

# Photronics, Inc.

**Q3 2018 Financial Results Conference Call**  
**August 22, 2018**

# 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”, “should”, “plan”, “project” 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, specifically our most recent Form 10K and Form 10Q.

## **Non-GAAP Financial Measures**

This presentation and some of our comments may reference non-GAAP financial measures. These non-GAAP financial measures exclude certain income or expense items, and are consistent with another way management internally analyzes our results of operations. Non-GAAP information should be considered to be a supplement to, and not a substitute for, financial statements prepared in accordance with GAAP. Please see the “Reconciliation of GAAP to Non-GAAP Financial Information” in this presentation.

# Q3 2018 Summary

- ▶ **Revenue grew 22% Y/Y and 4% Q/Q**
  - High-end IC +94% Y/Y
  - China revenue up 132% Y/Y & 44% Q/Q
  - Revenue to IC captives increased 161% Y/Y
- ▶ **Gross and operating margins expanded on high operating leverage and cost containment**
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$13.0M (\$0.18/share)**
- ▶ **Cash balance grew to \$333M on strong OCF**
- ▶ **Launched share buyback program; repurchased 0.8M shares for \$6.8M in Q318**
- ▶ **China investments on track**
  - Construction to be completed during Q418
  - Tool move-in during Q119

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

# Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q318</u>	<u>Q218</u>	<u>Q/Q</u>	<u>Q317</u>	<u>Y/Y</u>
Revenue	\$ 136.4	\$ 130.8	4%	\$ 111.6	22%
Gross Profit	\$ 35.6	\$ 32.8	8%	\$ 21.7	64%
<i>Gross Margin</i>	26.1%	25.1%	100 bps	19.5%	660 bps
Operating Income	\$ 20.4	\$ 15.4	33%	\$ 5.3	3.9x
<i>Operating Margin</i>	15.0%	11.7%	330 bps	4.7%	1030 bps
Net Income*	\$ 13.0	\$ 10.7	22%	\$ 4.0	3.3x
Diluted EPS*	\$ 0.18	\$ 0.15	\$ 0.03	\$ 0.06	\$ 0.12

- ▶ Higher revenue as we achieved growth in both IC & FPD
- ▶ Gross margin further improved due to high operating leverage
- ▶ Operating margin increased on lower opex
- ▶ Other income down Q/Q on smaller FX gain
- ▶ Lower income tax Q/Q due to \$2M one-time tax benefit (\$0.01/share)
- ▶ Minority interest increased to \$6.8M due to strong earnings from IC JV

\*Net income attributable to Photronics, Inc. shareholders

# IC Photomask Revenue

<u>\$M</u>	<u>Q318</u>	<u>Q218</u>	<u>Q/Q</u>	<u>Q317</u>	<u>Y/Y</u>
High-End*	\$ 46.1	\$ 41.5	11%	\$ 23.7	94%
Mainstream	\$ 61.2	\$ 60.8	1%	\$ 61.5	0%
Total	\$ 107.2	\$ 102.3	5%	\$ 85.2	26%

Total may differ due to rounding

Q318 Revenue by Technology



■ High-End\* 43%

■ Mainstream 57%

\*28nm and smaller

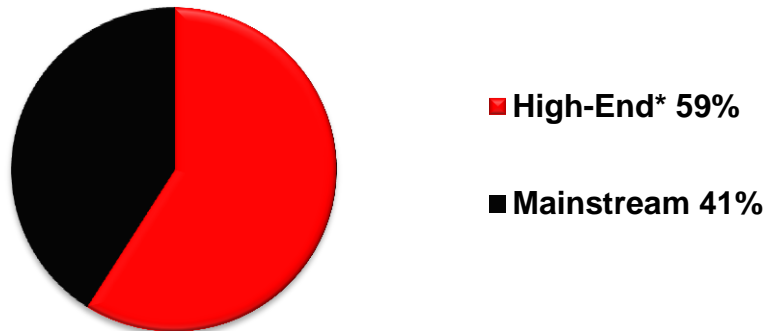
- ▶ **High-end nearly doubled Y/Y**
  - High-end logic growth driven by Asia foundries
  - Memory demand from Asia continues to be strong
- ▶ **China IC revenue up 3x Y/Y; represents 16% of Q318 IC revenue**
- ▶ **Revenue to customers with captive mask operations increased 161% Y/Y**
- ▶ **Expect demand trends to continue in Q4**
  - High-end logic improving
  - High-end memory flat to up
  - Mainstream stable

# FPD Photomask Revenue

<u>\$M</u>	<u>Q318</u>	<u>Q218</u>	<u>Q/Q</u>	<u>Q317</u>	<u>Y/Y</u>
High-End*	\$ 17.1	\$ 18.2	(6%)	\$ 16.8	2%
Mainstream	\$ 12.1	\$ 10.3	17%	\$ 9.7	25%
Total	\$ 29.1	\$ 28.5	2%	\$ 26.4	10%

Total may differ due to rounding

Q318 Revenue by Technology



\*≥G8 and AMOLED

- ▶ **Repositioning the business for mobile display and China G10.5+**
  - High-end AMOLED up 52% sequentially
  - Mainstream driven by LTPS mobile growth
  - High-end down as we pivot away from G8.5
- ▶ **China represents 43% of Q318 FPD revenue**
- ▶ **Began to generate revenue from new P-800 mask writer; enables us to maintain AMOLED technology leadership**

# Select Financial Data

<u>\$M</u>	<u>Q318</u>	<u>Q218</u>	<u>Q317</u>
Cash	\$ 333	\$ 321	\$ 341
Debt	\$ 58	\$ 59	\$ 63
Net Cash*	\$ 275	\$ 262	\$ 277
Operating Cash Flow	\$ 49	\$ 7	\$ 27
Capital Expenditures	\$ 20	\$ 33	\$ 25
LTM EBITDA	\$ 153	\$ 138	\$ 111

- ▶ **Cash balance improved on strong operating cash flow**
- ▶ **2018 capex now expected to be \$135M - \$150M (YTD = \$64M)**
  - Lower than previous guidance as some cash flows moved into Q119
  - Capex for Q119: \$135M - \$150M
- ▶ **Repurchased \$6.8M in shares during Q318**
- ▶ **Received \$6M capital contribution from China JV partner**
- ▶ **Balance sheet able to fund planned investments and strategic M&A opportunities**

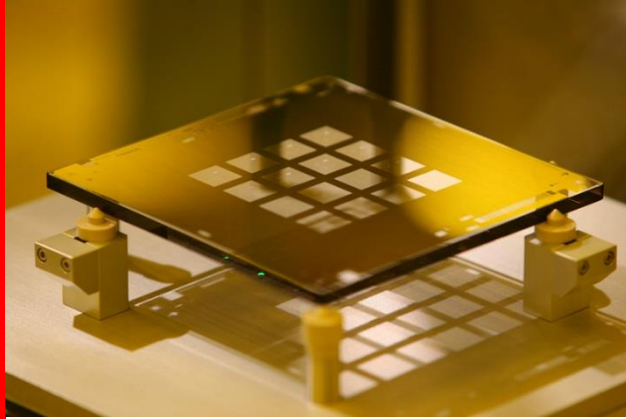
\*Net cash defined as cash and cash equivalents less long-term borrowings (including current portion), as reported in accordance with GAAP

# Q418 Guidance

Revenue (\$M)	\$133 - \$141
Taxes (\$M)	\$3.5 - \$4.5
EPS	\$0.14 - \$0.19
Diluted Shares (M)	~75

- ▶ **High-end demand expectations are positive**
  - High-end IC logic up on Asia foundry demand
  - High-end IC memory stable to improving
  - High-end FPD mask demand should improve as AMOLED industry supply increases
- ▶ **Expect margin headwinds thru H119 as China operations begin to ramp ahead of production in first half of 2019**
  - Expect EPS impact of \$0.03 - \$0.06 per quarter
  - Plan to be profitable by end of 2019

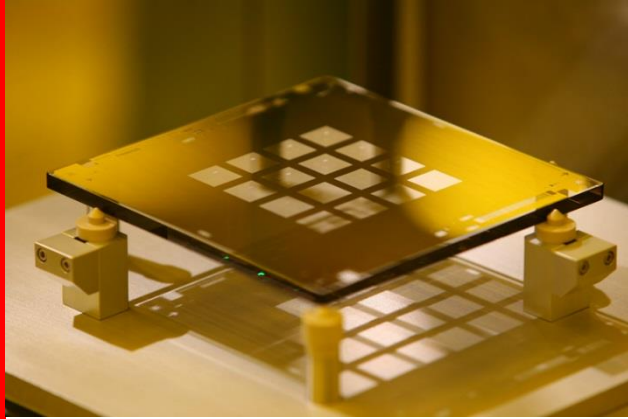




# Thank you for your interest!

For Additional Information:

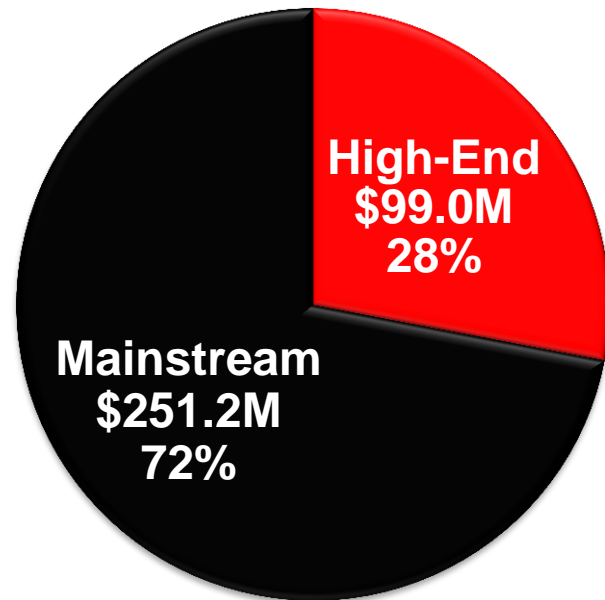
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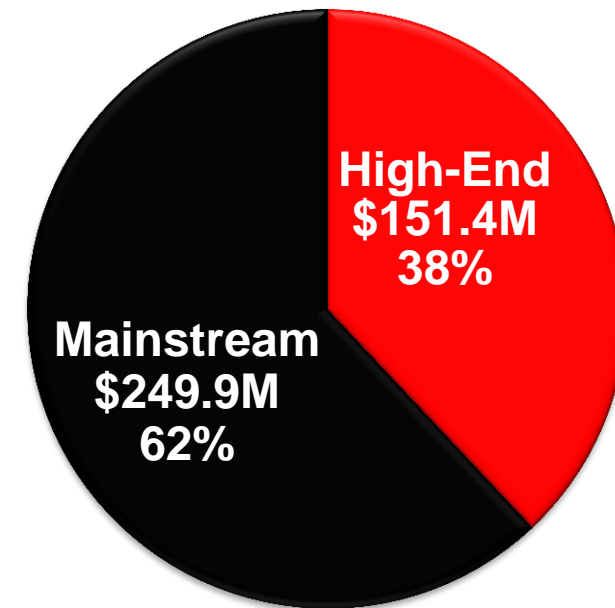
# Appendix

# IC Photomask Revenue

2017: \$350.3M



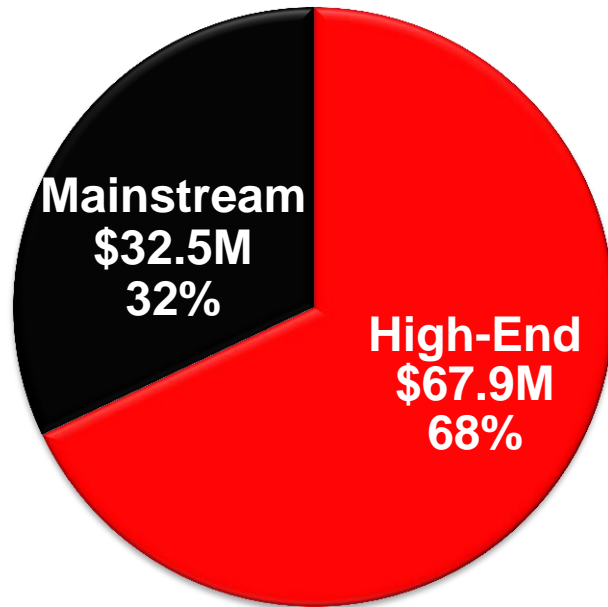
Q318 LTM: \$401.2M



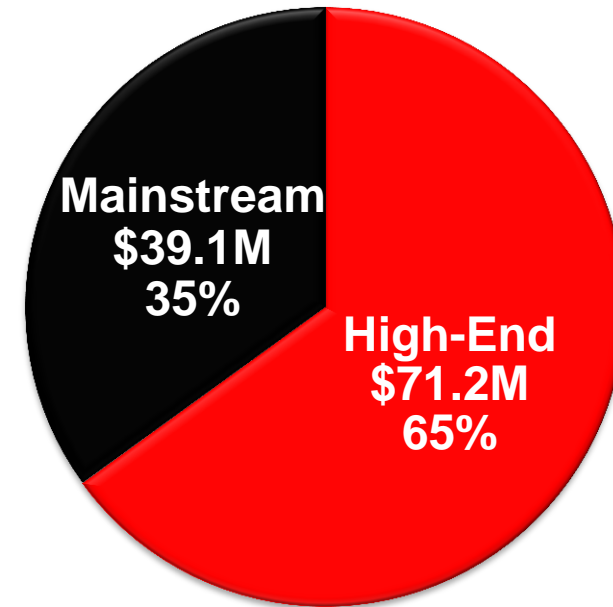
High-End: 28nm and smaller; total may differ due to rounding

# FPD Photomask Revenue

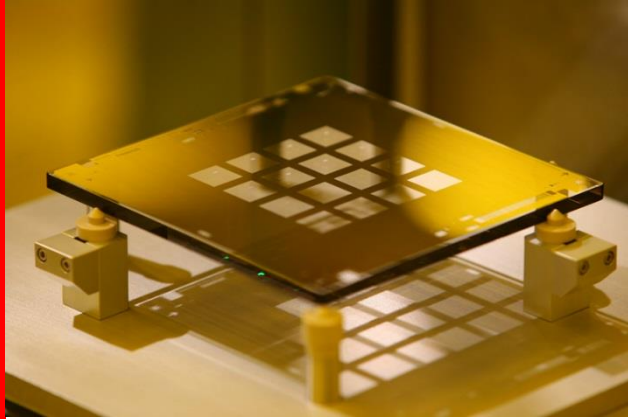
2017: \$100.4M



Q318 LTM: \$110.3M



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



# Non-GAAP Reconciliation

**PHOTRONICS, INC. AND SUBSIDIARIES**  
**Non-GAAP Financial Measures**  
**Reconciliation of GAAP to Non-GAAP Financial Information**  
(in thousands, except per share data)  
(Unaudited)

	Three Months Ended							
	July 29, 2018	April 29, 2018	January 28, 2018	October 29, 2017	July 30, 2017	April 30, 2017	January 29, 2017	October 30, 2016
<b>Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA</b>								
GAAP Net Income	\$ 19,797	\$ 15,189	\$ 9,481	\$ 10,496	\$ 4,799	\$ 1,484	\$ 4,510	\$ 6,569
Interest expense	557	551	574	578	550	550	559	616
Income tax expense	2,054	3,508	(1,778)	2,462	333	431	2,050	(1,337)
Depreciation and amortization	20,056	22,066	22,363	22,492	21,840	21,345	20,896	22,304
Other items (a)	784	163	884	785	984	921	937	980
Non-GAAP Adjusted EBITDA	<u>\$ 43,248</u>	<u>\$ 41,477</u>	<u>\$ 31,524</u>	<u>\$ 36,813</u>	<u>\$ 28,506</u>	<u>\$ 24,731</u>	<u>\$ 28,952</u>	<u>\$ 29,132</u>
Non-GAAP Adjusted LTM EBITDA (b)	\$ 153,062	\$ 138,320	\$ 121,574	\$ 119,002	\$ 111,321			

Notes:

- (a) Consists of stock compensation expense for all periods and gain on sale of certain assets in Q2 2018.  
(b) Consist of the addition of the current quarter and the preceding 3 quarters.