

# Photronics, Inc.

**Q2 2018 Financial Results Conference Call**  
**May 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.

# Q2 2018 Summary

- ▶ **Revenue grew 21% Y/Y and 6% Q/Q**
  - High-end IC biggest growth factor (+83% Y/Y)
  - China revenue doubled Y/Y; up 18% Q/Q
- ▶ **Gross and operating margins expanded on higher revenue and operating leverage**
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$10.7M (\$0.15/share)**
- ▶ **Cash balance of \$321M; capex increased to \$33M as we invest in growth**
- ▶ **China investments on track**
  - Construction to be completed later this year
  - Production to begin first half of 2019

**Investing in long-term, profitable growth to increase shareholder value**

# Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q218</u>	<u>Q118</u>	<u>Q/Q</u>	<u>Q217</u>	<u>Y/Y</u>
Revenue	\$ 130.8	\$ 123.4	6%	\$ 108.3	21%
Gross Profit	\$ 32.8	\$ 27.7	19%	\$ 20.2	63%
<i>Gross Margin</i>	25.1%	22.4%	270 bps	18.6%	650 bps
Operating Income	\$ 15.4	\$ 11.8	30%	\$ 5.5	178%
<i>Operating Margin</i>	11.7%	9.6%	210 bps	5.1%	660 bps
Net Income*	\$ 10.7	\$ 5.9	80%	\$ 1.8	493%
Diluted EPS*	\$ 0.15	\$ 0.09	\$ 0.06	\$ 0.03	\$ 0.12

- ▶ Higher revenue as we achieved growth in both IC & FPD
- ▶ Gross margin improved due to effect of revenue increase
- ▶ Operating margin increased as higher gross margin and lower R&D offset impact of higher SG&A due to compensation
- ▶ Net income includes foreign exchange gain, net of tax and non-controlling interest, of \$1.5M (\$0.02/share) in Q218; and a loss of \$2.7M (\$0.04/share) in Q118
- ▶ Q118 tax expense includes \$4.2M (\$0.06/share) benefits, primarily for recognition of accumulated AMT credits resulting from the tax reform act

\*Net income attributable to Photronics, Inc. shareholders

# IC Photomask Revenue

<u>\$M</u>	<u>Q218</u>	<u>Q118</u>	<u>Q/Q</u>	<u>Q217</u>	<u>Y/Y</u>
High-End*	\$ 41.5	\$ 33.4	24%	\$ 22.7	83%
Mainstream	\$ 60.8	\$ 62.3	(2%)	\$ 59.9	1%
Total	\$ 102.3	\$ 95.7	7%	\$ 82.6	24%

Total may differ due to rounding

Q218 Revenue by Technology



■ High-End\* 41%

■ Mainstream 59%

\*28nm and smaller

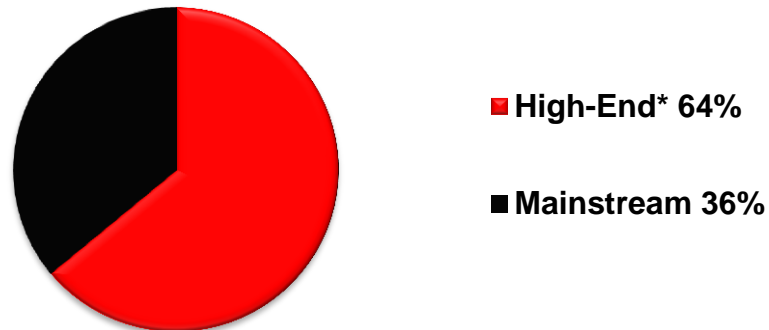
- ▶ Strong high-end growth
  - High-end logic growth driven by Asia foundries
  - Memory demand from Asia continues to be strong
- ▶ China revenue more than doubled Y/Y; represents 11% of Q218 IC revenue
- ▶ Expect demand trends to continue in Q3
  - High-end logic improving
  - High-end memory flat to up
  - Mainstream stable

# FPD Photomask Revenue

<u>\$M</u>	<u>Q218</u>	<u>Q118</u>	<u>Q/Q</u>	<u>Q217</u>	<u>Y/Y</u>
High-End*	\$ 18.2	\$ 18.8	(3%)	\$ 16.8	9%
Mainstream	\$ 10.3	\$ 9.0	14%	\$ 8.9	16%
Total	\$ 28.5	\$ 27.8	3%	\$ 25.7	11%

Total may differ due to rounding

Q218 Revenue by Technology



\*≥G8 and AMOLED

- ▶ High-end down Q/Q primarily due to lower AMOLED demand
- ▶ Mainstream strengthened as demand for LTPS LCD displays increased
- ▶ China represents 36% of Q218 FPD revenue
- ▶ Expect customers to ramp new AMOLED designs to improve fab utilization
- ▶ Qualifying P-800 in Korea to maintain AMOLED technology leadership

# Select Financial Data

<u>\$M</u>	<u>Q218</u>	<u>Q118</u>	<u>Q217</u>
Cash	\$ 321	\$ 349	\$ 346
Debt	\$ 59	\$ 61	\$ 65
Net Cash*	\$ 262	\$ 288	\$ 281
Operating Cash Flow	\$ 7	\$ 31	\$ 15
Capital Expenditures	\$ 33	\$ 11	\$ 5
LTM EBITDA	\$ 138	\$ 122	\$ 120

- ▶ Cash balance lower on higher capex and lower operating cash flow
- ▶ Operating cash flow lower due to increase in net working capital and other current assets, driven by revenue growth
- ▶ 2018 capex expected to be ~\$250M, primarily for China IC & FPD investments
- ▶ Balance sheet able to fund planned investments and strategic M&A opportunities

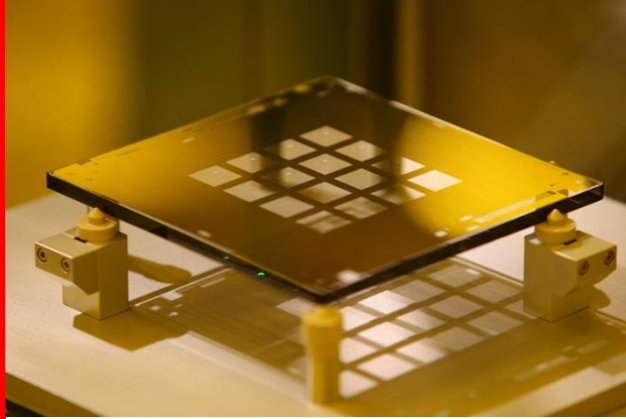
\*Net cash defined as cash and cash equivalents less long-term borrowings (including current portion), as reported in accordance with GAAP

# Q318 Guidance

Revenue (\$M)	\$128 - \$136
Taxes (\$M)	\$2 - \$3
EPS	\$0.12 - \$0.18
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 customers release new designs to maintain utilization
- ▶ Some high-end litho tools schedule for PM in Q3, limiting revenue growth
- ▶ Expect margin headwinds in H218 as China operations begin to ramp ahead of production in first half of 2019

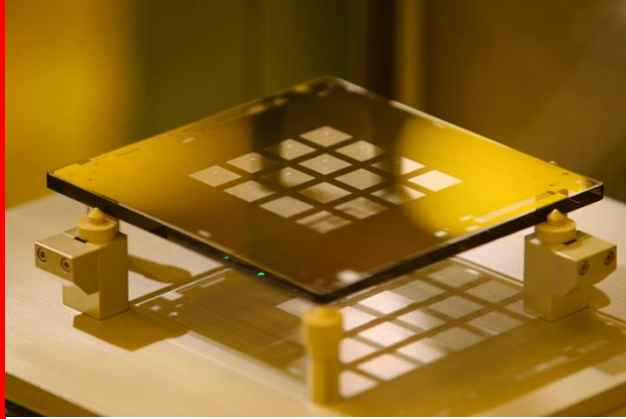




# Thank you for your interest!

For Additional Information:

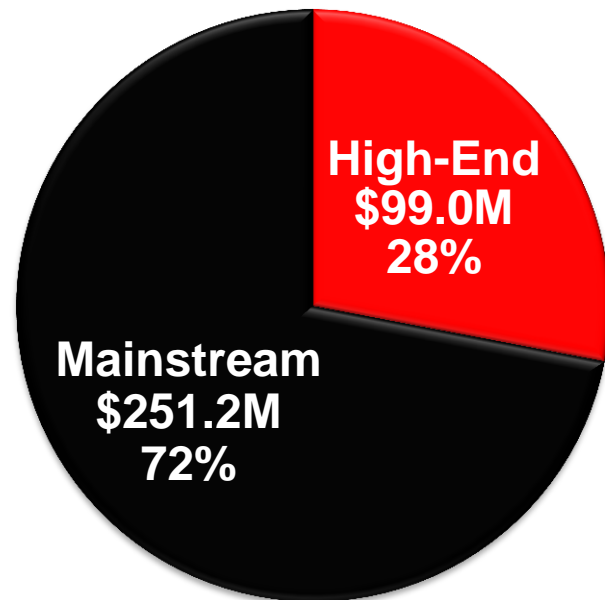
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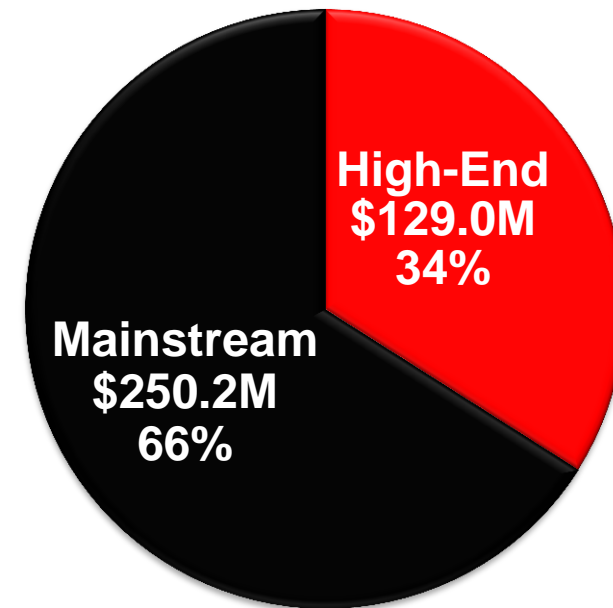
# Appendix

# IC Photomask Revenue

**2017: \$350.3M**



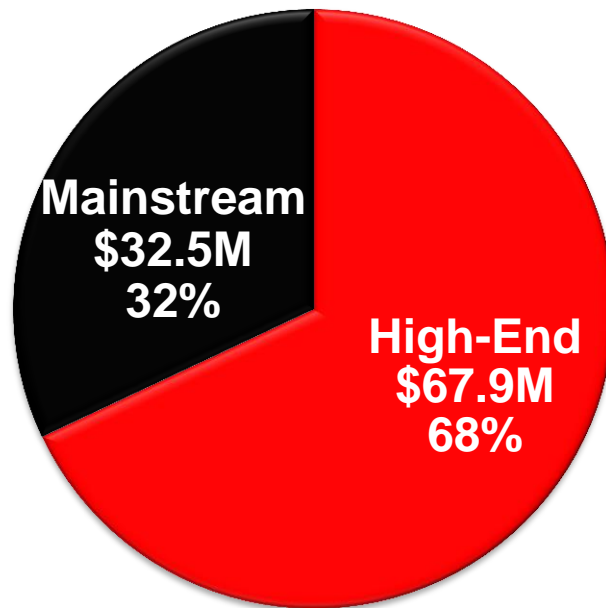
**Q218 LTM: \$379.1M**



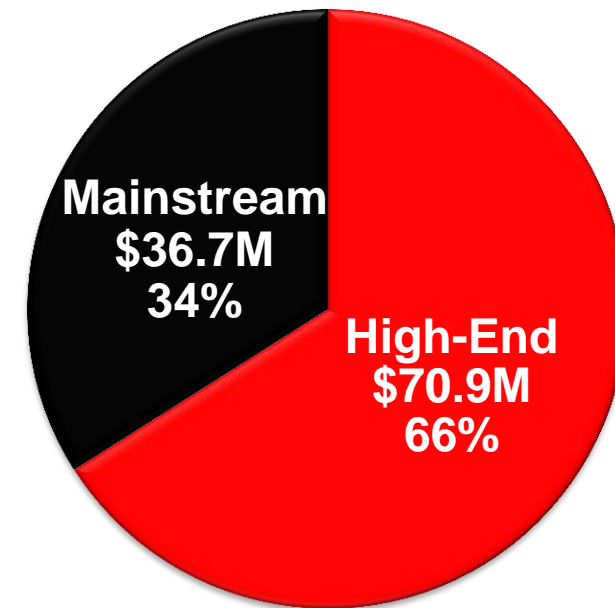
High-End: 28nm and smaller; total may differ due to rounding

# FPD Photomask Revenue

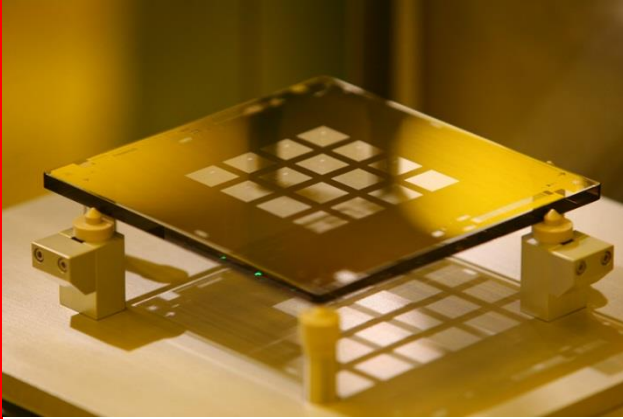
**2017: \$100.4M**



**Q218 LTM: \$107.6M**



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			Six Months Ended	
	April 29, 2018	January 28, 2018	April 30, 2017	April 29, 2018	April 30, 2017
<b><u>Reconciliation of GAAP Net Income to Non-GAAP EBITDA</u></b>					
GAAP Net Income (a)	\$ 15,189	\$ 9,481	\$ 1,484	\$ 24,670	\$ 5,994
Interest expense	551	574	550	1,125	1,109
Income tax expense/(benefit)	3,508	(1,778)	431	1,729	2,481
Depreciation and amortization	22,066	22,363	21,345	44,429	42,241
Other items (b)	163	884	921	1,047	1,858
Adjusted EBITDA	<u>\$ 41,477</u>	<u>\$ 31,524</u>	<u>\$ 24,731</u>	<u>\$ 73,000</u>	<u>\$ 53,683</u>

Notes:

(a) Includes net income attributable to noncontrolling interests.

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