

Photronics, Inc.

Q1 2019 Financial Results Conference Call
February 21, 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”, “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.

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 2019 Summary

- ▶ **Revenue up 1% Y/Y; down 14% Q/Q on seasonal trend, macro headwinds, and fewer days in quarter**
 - IC down on softness from Asia customers
 - FPD high-end improved Y/Y on mobile AMOLED demand
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$5.3M (\$0.08/share)**
- ▶ **Repurchased 1.1M shares for \$10.7M in Q119; cumulative repurchases of 3.7 million shares for \$33.8 million***
- ▶ **Capex of \$107M to support China investments**
- ▶ **China plants nearly production ready**
 - Hefei on schedule to begin production first half of 2019
 - One-quarter delay in Xiamen to align with market conditions

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

*The October 2018 share repurchase program of \$25 million expired February 1, 2019

Income Statement Summary

| <u>\$M (except EPS)</u> | <u>Q119</u> | <u>Q418</u> | <u>Q/Q</u> | <u>Q118</u> | <u>Y/Y</u> |
|-------------------------|-------------|-------------|------------|-------------|------------|
| Revenue | \$ 124.7 | \$ 144.7 | (14%) | \$ 123.4 | 1% |
| Gross Profit | \$ 26.1 | \$ 35.4 | (26%) | \$ 27.7 | (6%) |
| Gross Margin | 20.9% | 24.5% | (360 bps) | 22.4% | (150 bps) |
| Operating Income | \$ 8.0 | \$ 18.0 | (55%) | \$ 11.8 | (32%) |
| Operating Margin | 6.5% | 12.5% | (600 bps) | 9.6% | (310 bps) |
| Other income (expense) | \$ 1.1 | \$ 2.3 | (\$ 1.2) | (\$ 4.1) | \$5.2 |
| Income tax (benefit) | \$ 1.4 | \$ 3.6 | \$ 2.2 | (\$ 1.8) | (\$ 3.2) |
| Minority interest | \$ 2.5 | \$ 4.3 | (\$ 1.8) | \$ 3.6 | (\$ 1.1) |
| Net Income* | \$ 5.3 | \$ 12.5 | (58%) | \$ 5.9 | (11%) |
| Diluted EPS* | \$ 0.08 | \$ 0.18 | (\$ 0.10) | \$ 0.09 | (\$ 0.01) |
| Days in quarter | 88 | 94 | (6) | 91 | (3) |

- ▶ **Gross profit includes \$3.6M in expenses due to China startup activity**
- ▶ **Operating expense increased due to China startup activity (\$1M), along with increased qualification activity and higher compensation**
- ▶ **Q118 results were improved by \$4.2 million (\$0.06/share) favorable tax benefits attributable to tax reform act**

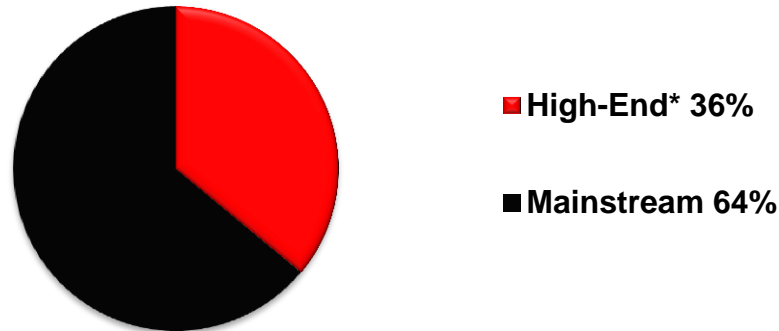
*Net income attributable to Photronics, Inc. shareholders

IC Photomask Revenue

| <u>\$M</u> | <u>Q119</u> | <u>Q418</u> | <u>Q/Q</u> | <u>Q118</u> | <u>Y/Y</u> |
|------------|-------------|-------------|------------|-------------|------------|
| High-End* | \$ 34.6 | \$ 39.4 | (12%) | \$ 33.4 | 4% |
| Mainstream | \$ 60.3 | \$ 71.4 | (16%) | \$ 62.3 | (3%) |
| Total | \$ 94.9 | \$ 110.9 | (14%) | \$ 95.7 | (1%) |

Total may differ due to rounding

Q119 Revenue by Technology



*28nm and smaller

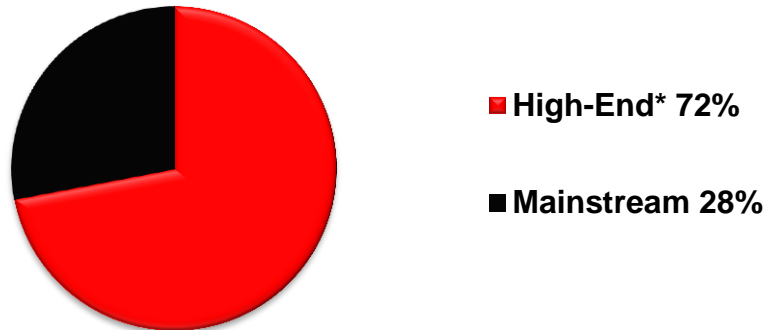
- ▶ **Market softness impacting high-end and mainstream**
 - High-end memory down on customer order timing
 - High-end logic up Y/Y, down Q/Q on industry softness
- ▶ **China IC revenue up 136% Y/Y; represents 16% of Q119 IC revenue**
- ▶ **Expect stable to improving high-end market demand (memory up; logic flat), with potential for macro headwinds**

FPD Photomask Revenue

| <u>\$M</u> | <u>Q119</u> | <u>Q418</u> | <u>Q/Q</u> | <u>Q118</u> | <u>Y/Y</u> |
|------------|-------------|-------------|------------|-------------|------------|
| High-End* | \$ 21.5 | \$ 22.0 | (2%) | \$ 18.8 | 14% |
| Mainstream | \$ 8.4 | \$ 11.8 | (29%) | \$ 9.0 | (7%) |
| Total | \$ 29.8 | \$ 33.8 | (12%) | \$ 27.8 | 7% |

Total may differ due to rounding

Q119 Revenue by Technology



*≥G8 and AMOLED

- ▶ **High-end up Y/Y on growing AMOLED demand for mobile displays**
- ▶ **Mainstream down due to lower LTPS and G8.5**
- ▶ **China revenue up 11% Y/Y**
 - Represents 43% of Q119 FPD revenue
 - G10.5+ production to begin Q219
- ▶ **AMOLED technology remains in high demand; expect to remain at or near capacity**

Select Financial Data

| <u>\$M</u> | <u>Q119</u> | <u>Q418</u> | <u>Q118</u> |
|----------------------|-------------|-------------|-------------|
| Cash | \$ 232 | \$ 329 | \$ 349 |
| Debt | \$ 86 | \$ 57 | \$ 61 |
| Net Cash* | \$ 146 | \$ 272 | \$ 288 |
| Operating Cash Flow | (\$ 19) | \$ 44 | \$ 31 |
| Capital Expenditures | \$ 107 | \$ 28 | \$ 11 |
| Share repurchase | \$ 11 | \$ 16 | - |
| LTM EBITDA | \$ 156 | \$ 158 | \$ 122 |

- ▶ Cash balance reduced to fund China investments and cash used in operations (receivables timing and VAT payment)
- ▶ Some capex for Xiamen shifted into Q219; 2019 capex ~ \$210M
- ▶ Repurchased 1.1M shares during Q119 for \$10.7M; 3.7M shares repurchased to date for \$33.8M
- ▶ 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

Q219 Guidance

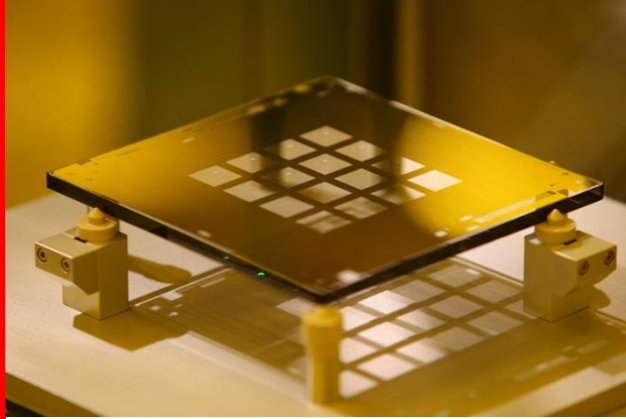
| | |
|--------------------|-----------------|
| Revenue (\$M) | \$125 - \$135 |
| Taxes (\$M) | \$1 - \$2 |
| EPS | \$0.03 - \$0.10 |
| Diluted Shares (M) | ~67 |

▶ Anticipate sequential growth in Q2

- High-end IC markets stable to improving
- FPD expected to remain at capacity
- Seasonal recovery; 3 more days
- Potential macro headwind

▶ Expect margin headwinds from China startup

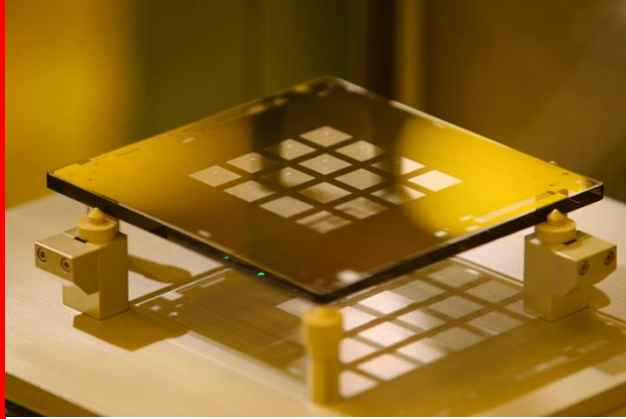
- Anticipate EPS impact of \$0.03 - \$0.06 per quarter
- Plan to be profitable in China by end of 2019



Thank you for your interest!

For Additional Information:

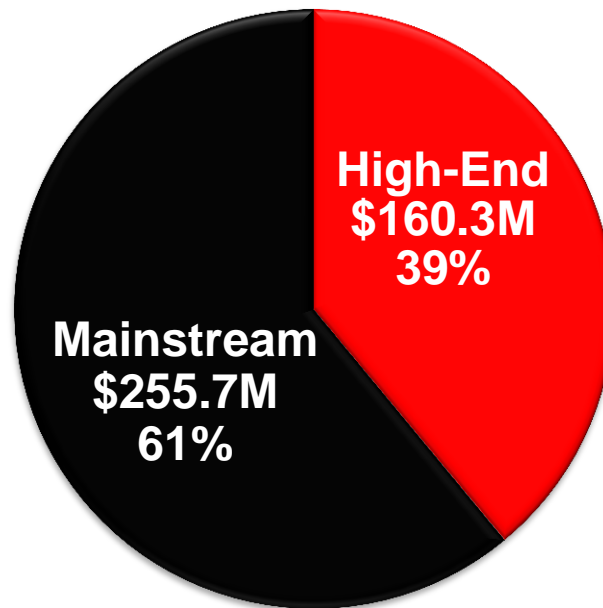
R. Troy Dewar, CFA
Vice President, Investor Relations
203.740.5610
tdewar@photronics.com



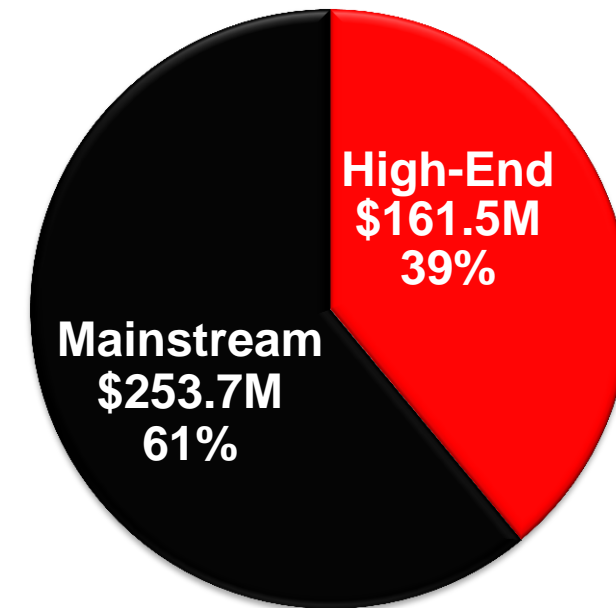
Appendix

IC Photomask Revenue

2018: \$416.1M



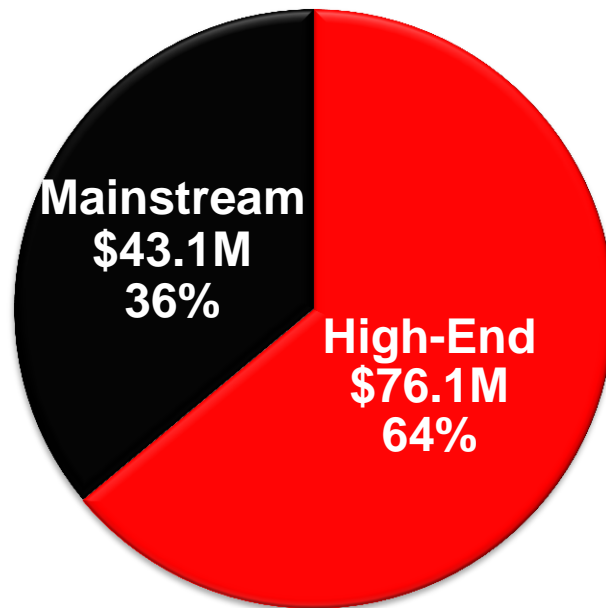
Q119 LTM: \$415.3M



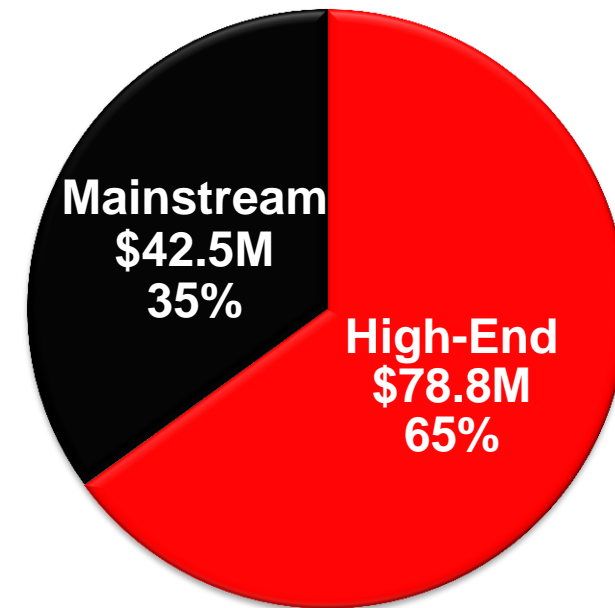
High-End: 28nm and smaller; total may differ due to rounding

FPD Photomask Revenue

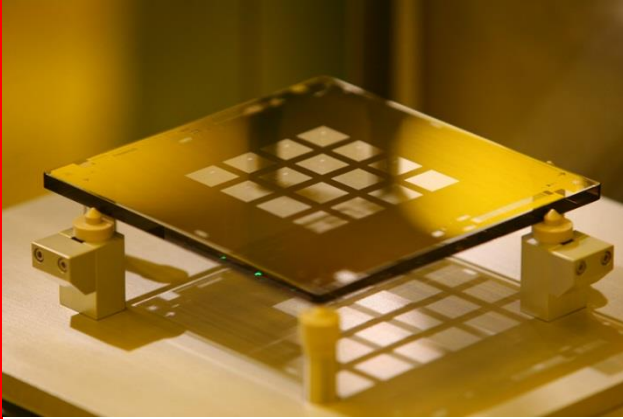
2018: \$119.2M



Q119 LTM: \$121.3M



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, except per share data)
(Unaudited)

| | Three Months Ended | | | | | | | |
|--|---------------------|---------------------|------------------|-------------------|---------------------|---------------------|------------------|-------------------|
| | January 27, 2019 | October 31, 2018 | July 29, 2018 | April 29, 2018 | January 28, 2018 | October 29, 2017 | July 30, 2017 | April 30, 2017 |
| Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA | | | | | | | | |
| GAAP Net Income | \$ 7,768 | \$ 16,769 | \$ 19,797 | \$ 15,189 | \$ 9,481 | \$ 10,496 | \$ 4,799 | \$ 1,484 |
| Interest expense | 531 | 580 | 557 | 551 | 574 | 578 | 550 | 550 |
| Income tax expense | 1,387 | 3,552 | 2,054 | 3,508 | (1,778) | 2,462 | 333 | 431 |
| Depreciation and amortization | 18,781 | 19,848 | 20,056 | 22,066 | 22,363 | 22,492 | 21,840 | 21,345 |
| Other items (a) | 1,062 | 755 | 784 | 163 | 884 | 785 | 984 | 921 |
| Non-GAAP Adjusted EBITDA | <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> | <u>\$ 24,731</u> |
| Non-GAAP Adjusted L-T-M EBITDA (b) | \$ 155,758 | \$ 157,753 | \$ 153,062 | \$ 138,320 | \$ 121,574 | | | |

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.