

Photronics, Inc.

Q2 2019 Financial Results Conference Call
May 22, 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” 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.

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.

Q2 2019 Summary

- ▶ **Revenue up 6% Q/Q and 1% Y/Y**
 - Sequential IC growth on high-end memory recovery
 - FPD growth driven by mobile display (AMOLED and LTPS LCD)
 - Record revenue to China, representing 26% of total revenue
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$8.5M (\$0.13/share)**
- ▶ **Capex of \$34M (\$140M YTD) to support China investments**
- ▶ **Repaid \$57.5M convertible debt; eliminated 5.5M potentially dilutive shares**
- ▶ **China grand opening ceremonies were held week of April 22**
 - Hefei shipped first G10.5+ mask in Q2; working to quickly complete customer qualifications
 - Completing tool fine-tuning in Xiamen; qualifications to begin soon
- ▶ **On track for 2020 targets: \$630M revenue & \$0.80 EPS**

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

Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q219</u>	<u>Q119</u>	<u>Q/Q</u>	<u>Q218</u>	<u>Y/Y</u>
Revenue	\$ 131.6	\$ 124.7	6%	\$ 130.8	1%
Gross Profit	\$ 26.0	\$ 26.1	—	\$ 32.8	(21%)
<i>Gross Margin</i>	<i>19.8%</i>	<i>20.9%</i>	<i>(110 bps)</i>	<i>25.1%</i>	<i>(530 bps)</i>
Operating Income	\$ 9.2	\$ 8.0	14%	\$ 15.4	(40%)
<i>Operating Margin</i>	<i>7.0%</i>	<i>6.5%</i>	<i>50 bps</i>	<i>11.7%</i>	<i>(470 bps)</i>
Other income	\$ 3.9	\$ 1.1	\$ 2.8	\$ 3.3	\$ 0.6
Income tax	\$ 3.3	\$ 1.4	\$ 1.9	\$ 3.5	(\$ 0.2)
Minority interest	\$ 1.4	\$ 2.5	(\$ 1.1)	\$ 4.5	(\$ 3.2)
Net Income*	\$ 8.5	\$ 5.3	61%	\$ 10.7	(20%)
Diluted EPS*	\$ 0.13	\$ 0.08	\$ 0.05	\$ 0.15	(\$ 0.02)
<i>Days in quarter</i>	<i>91</i>	<i>88</i>	<i>3</i>	<i>91</i>	<i>-</i>

- ▶ **Gross margin lower on China startup**
- ▶ **Operating expense down due primarily to completion of certain IC qualification activity**
- ▶ **China startup activity was \$4.1M negative impact to operating income**
- ▶ **Other income primarily attributable to FX gain**
- ▶ **Minority interest reflects Taiwan gain partially offset by China loss**

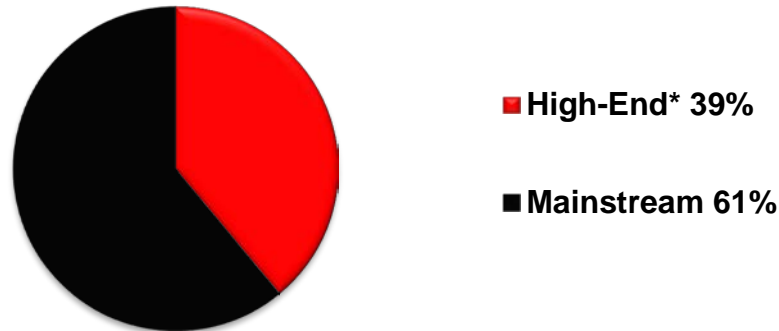
*Net income attributable to Photronics, Inc. shareholders

IC Photomask Revenue

<u>\$M</u>	<u>Q219</u>	<u>Q119</u>	<u>Q/Q</u>	<u>Q218</u>	<u>Y/Y</u>
High-End*	\$ 38.4	\$ 34.6	11%	\$ 41.5	(7%)
Mainstream	\$ 60.2	\$ 60.3	—	\$ 60.8	(1%)
Total	\$ 98.6	\$ 94.9	4%	\$ 102.3	(4%)

Total may differ due to rounding

Q219 Revenue by Technology



*28nm and smaller

- ▶ **Revenue grew Q/Q on high-end memory recovery**
- ▶ **China revenue +21% Q/Q; +68% Y/Y**
 - Represents 18% of Q219 IC revenue
 - New long-term purchase agreement increases sustainability of China business
- ▶ **Outlook**
 - Expect stable to improving high-end demand
 - Initial shipments planned from Xiamen

FPD Photomask Revenue

<u>\$M</u>	<u>Q219</u>	<u>Q119</u>	<u>Q/Q</u>	<u>Q218</u>	<u>Y/Y</u>
High-End*	\$ 23.0	\$ 21.5	7%	\$ 18.2	26%
Mainstream	\$ 10.0	\$ 8.4	20%	\$ 10.3	(2%)
Total	\$ 33.0	\$ 29.8	11%	\$ 28.5	16%

Total may differ due to rounding

Q219 Revenue by Technology



■ High-End* 70%

■ Mainstream 30%

*≥G8 and AMOLED

- ▶ **High-end driven by growth in AMOLED for mobile displays**
- ▶ **Demand for mobile LTPS LCD displays remains strong; drives Q/Q mainstream growth**
- ▶ **China revenue +20% Q/Q; +58% Y/Y**
 - Represents 47% of Q219 FPD revenue
 - Shipped first G10.5+ plate from Hefei
- ▶ **Outlook**
 - AMOLED technology remains in high demand
 - Plan to increase Hefei shipments

Select Financial Data

<u>\$M</u>	<u>Q219</u>	<u>Q119</u>	<u>Q218</u>
Cash	\$ 167	\$ 232	\$ 321
Debt	\$ 36	\$ 86	\$ 59
Net Cash*	\$ 131	\$ 146	\$ 262
Operating Cash Flow	\$ 17	(\$ 19)	\$ 7
Capital Expenditures	\$ 34	\$ 107	\$ 33
Share repurchase	-	\$ 11	-
LTM EBITDA	\$ 148	\$ 156	\$ 138

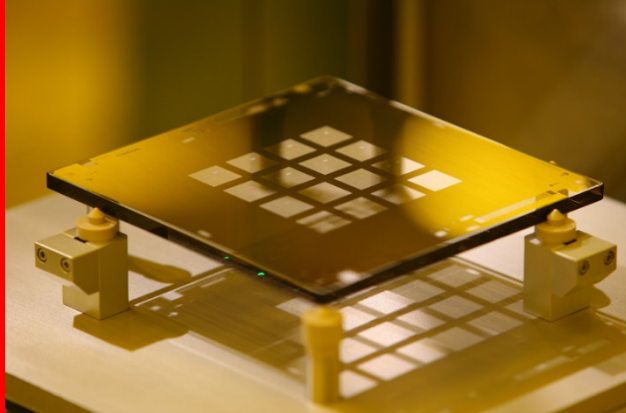
- ▶ **Deploying cash balance to fund China investments**
- ▶ **YTD capex \$140M; still anticipate FY capex ~ \$210M**
- ▶ **Reduced debt and dilutive share count with repayment of \$57.5M convertible; remaining debt is local China borrowing**
- ▶ **Balance sheet able to fund planned investments, strategic M&A opportunities, and potential share repurchases**

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

Q319 Guidance

Revenue (\$M)	\$132 - \$142
Taxes (\$M)	\$2 - \$3
EPS	\$0.05 - \$0.14
Diluted Shares (M)	~66

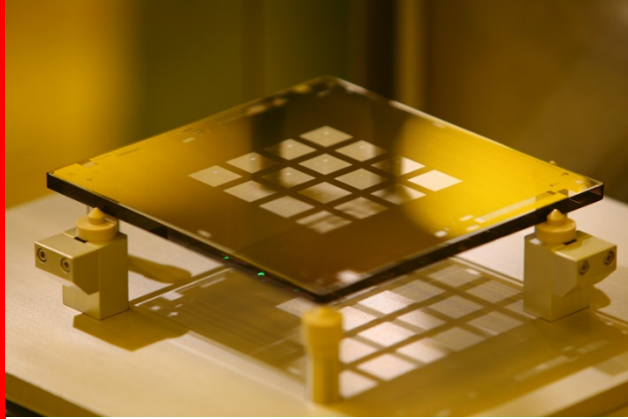
- ▶ **Anticipate sequential growth in Q3**
 - High-end IC markets stable to improving
 - Legacy FPD expected to remain at capacity with Hefei ramping production
 - Potential macro headwind & impact from trade policy
- ▶ **Expect margin headwinds from China startup**
 - Anticipate Q319 EPS impact of \$0.03 - \$0.06
 - Plan to be profitable in China by end of 2019



Thank you for your interest!

For Additional Information:

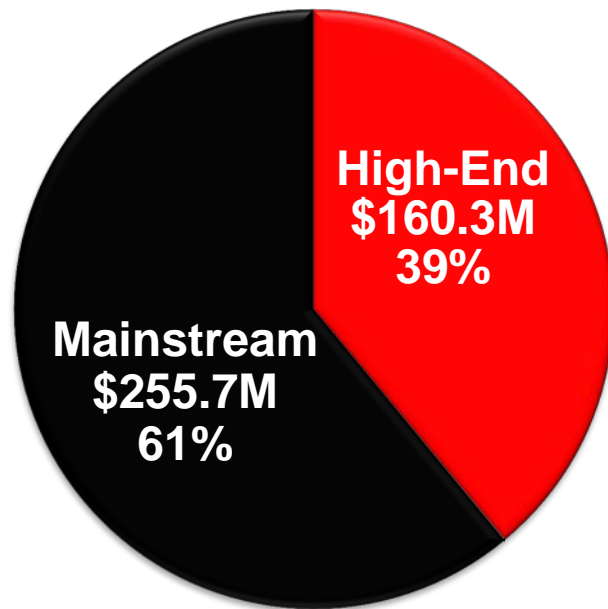
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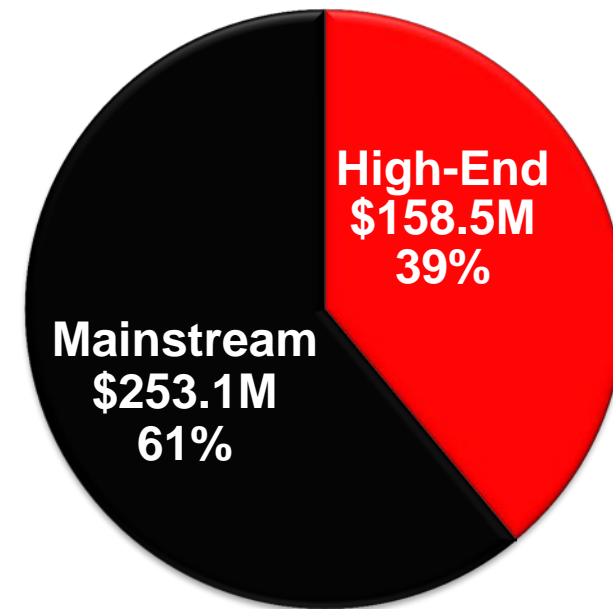
Appendix

IC Photomask Revenue

2018: \$416.1M



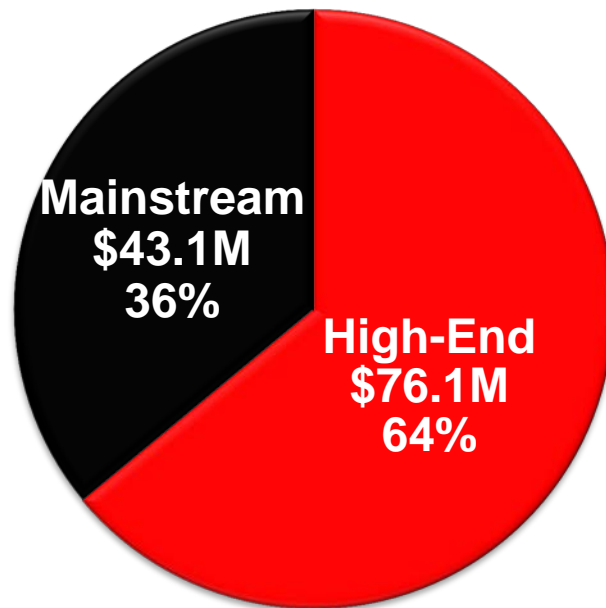
Q219 LTM: \$411.6M



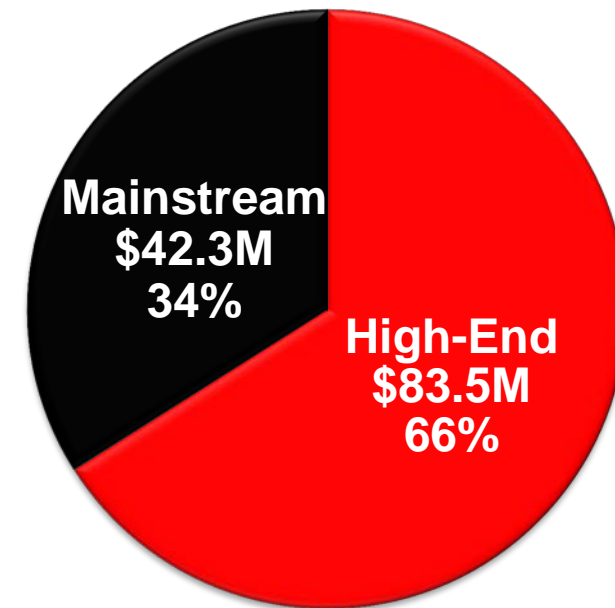
High-End: 28nm and smaller; total may differ due to rounding

FPD Photomask Revenue

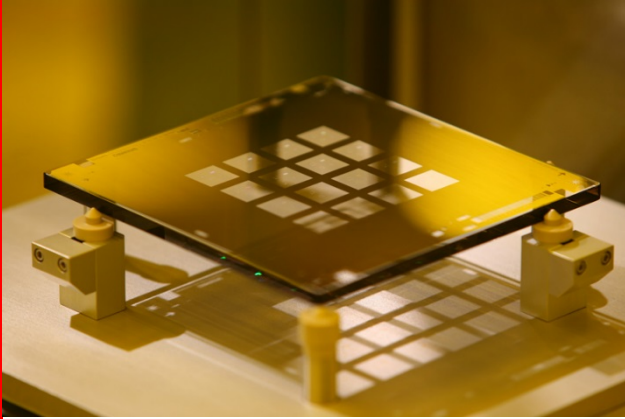
2018: \$119.2M



Q219 LTM: \$125.7M



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



Non-GAAP Reconciliation

PHOTRONICS, INC.
Non-GAAP Financial Measures
Reconciliation of GAAP to Non-GAAP Financial Information
(in thousands)
(Unaudited)

	Three Months Ended							
	April 28, 2019	January 27, 2019	October 31, 2018	July 29, 2018	April 29, 2018	January 28, 2018	October 29, 2017	July 30, 2017
Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA								
GAAP Net Income	\$ 9,852	\$ 7,768	\$ 16,769	\$ 19,797	\$ 15,189	\$ 9,481	\$ 10,496	\$ 4,799
Interest expense	355	531	580	557	551	574	578	550
Income tax expense	3,278	1,387	3,552	2,054	3,508	(1,778)	2,462	333
Depreciation and amortization	19,734	18,781	19,848	20,056	22,066	22,363	22,492	21,840
Other items (a)	900	1,062	755	784	163	884	785	984
Non-GAAP Adjusted EBITDA	<u>\$ 34,119</u>	<u>\$ 29,529</u>	<u>\$ 41,504</u>	<u>\$ 43,248</u>	<u>\$ 41,477</u>	<u>\$ 31,524</u>	<u>\$ 36,813</u>	<u>\$ 28,506</u>
Non-GAAP Adjusted L-T-M EBITDA (b)	\$ 148,400	\$ 155,758	\$ 157,753	\$ 153,062	\$ 138,320			

Notes:

(a) Consists of stock compensation expense for all periods and gain on sale of certain assets in Q2 2018.

(b) Consists of the addition of the current quarter and the preceding 3 quarters.