

# **Photronics, Inc.**

**Q1 2018 Financial Results Conference Call  
February 14, 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” 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.

# Q1 2018 Summary

- ▶ Revenue grew 2% Q/Q and 12% Y/Y; high-end growth achieved in both IC and FPD
- ▶ Sequential drop in operating margin due to less than expected gross margin leverage and higher operating expenses
- ▶ Net income attributable to Photronics, Inc. shareholders of \$5.9M (\$0.09/share)
- ▶ Cash balance grew to \$349M on operating cash flow generation and DNP contribution to PDMCX JV
- ▶ Closed China JV with DNP; working together to win merchant IC business

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

# Income Statement Summary

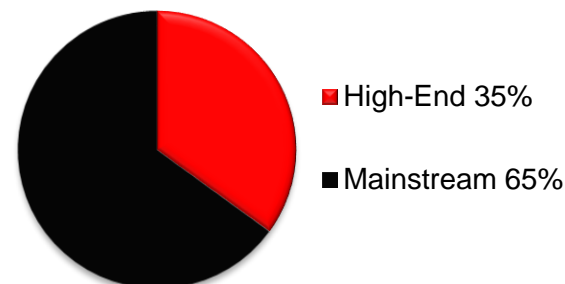
<u>\$M (except EPS)</u>	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q/Q</u>	<u>Q1 2017</u>	<u>Y/Y</u>
Revenue	\$ 123.4	\$ 121.0	2%	\$ 109.8	12%
Gross Margin	22.4%	21.9%	50 bps	20.9%	150 bps
Operating Margin	9.6%	10.3%	(70 bps)	7.9%	170 bps
Net Income*	\$ 5.9	\$ 5.4	10%	\$ 1.9	203%
Diluted EPS*	\$ 0.09	\$ 0.08	\$ 0.01	\$ 0.03	\$ 0.06

- ▶ Revenue up on FPD improvement and high-end IC growth
- ▶ Gross margin leverage limited by unfavorable FPD product mix
- ▶ Opex increased sequentially as Q417 one-time favorable adjustments did not repeat
- ▶ 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 includes foreign exchange loss, net of tax and non-controlling interest, of \$2.7M (\$0.04/share) in Q118 and \$1.4M (\$0.02/share) in Q117

# IC Photomask Revenue

<u>\$M</u>	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q/Q</u>	<u>Q1 2017</u>	<u>Y/Y</u>
High-End*	\$ 33.4	\$ 30.5	10%	\$ 22.2	51%
Mainstream	<u>\$ 62.3</u>	<u>\$ 65.6</u>	<u>(5%)</u>	<u>\$ 64.2</u>	<u>(3%)</u>
Total	\$ 95.7	\$ 96.1	(0%)	\$ 86.4	11%

Q118 Revenue by Technology



\*NOTE: new high-end definition; now 28nm and smaller; total may differ due to rounding

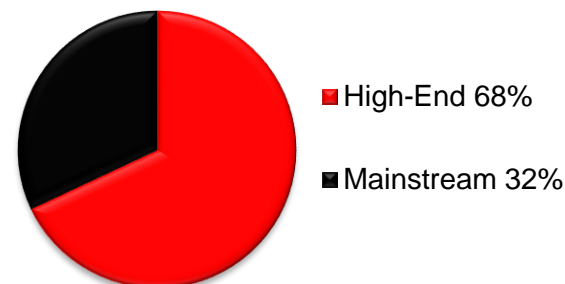
- ▶ Strong high-end growth partially offset by seasonally-soft mainstream
  - High-end growth driven by logic demand, primarily in Asia
  - Record revenue from PDMC (Taiwan JV)
  - Memory down sequentially
- ▶ Revenue expectations mixed in Q2
  - High-end memory up; logic mixed with high-end pause
  - Increase in China revenue expected with PDMCX JV now established
  - Expect to maintain or increase market share

# FPD Photomask Revenue

<u>\$M</u>	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q/Q</u>	<u>Q1 2017</u>	<u>Y/Y</u>
High-End*	\$ 18.8	\$ 17.1	10%	\$ 17.2	9%
Mainstream	<u>\$ 9.0</u>	<u>\$ 7.8</u>	<u>15%</u>	<u>\$ 6.2</u>	<u>45%</u>
Total	\$ 27.8	\$ 24.9	11%	\$ 23.4	19%

\*≥G8 and AMOLED; total may differ due to rounding

Q118 Revenue by Technology



- ▶ Customers ramping new designs to improve fab utilization; expect trend to continue in Q2
- ▶ Plan to begin installing P-800 in Korea end of Q2 to drive technology leadership in rapidly growing AMOLED market

# Select Financial Data

<u>\$M</u>	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q1 2017</u>
Cash	\$ 349	\$ 308	\$ 330
Debt	\$ 61	\$ 62	\$ 66
Net Cash*	\$ 288	\$ 246	\$ 264
Operating Cash Flow	\$ 31	\$ 23	\$ 32
Capital Expenditures	\$ 11	\$ 53	\$ 10
LTM EBITDA	\$ 122	\$ 119	\$ 129

- ▶ Cash balance grew on strong operating cash generation and \$12M initial contribution from JV partner in China
- ▶ 2018 capex expected to be ~\$250M, primarily for China IC & FPD investments
- ▶ Balance sheet is 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

# Q2 2018 Guidance

Revenue (\$M)	\$120 - \$128
Taxes (\$M)	\$3 - \$4
EPS	\$0.04 - \$0.09
Diluted Shares (M)	~69

- ▶ High-end demand expectations mixed in Q218
  - More AMOLED display capacity coming online; mask demand improves as customers release new designs to maintain utilization rates
  - High-end memory up; logic likely down
- ▶ Expect margin headwinds in H218 as China operations begin to ramp ahead of production in early 2019

# Thank you for your interest!

For Additional Information:

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# Appendix

# Investing in China Operations

	IC	FPD
Announced	August 2016	August 2017
Location	Xiamen	Hefei
Investment (\$M)	\$160M	\$160M
Structure	Majority-owned JV	Wholly-owned
Investment time period	5 years	5 years
Technology	High-end, mainstream, logic, memory	Up to G10.5+, AMOLED
Production start	Early 2019	Spring 2019
Projected sales	\$150M (total for both operations)	

**PLAB well positioned for these investments**

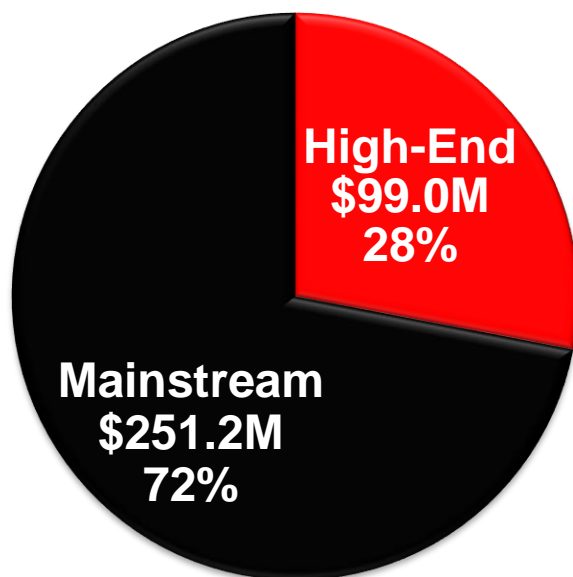
**Global merchant market and technology leader**

**Strong footprint in Asia**

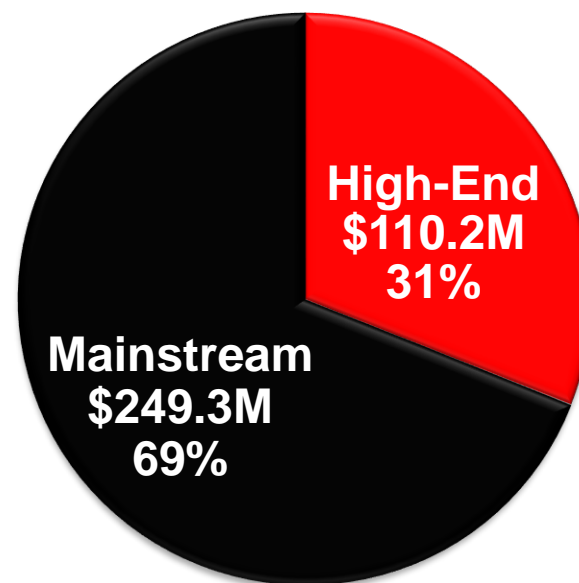
**Balance sheet to support investment**

# IC Photomask Revenue

**2017: \$350.3M**



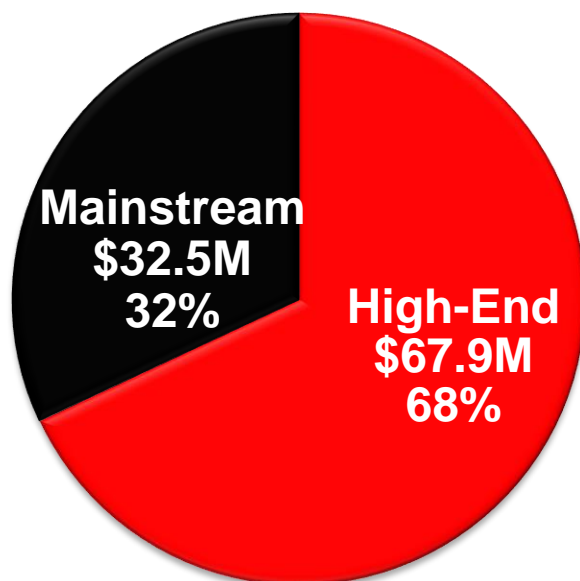
**Q118 LTM: \$359.5M**



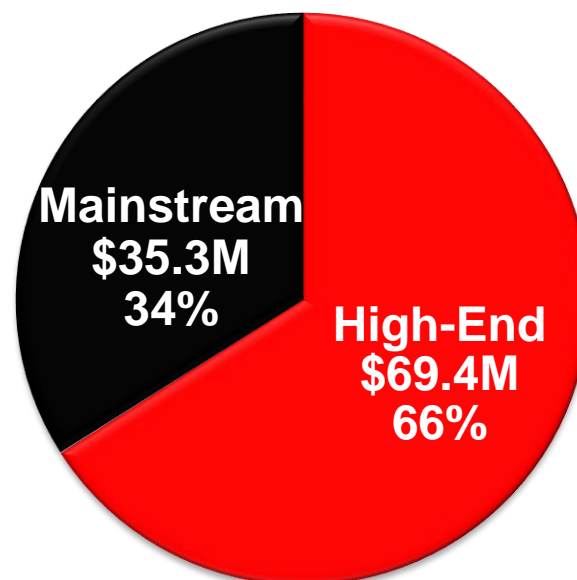
High-End: 28nm and smaller; total may differ due to rounding

# FPD Photomask Revenue

**2017: \$100.4M**



**Q118 LTM: \$104.7M**



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

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

	<b>Three Months Ended</b>		
	<b>January 28, 2018</b>	<b>October 29, 2017</b>	<b>January 29, 2017</b>
<b><u>Reconciliation of GAAP Net Income to Non-GAAP EBITDA</u></b>			
GAAP Net Income (a)	\$ 9,481	\$ 10,496	\$ 4,510
Interest expense	574	578	559
Income tax expense	(1,778)	2,462	2,050
Depreciation and amortization	22,363	22,492	20,896
Other items (b)	884	785	937
Non-GAAP EBITDA	<u>\$ 31,524</u>	<u>\$ 36,813</u>	<u>\$ 28,952</u>

Notes:

(a) Includes net income attributable to noncontrolling interests

(b) Consists of stock compensation expense