

Photronics, Inc.

Q3 2019 Financial Results Conference Call
August 20, 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”, “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.

Q3 2019 Summary

- ▶ **Revenue up 5% Q/Q and 1% Y/Y**
 - Record FPD revenue driven by mobile AMOLED displays and increasing production from new Hefei, China facility
 - Sequential IC growth on Asia foundry demand for mainstream nodes
 - Record revenue of products shipped to China, representing 25% of total revenue
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$6.3M (\$0.10/share)**
- ▶ **Cash balance grew to \$197M, strengthening the balance sheet as investments in China expansion continues**
- ▶ **Production ramping at both China facilities; total China production contributed ~\$6M to revenue**
- ▶ **On track for 2020 targets: \$630M revenue & \$0.80 EPS**

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

Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q319</u>	<u>Q219</u>	<u>Q/Q</u>	<u>Q318</u>	<u>Y/Y</u>
Revenue	\$ 138.1	\$ 131.6	5%	\$ 136.4	1%
Gross Profit	\$ 30.6	\$ 26.0	18%	\$ 35.6	(14%)
<i>Gross Margin</i>	<i>22.1%</i>	<i>19.8%</i>	<i>230 bps</i>	<i>26.1%</i>	<i>(400 bps)</i>
Operating Income	\$ 13.4	\$ 9.2	46%	\$ 20.4	(34%)
<i>Operating Margin</i>	<i>9.7%</i>	<i>7.0%</i>	<i>270 bps</i>	<i>15.0%</i>	<i>(530 bps)</i>
Other income (expense)	(\$ 0.3)	\$ 3.9	(\$ 4.3)	\$ 1.4	(\$ 1.8)
Income tax provision	\$ 3.2	\$ 3.3	(\$ 0.1)	\$ 2.1	\$ 1.2
Minority interest	\$ 3.5	\$ 1.4	\$ 2.1	\$ 6.8	(\$ 3.3)
Net Income*	\$ 6.3	\$ 8.5	(25%)	\$ 13.0	(51%)
Diluted EPS*	\$ 0.10	\$ 0.13	(\$ 0.03)	\$ 0.18	(\$ 0.08)
<i>Days in quarter</i>	<i>91</i>	<i>91</i>	<i>-</i>	<i>91</i>	<i>-</i>

- ▶ **Gross and operating margin improved Q/Q on favorable mix and cost controls, despite China startup activity**
- ▶ **China operations were \$6.0M negative impact to operating income**
- ▶ **Other income primarily attributable to FX gain (Q219, Q318)**
- ▶ **Minority interest reflects Taiwan JV gain partially offset by China JV loss**
- ▶ **Q318 income tax includes \$2M (\$0.01/share) one-time tax benefit**

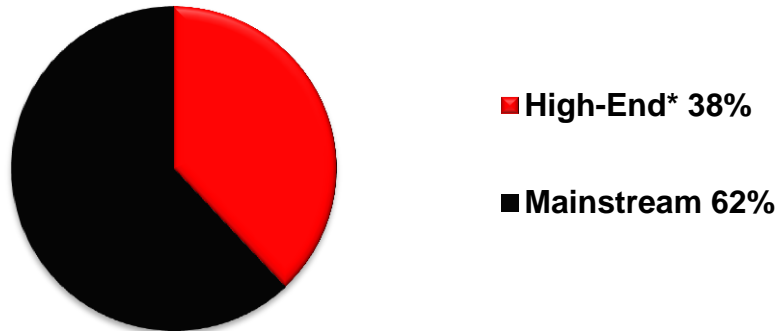
*Net income attributable to Photronics, Inc. shareholders

IC Photomask Revenue

<u>\$M</u>	<u>Q319</u>	<u>Q219</u>	<u>Q/Q</u>	<u>Q318</u>	<u>Y/Y</u>
High-End*	\$ 38.5	\$ 38.4	0%	\$ 46.1	(17%)
Mainstream	\$ 61.7	\$ 60.2	3%	\$ 61.2	1%
Total	\$ 100.2	\$ 98.6	2%	\$ 107.2	(7%)

Total may differ due to rounding

Q319 Revenue by Technology



*28nm and smaller

- ▶ Revenue grew Q/Q on Asian foundry demand for mainstream nodes
- ▶ China revenue softened on macro concerns
 - -19% Q/Q; -14% Y/Y
 - Represents 15% of Q319 IC revenue
- ▶ Outlook
 - Expect stable to improving high-end demand
 - Production ramping in Xiamen
 - Potential impact from US-China trade discussions

FPD Photomask Revenue

<u>\$M</u>	<u>Q319</u>	<u>Q219</u>	<u>Q/Q</u>	<u>Q318</u>	<u>Y/Y</u>
High-End*	\$ 25.9	\$ 23.0	13%	\$ 17.1	52%
Mainstream	\$ 12.0	\$ 10.0	19%	\$ 12.1	(1%)
Total	\$ 37.9	\$ 33.0	15%	\$ 29.1	30%

Total may differ due to rounding

Q319 Revenue by Technology



■ High-End* 68%

■ Mainstream 32%

*≥G8 and AMOLED

▶ **Record FPD revenue driven by mobile AMOLED displays and China production ramp, including G10.5+**

▶ **China revenue**

■ +31% Q/Q; +61% Y/Y

■ Represents 53% of Q319 FPD revenue

▶ **Outlook**

■ AMOLED technology expected to remain in high demand

■ Hefei shipments should continue to ramp

Select Financial Data

<u>\$M</u>	<u>Q319</u>	<u>Q219</u>	<u>Q318</u>
Cash	\$ 197	\$ 167	\$ 333
Debt	\$ 49	\$ 36	\$ 58
Net Cash*	\$ 148	\$ 131	\$ 275
Operating Cash Flow	\$ 26	\$ 17	\$ 49
Capital Expenditures	\$ 20	\$ 34	\$ 20
Share repurchase	-	-	\$ 7
LTM EBITDA	\$141	\$ 148	\$ 153

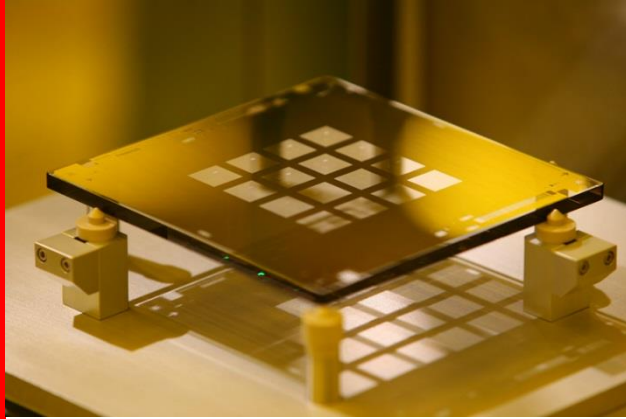
- ▶ **Deploying cash balance to fund China investments**
- ▶ **Debt is local China borrowing to finance fixed assets**
- ▶ **YTD capex \$160M; anticipate FY capex ~ \$185M**
- ▶ **Balance sheet able to fund planned investments, strategic M&A opportunities, and potential share repurchases**

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

Q419 Guidance

Revenue (\$M)	\$143 - \$151
Taxes (\$M)	\$2 - \$3.5
EPS	\$0.11 - \$0.17
Diluted Shares (M)	~67

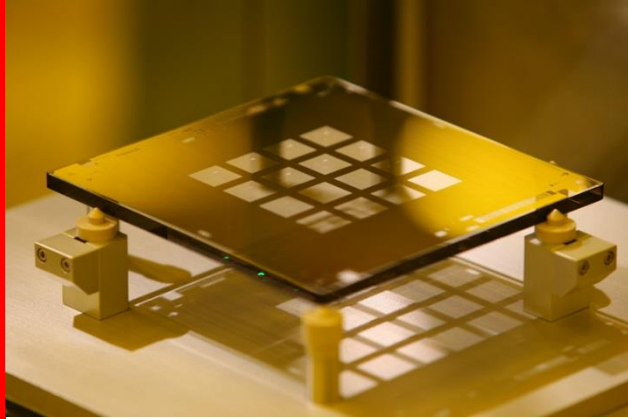
- ▶ **Anticipate sequential growth in Q4**
- ▶ **High-end IC markets stable to improving**
- ▶ **FPD demand growing (AMOLED, G10.5+)**
- ▶ **Ramping China production (IC & FPD)**
- ▶ **Potential macro headwind & impact from trade policy**



Thank you for your interest!

For Additional Information:

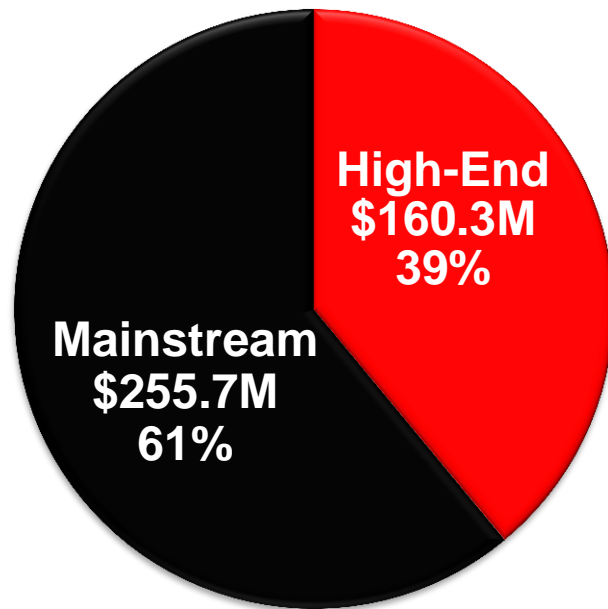
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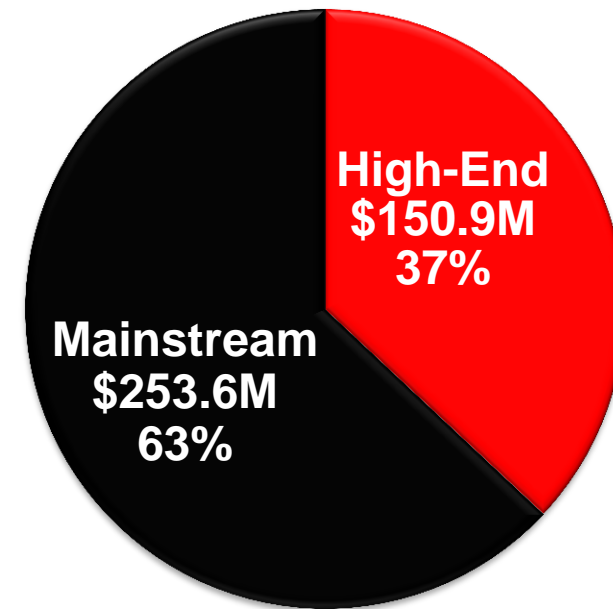
Appendix

IC Photomask Revenue

2018: \$416.1M



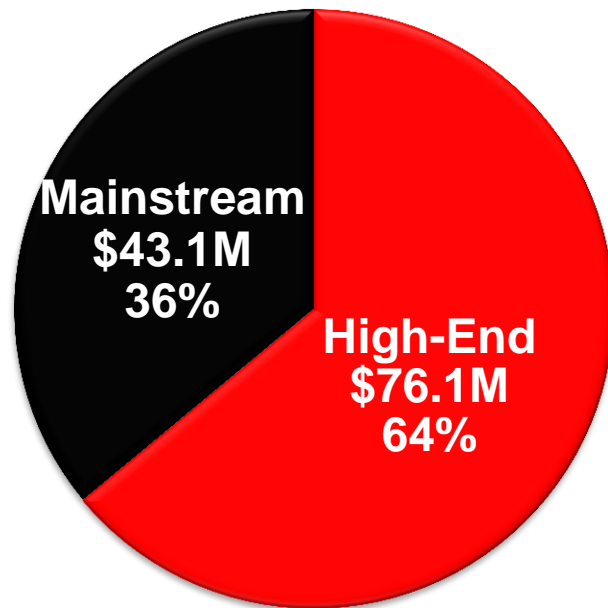
Q319 LTM: \$404.5M



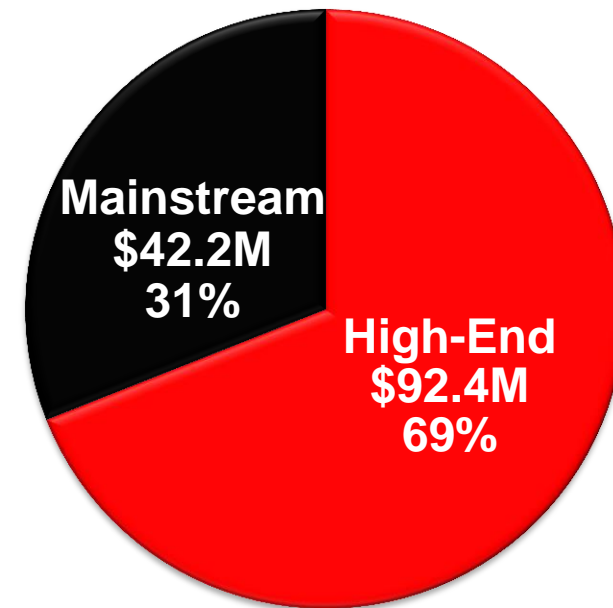
High-End: 28nm and smaller; total may differ due to rounding

FPD Photomask Revenue

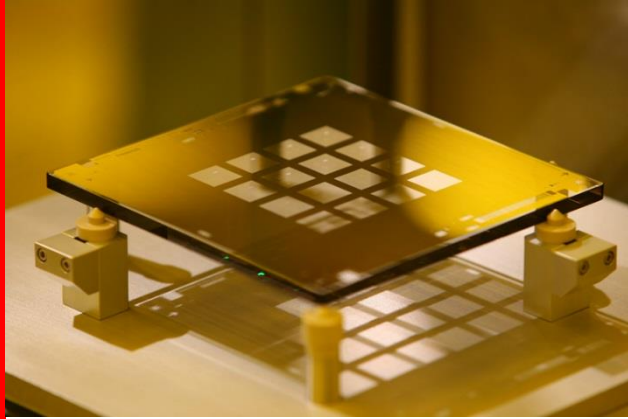
2018: \$119.2M



Q319 LTM: \$134.5M



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							
	July 28, 2019	April 28, 2019	January 27, 2019	October 31, 2018	July 29, 2018	April 29, 2018	January 28, 2018	October 29, 2017
Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA								
GAAP Net Income	\$ 9,834	\$ 9,852	\$ 7,768	\$ 16,769	\$ 19,797	\$ 15,189	\$ 9,481	\$ 10,496
Interest expense	377	355	531	580	557	551	574	578
Income tax expense	3,217	3,278	1,387	3,552	2,054	3,508	(1,778)	2,462
Depreciation and amortization	21,872	19,734	18,781	19,848	20,056	22,066	22,363	22,492
Other items (a)	909	900	1,062	755	784	163	884	785
Non-GAAP Adjusted EBITDA	<u>\$ 36,209</u>	<u>\$ 34,119</u>	<u>\$ 29,529</u>	<u>\$ 41,504</u>	<u>\$ 43,248</u>	<u>\$ 41,477</u>	<u>\$ 31,524</u>	<u>\$ 36,813</u>
Non-GAAP Adjusted L-T-M EBITDA (b)	\$ 141,361	\$ 148,400	\$ 155,758	\$ 157,753	\$ 153,062			

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.