



May 17, 2017

Photronics Reports Second Quarter Fiscal 2017 Results

BROOKFIELD, CT -- (Marketwired) -- 05/17/17 --

- | Second quarter sales were \$108.3 million, essentially flat sequentially; strong FPD growth was offset by a decline in IC demand
- | Net income attributable to Photronics, Inc. shareholders was \$1.8 million (\$0.03 per diluted share)
- | Net cash¹ improved to \$281 million, providing additional financial strength and flexibility to fund growth
- | Third quarter 2017 guidance: sales between \$110 and \$120 million; diluted EPS between \$0.05 and \$0.12

[Photronics, Inc.](#) (NASDAQ: PLAB), a worldwide leader in supplying innovative imaging technology solutions for the global electronics industry, today reported financial results for fiscal 2017 second quarter ended April 30, 2017.

Second quarter sales were \$108.3 million, essentially flat sequentially and down 12% compared with last year. Sales of integrated circuits (IC) photomasks were \$82.6 million, down 4% sequentially and down 9% compared with last year, while sales of flat panel display (FPD) photomasks were \$25.7 million, up 10% sequentially and down 20% compared with last year.

Net income attributable to Photronics, Inc. shareholders was \$1.8 million (\$0.03 per diluted share), compared with \$1.9 million (\$0.03 per diluted share), for the first quarter of 2017; and \$11.9 million (\$0.16 per diluted share) for the second quarter of 2016, which included a non-recurring tax benefit of \$3.0 million (\$0.03 per diluted share).

"Second quarter revenues were essentially flat compared with the first quarter as improving display photomask sales were offset by a decline in our high-end logic business in Taiwan," said Peter Kirlin, chief executive officer. "FPD sales improved 10% driven by strengthening demand for mainstream masks. IC sales were down, primarily due to weak 28 nm demand in Taiwan. Operating margin decreased mainly due to a drop in gross margin as a result of an unfavorable product mix. We were able to generate cash, building upon our already strong balance sheet. Strategically, we achieved three important milestones since our first quarter report: the first of two new writing tools is being installed to add FPD capacity; construction began on our new China IC facility; and this morning we announced a new joint venture in China."

In a separate press release issued today, Photronics announced it has entered into a second joint venture with Dai Nippon Printing Co., Ltd. (TSE: 7912) focused on serving semiconductor manufacturers in China.

Third Quarter 2017 Guidance

Kirlin continued, "Heading into the third quarter, we are cautiously optimistic that we will achieve sales growth and margin expansion. High-end FPD demand is now strengthening rapidly, and we were running at full capacity as we entered the third quarter; we expect to remain full, even as we add capacity. High-end memory is growing as customers release new designs. And while we expect high-end logic to improve, this may not occur during our third quarter and therefore may not impact our sales until later this year." For the third quarter of 2017, Photronics expects revenues to be between \$110 million and \$120 million and net income attributable to Photronics, Inc. shareholders to be between \$0.05 and \$0.12 per diluted share.

Conference Call

A conference call to discuss these results is scheduled for 8:30 a.m. Eastern time on Wednesday, May 17, 2017. The call can be accessed by logging onto Photronics' web site at www.photronics.com. The live dial-in number is (877) 377-7095 or (408) 774-4601 outside of the United States and Canada. The call will be archived on Photronics' web site for instant replay access.

Non-GAAP Financial Measures

Non-GAAP net income attributable to Photronics, Inc. shareholders, non-GAAP earnings per share, and non-GAAP EBITDA are "non-GAAP financial measures" as such term is defined by the Securities and Exchange Commission, and may differ from non-GAAP financial measures used by other companies. The attached financial supplement reconciles Photronics, Inc.'s financial results under GAAP to non-GAAP financial information. Photronics, Inc. believes these non-GAAP financial measures that exclude certain non-cash or non-recurring income or expense items are useful for analysts and investors to evaluate Photronics, Inc.'s future on-going performance because they enable a more meaningful comparison of Photronics, Inc.'s projected earnings and performance with its historical results of prior periods. These non-GAAP metrics are not intended to represent funds available for Photronics, Inc.'s discretionary use and are not intended to represent, or be used as a substitute for, operating income, net income or cash flows from operations data as measured under GAAP. The items excluded from these non-GAAP metrics, but included in the calculation of their closest GAAP equivalent, are significant components of the condensed consolidated statements of income and must be considered in performing a comprehensive assessment of overall financial performance. Non-GAAP financial information is adjusted for the following items:

- 1 Non-recurring tax benefit in fiscal 2016 related to the recognition of certain tax benefits in Taiwan that were determined to be realizable in filings for future tax periods
- 1 Non-recurring net gain on sale of investment in fiscal 2016
- 1 Interest expense, income tax expense/(benefit), depreciation and amortization, and other items are added to GAAP net income to derive non-GAAP EBITDA

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

About Photronics

Photronics is a leading worldwide manufacturer of [photomasks](#). Photomasks are high precision quartz plates that contain microscopic images of electronic circuits. A key element in the manufacture of semiconductors and flat panel displays, photomasks are used to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits, a variety of flat panel displays and, to a lesser extent, other types of electrical and optical components. They are produced in accordance with product designs provided by customers at strategically located [manufacturing facilities](#) in Asia, Europe, and North America. Additional information on the Company can be accessed at www.photronics.com

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Photronics, Inc. and its subsidiaries (the Company). The forward-looking statements contained in this press release and other parts of Photronics' web site involve risks and uncertainties that may affect the Company's operations, markets, products, services, prices, and other factors. These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental, and technological factors as well as decisions we may make in the future regarding our business, capital structure and other matters. These forward-looking statements generally can be identified by phrases such as "believes", "expects", "anticipates", "plans", "projects", and similar expressions. Accordingly, there is no assurance that the Company's expectations will be realized. For a fuller discussion of the factors that may affect the Company's operations, see "Forward Looking Statements" in the Company's Quarterly and Annual Reports to the Securities and Exchange Commission on Forms 10-Q and 10-K. The Company assumes no obligation to provide revisions to any forward-looking statements.

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended			Six Months Ended	
	April 30, 2017	January 29, 2017	May 1, 2016	April 30, 2017	May 1, 2016
Net sales	\$ 108,297	\$ 109,831	\$ 122,923	\$ 218,128	\$ 252,879
Costs and expenses:					
Cost of sales	(88,140)	(86,832)	(91,636)	(174,972)	(186,156)
Gross profit	20,157	22,999	31,287	43,156	66,723

Selling, general and administrative	(10,894)	(10,871)	(11,024)	(21,765)	(23,222)
Research and development	<u>(3,726)</u>	<u>(3,485)</u>	<u>(5,447)</u>	<u>(7,211)</u>	<u>(11,148)</u>
Operating income	5,537	8,643	14,816	14,180	32,353
Gain on sale of investment	-	-	-	-	8,785
Other income (expense), net	<u>(3,622)</u>	<u>(2,083)</u>	<u>(2,989)</u>	<u>(5,705)</u>	<u>(2,111)</u>
Income before income taxes	1,915	6,560	11,827	8,475	39,027
Income tax (provision) benefit	<u>(431)</u>	<u>(2,050)</u>	<u>2,326</u>	<u>(2,481)</u>	<u>(1,374)</u>
Net income	1,484	4,510	14,153	5,994	37,653
Net Loss (income) attributable to noncontrolling interests	<u>313</u>	<u>(2,564)</u>	<u>(2,299)</u>	<u>(2,251)</u>	<u>(4,797)</u>
Net income attributable to Photronics, Inc. shareholders	<u>\$ 1,797</u>	<u>\$ 1,946</u>	<u>\$ 11,854</u>	<u>\$ 3,743</u>	<u>\$ 32,856</u>
Earnings per share:					
Basic	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.18</u>	<u>\$ 0.05</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.16</u>	<u>\$ 0.05</u>	<u>\$ 0.44</u>
Weighted-average number of common shares outstanding:					
Basic	<u>68,426</u>	<u>68,176</u>	<u>67,372</u>	<u>68,301</u>	<u>67,090</u>
Diluted	<u>69,385</u>	<u>69,169</u>	<u>77,516</u>	<u>69,277</u>	<u>78,326</u>

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands)
(Unaudited)

	<u>April 30,</u> <u>2017</u>	<u>October 30,</u> <u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 345,724	\$ 314,074
Accounts receivable	91,150	92,636
Inventories	24,537	22,081
Other current assets	<u>11,044</u>	<u>12,795</u>
Total current assets	472,455	441,586
Property, plant and equipment, net	503,900	506,434
Intangible assets, net	19,152	19,854
Other assets	<u>20,064</u>	<u>20,114</u>
Total assets	<u>\$ 1,015,571</u>	<u>\$ 987,988</u>

Liabilities and Equity

Current liabilities:		
Current portion of long-term borrowings	\$ 5,503	\$ 5,428
Accounts payable and accrued liabilities	86,465	75,889
Total current liabilities	91,968	81,317
Long-term borrowings	59,147	61,860
Other liabilities	19,702	19,337
Photronics, Inc. shareholders' equity	729,879	710,363
Noncontrolling interests	114,875	115,111
Total equity	844,754	825,474
Total liabilities and equity	\$ 1,015,571	\$ 987,988

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

(in thousands)
(Unaudited)

	Six Months Ended	
	April 30, 2017	May 1, 2016
Cash flows from operating activities:		
Net income	\$ 5,994	\$ 37,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,378	40,832
Gain on sale of investment	-	(8,785)
Changes in assets, liabilities and other	(1,465)	(4,561)
Net cash provided by operating activities	46,907	65,139
Cash flows from investing activities:		
Purchases of property, plant and equipment	(14,152)	(34,928)
Acquisition of Business	(5,400)	-
Proceeds from sale of investments	167	8,785
Other	(462)	193
Net cash used in investing activities	(19,847)	(25,950)
Cash flows from financing activities:		
Repayments of long-term borrowings	(2,695)	(54,951)
Proceeds from share-based arrangements	2,311	3,046
Other	(23)	(19)
Net cash used in financing activities	(407)	(51,924)
Effect of exchange rate changes on cash	4,997	846
Net increase (decrease) in cash and cash equivalents	31,650	(11,889)
Cash and cash equivalents, beginning of period	314,074	205,867
Cash and cash equivalents, end of period	\$ 345,724	\$ 193,978

Non-GAAP Financial Measures
Reconciliation of GAAP to Non-GAAP Financial Information
(in thousands, except per share data)
(Unaudited)

	<u>Three Months Ended</u>			<u>Six Months Ended</u>	
	<u>April 30, 2017</u>	<u>January 29, 2017</u>	<u>May 1, 2016</u>	<u>April 30, 2017</u>	<u>May 1, 2016</u>
Reconciliation of GAAP to Non-GAAP Net Income Attributable to Photronics, Inc. Shareholders and EPS data					
GAAP net income attributable to Photronics, Inc. shareholders	\$ 1,797	\$ 1,946	\$ 11,854	\$ 3,743	\$ 32,856
Income tax expense/(benefit) (a)	-	-	(3,004)	-	(3,004)
Gain on sale of investment, net of tax (b)	-	-	-	-	(8,753)
Non-GAAP net income attributable to Photronics, Inc. shareholders	<u>\$ 1,797</u>	<u>\$ 1,946</u>	<u>\$ 8,850</u>	<u>\$ 3,743</u>	<u>\$ 21,099</u>
Weighted average number of diluted shares outstanding					
GAAP	<u>69,385</u>	<u>69,169</u>	<u>77,516</u>	<u>69,277</u>	<u>78,326</u>
Non-GAAP	<u>69,385</u>	<u>69,169</u>	<u>77,516</u>	<u>69,277</u>	<u>78,326</u>
Net income per diluted share					
GAAP	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.16</u>	<u>\$ 0.05</u>	<u>\$ 0.44</u>
Non-GAAP	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.13</u>	<u>\$ 0.05</u>	<u>\$ 0.29</u>
Reconciliation of GAAP Net Income to Non-GAAP EBITDA					
GAAP Net Income (c)	\$ 1,484	\$ 4,510	\$ 14,153	\$ 5,994	\$ 37,653
Interest expense	550	559	964	1,109	2,138
Income tax expense/(benefit)	431	2,050	(2,326)	2,481	1,374
Depreciation and amortization	21,345	20,896	20,073	42,241	40,530
Other items (d)	921	937	976	1,858	1,873
Non-GAAP EBITDA	<u>\$ 24,731</u>	<u>\$ 28,952</u>	<u>\$ 33,840</u>	<u>\$ 53,683</u>	<u>\$ 83,568</u>

Notes:

- (a) Represents tax benefit primarily related to the recognition of prior period tax benefits and other tax positions no longer deemed necessary in Taiwan
- (b) Represents gain on sale of investment in a foreign entity
- (c) Includes net income attributable to noncontrolling interests, and in 2016 includes gain on sale of investment in a foreign entity
- (d) Consists of stock compensation expense

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Source: Photronics, Inc.

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