to finance fixed assets**
- ▶ **FY 2019 capex \$177M; anticipate FY 2020 capex ~ \$100M (includes 2019 carryover)**
- ▶ **Repurchased 1.0M shares for \$11M (YTD 2.1M shares for \$22M)**
- ▶ **Balance sheet able to fund planned investments, share repurchases, and strategic M&A opportunities**

*Net cash defined as cash and cash equivalents less long-term borrowings (including current portion), as reported in accordance with GAAP

Q120 Guidance

Revenue (\$M)	\$146 - \$154
Operating Margin	10% - 13%
Taxes (\$M)	\$3.5 - \$4.5
EPS	\$0.13 - \$0.18
Diluted Shares (M)	~66

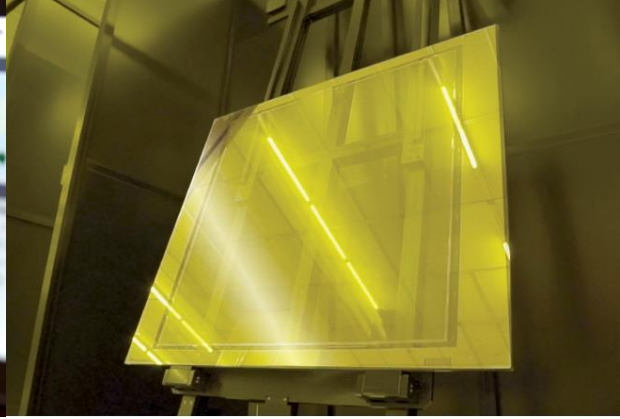
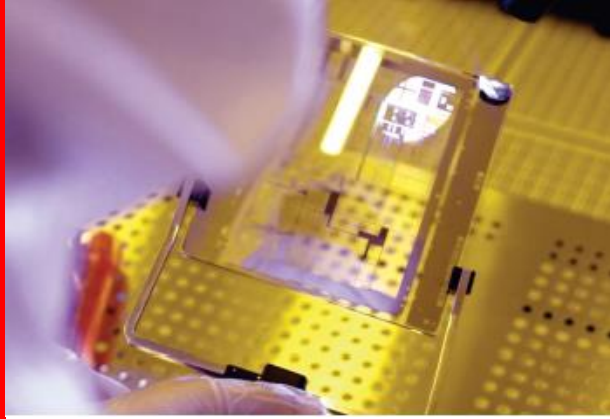
- ▶ **FPD demand growing (AMOLED, G10.5+)**
- ▶ **High-end IC markets stable to improving**
- ▶ **Ramping China production (IC & FPD)**
- ▶ **Potential geopolitical headwind**
- ▶ **Typical seasonal softness in US and Europe, plus additional impact from Chinese New Year**



Thank you for your interest!

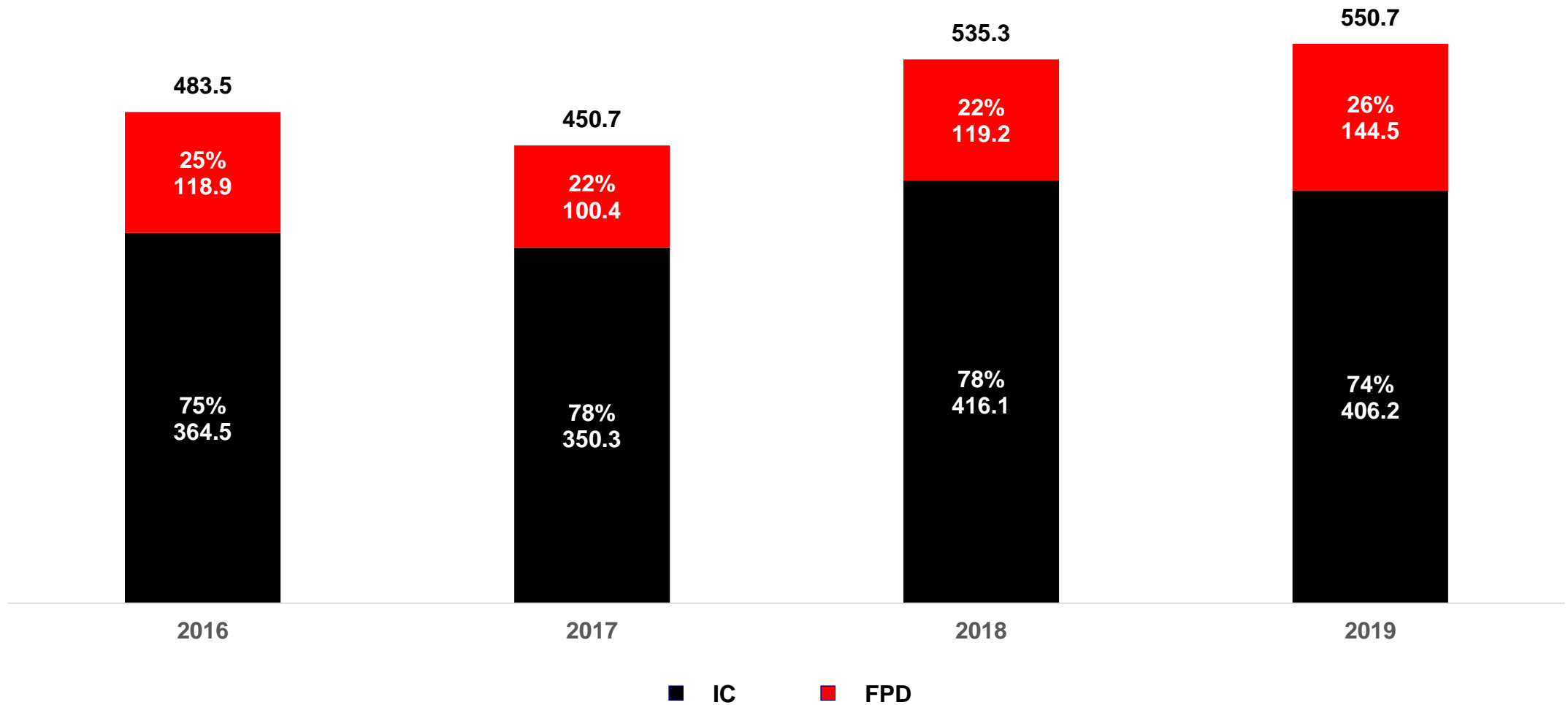
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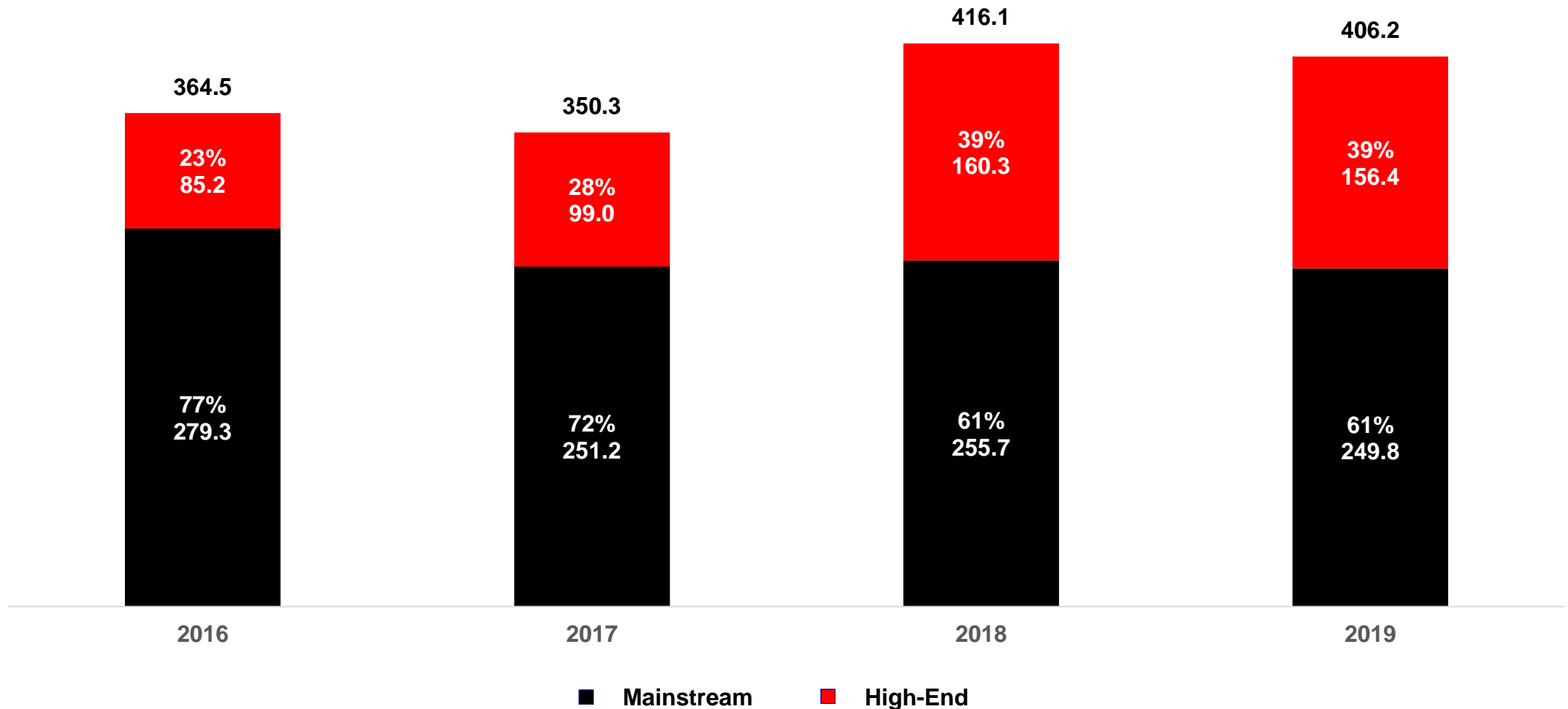


Appendix

Total Revenue

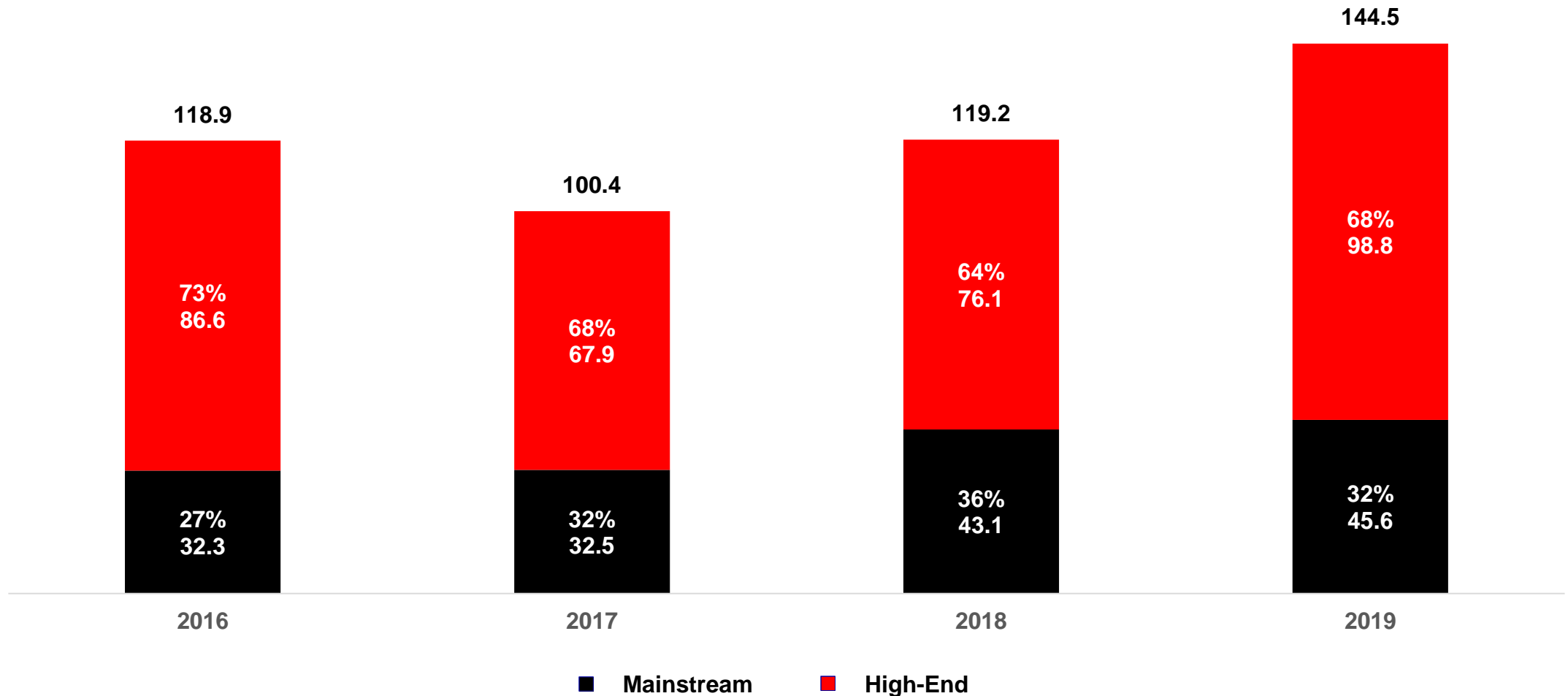


IC Photomask Revenue



High-End: 28nm and smaller; total may differ due to rounding

FPD Photomask Revenue



High-End: ≥G8 and AMOLED; total may differ due to rounding