

Photronics, Inc.

Q4 2018 Financial Results Conference Call
December 12, 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.

Q4 2018 Summary

- ▶ **Record quarterly revenue; +20% Y/Y, +6% Q/Q**
 - FPD achieves record revenue on strong high-end demand, driven by AMOLED
 - IC improved on high-end memory and uptick in Asia mainstream; high-end logic softer Q/Q
 - China revenue up 146% Y/Y & 6% Q/Q
 - Note: Q418 had 3 extra days than comparable quarters
- ▶ **Margin compression due to IC GM dip, China startup, greater qualification activity**
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$12.5M (\$0.18/share)**
- ▶ **Cash balance of \$329M on strong OCF and defer of capex payments into Q119**
- ▶ **Repurchased 1.8M shares for \$16.3M in Q418 (2.6M shares / \$23.1M YTD)**
- ▶ **China investments on track**
 - Construction of critical systems complete
 - Tool move-in well underway; expect to be 90% complete (per plan) by end of Q119
 - On schedule to begin production first half of 2019

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

Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q418</u>	<u>Q318</u>	<u>Q/Q</u>	<u>Q417</u>	<u>Y/Y</u>
Revenue	\$ 144.7	\$ 136.4	6%	\$ 121.0	20%
Gross Profit	\$ 35.4	\$ 35.6	(1%)	\$ 26.4	34%
<i>Gross Margin</i>	24.5%	26.1%	(160 bps)	21.9%	260 bps
Operating Income	\$ 18.0	\$ 20.4	(12%)	\$ 12.4	45%
<i>Operating Margin</i>	12.5%	15.0%	(250 bps)	10.3%	220 bps
Net Income*	\$ 12.5	\$ 13.0	(4%)	\$ 5.4	132%
Diluted EPS*	\$ 0.18	\$ 0.18	(\$ 0.00)	\$ 0.08	\$ 0.10

- ▶ Record revenue with growth in both IC & FPD
- ▶ Gross margin down Q/Q due to IC
 - Mix shift
 - Production of mainstream products on high-end tools
 - Relocation expenses to align manufacturing assets
- ▶ Operating margin down on China startup costs and increased qualification activity
- ▶ Other income increased on FX gain and sale of an asset
- ▶ Q318 includes one-time tax benefit of \$2M (\$0.01/share)

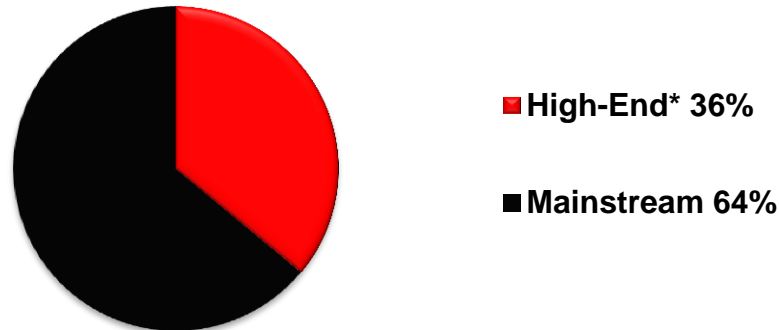
*Net income attributable to Photronics, Inc. shareholders

IC Photomask Revenue

<u>\$M</u>	<u>Q418</u>	<u>Q318</u>	<u>Q/Q</u>	<u>Q417</u>	<u>Y/Y</u>
High-End*	\$ 39.4	\$ 46.1	(14%)	\$ 30.5	29%
Mainstream	\$ 71.4	\$ 61.2	17%	\$ 65.6	9%
Total	\$ 110.9	\$ 107.2	3%	\$ 96.1	15%

Total may differ due to rounding

Q418 Revenue by Technology



*28nm and smaller

▶ Strong Y/Y high-end growth

- High-end memory up on Asia demand
- High-end logic up Y/Y, but down Q/Q as Asia demand shifts to mainstream

▶ China IC revenue up 3x Y/Y; represents 17% of Q418 IC revenue

▶ Expect mixed demand in Q1

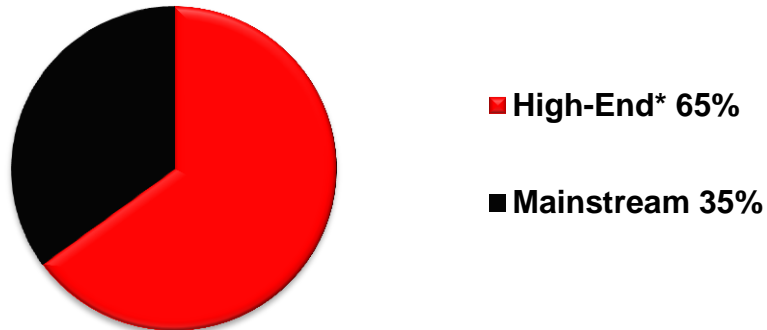
- High-end memory should remain positive
- High-end logic recovery expected, but timing uncertain
- Mainstream flat to down

FPD Photomask Revenue

<u>\$M</u>	<u>Q418</u>	<u>Q318</u>	<u>Q/Q</u>	<u>Q417</u>	<u>Y/Y</u>
High-End*	\$ 22.0	\$ 17.1	29%	\$ 17.1	28%
Mainstream	\$ 11.8	\$ 12.1	(3%)	\$ 7.8	51%
Total	\$ 33.8	\$ 29.1	16%	\$ 24.9	36%

Total may differ due to rounding

Q318 Revenue by Technology



*≥G8 and AMOLED

- ▶ Record FPD revenue on strong high-end demand
- ▶ Repositioning the business for mobile display and China G10.5+
 - High-end AMOLED up 50% sequentially
 - Y/Y mainstream driven by LTPS mobile
 - G10.5+ production to begin H119
- ▶ China revenue nearly doubled Y/Y; represents 36% of Q418 FPD revenue
- ▶ Demonstrating technology leadership with strong AMOLED growth; should keep operations at capacity

Select Financial Data

<u>\$M</u>	<u>Q418</u>	<u>Q318</u>	<u>Q417</u>
Cash	\$ 329	\$ 333	\$ 308
Debt	\$ 57	\$ 58	\$ 62
Net Cash*	\$ 272	\$ 275	\$ 246
Operating Cash Flow	\$ 44	\$ 49	\$ 23
Capital Expenditures	\$ 28	\$ 20	\$ 53
Share repurchase	\$ 16	\$ 7	-
LTM EBITDA	\$ 158	\$ 153	\$ 119

- ▶ **Cash balance essentially flat on strong operating cash flow offset capex and share repurchase**
- ▶ **2018 capex \$93M**
 - Lower than previous guidance as some cash flows moved into Q119
 - Capex for Q119 ~ \$170M
 - FY 2019 capex ~ \$210M
- ▶ **Repurchased \$16.3M in shares during Q418 (\$23.1M FY 2018)**
- ▶ **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

Q119 Guidance

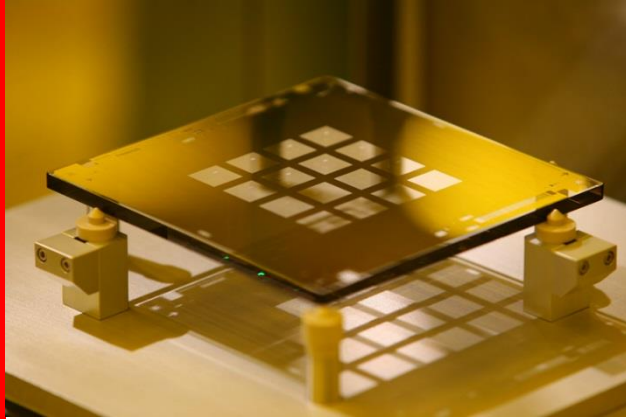
Revenue (\$M)	\$120 - \$130
Taxes (\$M)	\$1 - \$2
EPS	\$0.01 - \$0.07
Diluted Shares (M)	~70

- ▶ **Expecting Q1 to be down in Q/Q**
 - Seasonally soft period & 6 fewer days
 - Uncertain timing of high-end logic recovery
 - High-end IC memory stable
 - FPD expected to remain at capacity
- ▶ **Expect margin headwinds from China startup**
 - Anticipate EPS impact of \$0.03 - \$0.06 per quarter
 - Plan to be profitable in China by end of 2019

Change in fiscal year end

- ▶ Beginning in fiscal year 2018, all fiscal years end 10/31 (previously closed on Sunday closest to 10/31)
- ▶ Other quarters (Q1, Q2, Q3) will continue to end on Sunday closest to calendar end
- ▶ Length of Q2 & Q3 will continue to be 13 weeks (91 days)
- ▶ Length of Q1 & Q4 will vary depending on year
- ▶ Below table provides details for 2018 & 2019

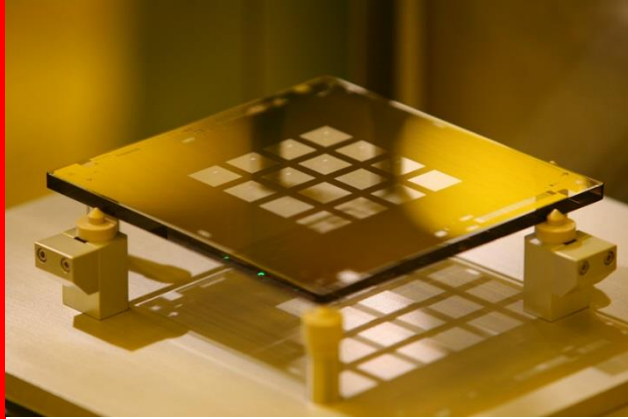
Period	End date	# days	Period	End date	# days
Q118	Sunday, January 28, 2018	91	Q119	Sunday, January 27, 2019	88
Q218	Sunday, April 29, 2018	91	Q219	Sunday, April 28, 2019	91
Q318	Sunday, July 29, 2018	91	Q319	Sunday, July 28, 2019	91
Q418	Wednesday, October 31, 2018	94	Q419	Thursday, October 31, 2019	95



Thank you for your interest!

For Additional Information:

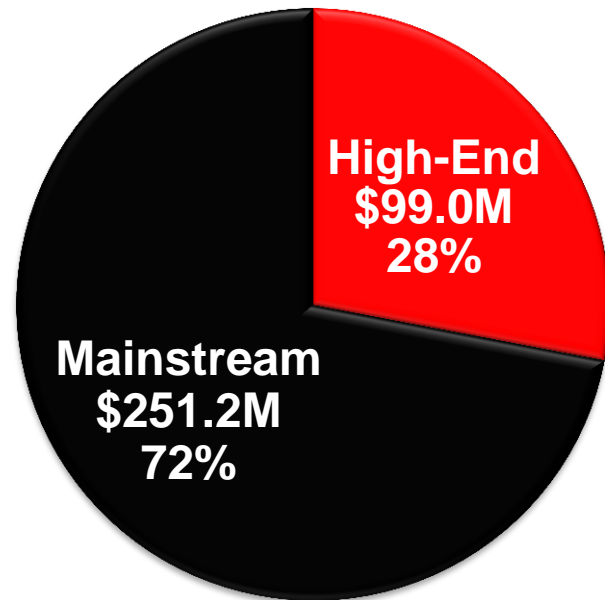
R. Troy Dewar, CFA
Director, Investor Relations
203.740.5610
tdewar@photonics.com



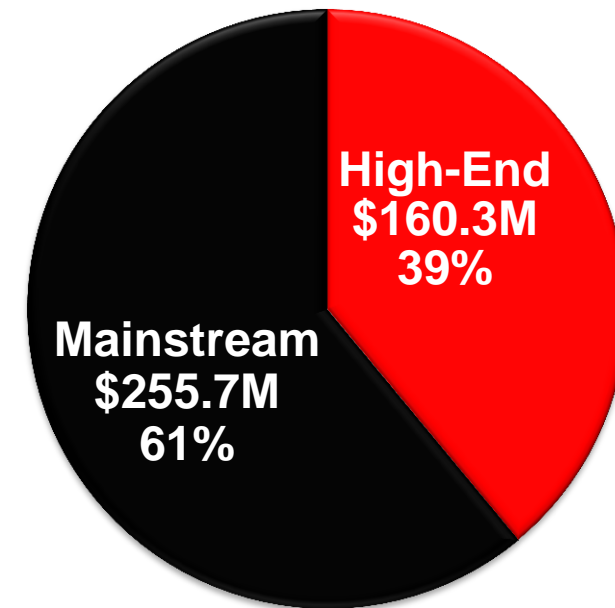
Appendix

IC Photomask Revenue

2017: \$350.3M



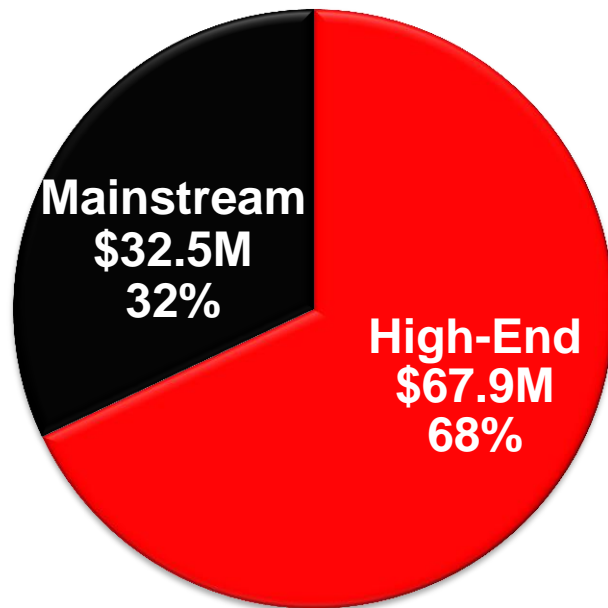
2018: \$416.1M



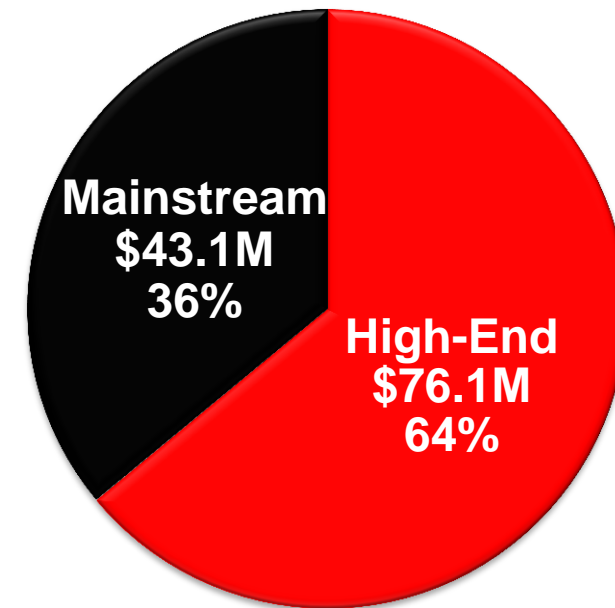
High-End: 28nm and smaller; total may differ due to rounding

FPD Photomask Revenue

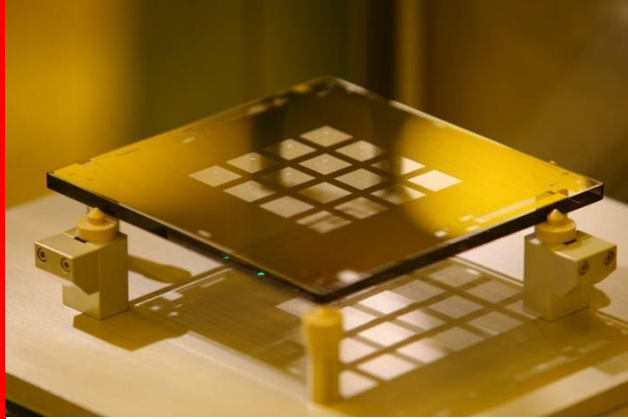
2017: \$100.4M



2018: \$119.2M



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							
	October 31, 2018	July 29, 2018	April 29, 2018	January 28, 2018	October 29, 2017	July 30, 2017	April 30, 2017	January 29, 2017
Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA								
GAAP Net Income	\$ 16,769	\$ 19,797	\$ 15,189	\$ 9,481	\$ 10,496	\$ 4,799	\$ 1,484	\$ 4,510
Interest expense	580	557	551	574	578	550	550	559
Income tax expense	3,552	2,054	3,508	(1,778)	2,462	333	431	2,050
Depreciation and amortization	19,848	20,056	22,066	22,363	22,492	21,840	21,345	20,896
Other items (a)	755	784	163	884	785	984	921	937
Non-GAAP Adjusted EBITDA	<u>\$ 41,504</u>	<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>
Non-GAAP Adjusted L-T-M EBITDA (b)	\$ 157,753	\$ 153,062	\$ 138,320	\$ 121,574	\$ 119,002			

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.