

# Photonics, Inc.

**Q2 2020 Financial Results Conference Call**  
**May 27, 2020**

# 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”, “in our view” 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.

# Response to COVID-19: Four Key Focus Areas

## ▶ Employee health

- Health monitoring
- Adoption of best practices
- Global visitor policy

## ▶ Raw material supply

- Weekly meetings to monitor global supply chain
- Constant contact with suppliers

## ▶ Customer support

- Open communications with customers to understand needs
- Constant contact with logistic partners

## ▶ Tool maintenance

- Engagement with virtual service technicians where feasible
- Reliance on self-service expertise

# Q2 2020 Summary

- ▶ **Revenue was \$142.8M, down 11% Q/Q and up 9% Y/Y**
  - FPD production remained at capacity, with sequential mix shift away from G10.5+ and AMOLED as customers in China pushed out orders
  - IC revenue impacted by order push out from China customers
  - Revenue of products shipped to China improved 39% Y/Y, but fell 20% Q/Q
- ▶ **Net income attributable to Photronics, Inc. shareholders of \$6.3M (\$0.10/share)**
- ▶ **Cash balance grew to \$238M; \$31M operating cash generation**
- ▶ **Repurchased 0.5M shares for \$6M; program terminated 3/26/2020**
- ▶ **China production contributed \$17M to revenue; Hefei facility generated operating profit and positive operating cash flow despite significant drop in G10.5+ demand**
- ▶ **Remain committed to growth strategy with commencement of next phase of FPD investment**

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

# Income Statement Summary

<u>\$M (except EPS)</u>	<u>Q220</u>	<u>Q120</u>	<u>Q/Q</u>	<u>Q219</u>	<u>Y/Y</u>
Revenue	\$ 142.8	\$ 159.7	(11%)	\$ 131.6	9%
Gross Profit	\$ 30.4	\$ 34.6	(12%)	\$ 26.0	17%
<i>Gross Margin</i>	<i>21.3%</i>	<i>21.7%</i>	<i>(40 bps)</i>	<i>19.8%</i>	<i>150 bps</i>
Operating Income	\$ 12.7	\$ 16.3	(22%)	\$ 9.2	38%
<i>Operating Margin</i>	<i>8.9%</i>	<i>10.2%</i>	<i>(130 bps)</i>	<i>7.0%</i>	<i>190 bps</i>
Other income (expense)	(\$ 1.0)	\$ 3.7	(\$ 4.6)	\$ 3.9	(\$ 4.9)
Income tax provision	\$ 3.8	\$ 9.1	(\$ 5.3)	\$ 3.3	\$ 0.5
Minority interest	\$ 1.7	\$ 0.6	\$ 1.1	\$ 1.4	\$ 0.3
Net Income*	\$ 6.3	\$ 10.3	(39%)	\$ 8.5	(26%)
Diluted EPS*	\$ 0.10	\$ 0.16	(\$ 0.06)	\$ 0.13	(\$ 0.03)
<i>Days in quarter</i>	<i>91</i>	<i>94</i>	<i>(3)</i>	<i>91</i>	<i>-</i>

▶ **Gross and operating margin moved in line with revenue (up Y/Y; down Q/Q)**

▶ **China operations were \$1.0M negative impact to operating income**

▶ **Other income / (expense) primarily due to FX gain / (loss)**

▶ **Minority interest reflects Taiwan JV gain offset by China JV loss**

\*Net income attributable to Photronics, Inc. shareholders

# IC Photomask Revenue

<u>\$M</u>	<u>Q220</u>	<u>Q120</u>	<u>Q/Q</u>	<u>Q219</u>	<u>Y/Y</u>
High-End*	\$ 38.3	\$ 41.0	(7%)	\$ 38.4	--
Mainstream	\$ 58.6	\$ 65.9	(11%)	\$ 60.2	(3%)
Total	\$ 96.8	\$ 107.0	(9%)	\$ 98.6	(2%)

Total may differ due to rounding

Q220 Revenue by Technology



- High-End\* 40%
- Mainstream 60%

\*28nm and smaller

▶ **High-end flat Y/Y; sequential decline primarily due to Chinese order push outs**

▶ **China revenue**

- +14% Y/Y
- Q/Q down 21% on soft foundry demand
- Represents 21% of Q220 IC revenue

▶ **Outlook**

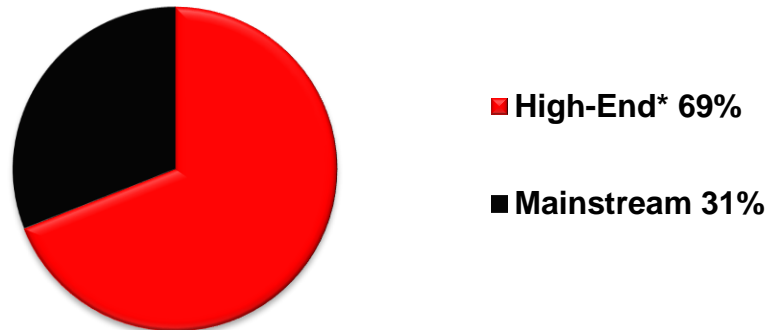
- Demand trends improving
- Government restrictions and trade policy developments create uncertainty

# FPD Photomask Revenue

<u>\$M</u>	<u>Q220</u>	<u>Q120</u>	<u>Q/Q</u>	<u>Q219</u>	<u>Y/Y</u>
High-End*	\$ 31.8	\$ 39.8	(20%)	\$ 22.1	44%
Mainstream	\$ 14.1	\$ 13.0	9%	\$ 10.9	29%
Total	\$ 45.9	\$ 52.8	(13%)	\$ 33.0	39%

Total may differ due to rounding

Q220 Revenue by Technology



\*≥G10.5, AMOLED and LTPS

▶ **Y/Y growth due to production ramp in Hefei; Q/Q decline due to China order push out (G10.5+ & AMOLED)**

▶ **China revenue**

- -20% Q/Q; +69% Y/Y
- Represents 57% of Q220 FPD revenue

▶ **Outlook**

- Demand trends improving for G10.5+ and AMOLED
- Government restrictions create uncertainty, especially for mobile demand
- Production should remain at capacity

# Select Financial Data

<u>\$M</u>	<u>Q220</u>	<u>Q120</u>	<u>Q219</u>
Cash	\$ 238	\$ 218	\$ 167
Debt	\$ 53	\$ 54	\$ 36
Net Cash*	\$ 184	\$ 164	\$ 131
Operating Cash Flow	\$ 31	\$ 31	\$ 17
Capital Expenditures	\$ 16	\$ 14	\$ 34
Government Incentives for Capital Equipment	\$ 3	\$ 2	\$ 1
Share repurchase	\$ 6	\$ 11	-

- ▶ **Debt is local China borrowing to finance fixed assets**
- ▶ **FY 2020 capex ~ \$100M (includes \$35M capital lease)**
- ▶ **Repurchased 0.5M shares for \$6M (1.5M shares for \$17M YTD); program terminated 3/26/2020**
- ▶ **Balance sheet able to fund planned investments, share repurchases, and strategic M&A opportunities**

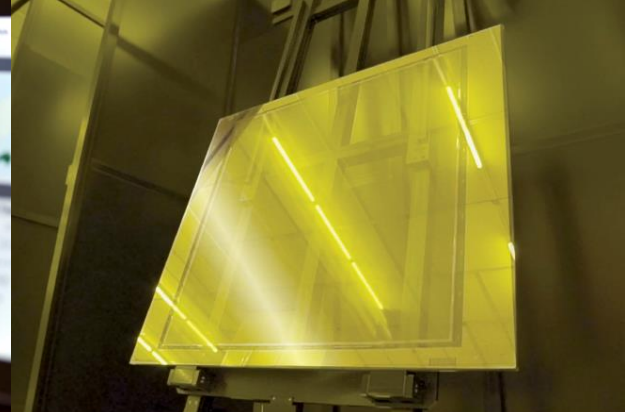
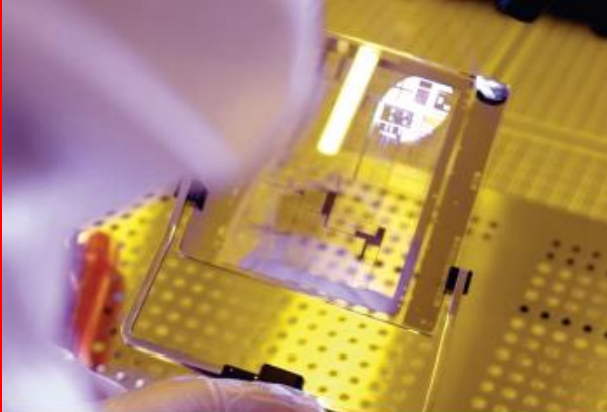
\*Net cash defined as cash and cash equivalents less long-term borrowings (including current portion), as reported in accordance with GAAP



# Q320 Guidance

Revenue (\$M)	\$145 - \$155
Operating Margin	9% - 12%
Taxes (\$M)	\$4.5 - \$5.5
EPS	\$0.11 - \$0.17
Diluted Shares (M)	~65

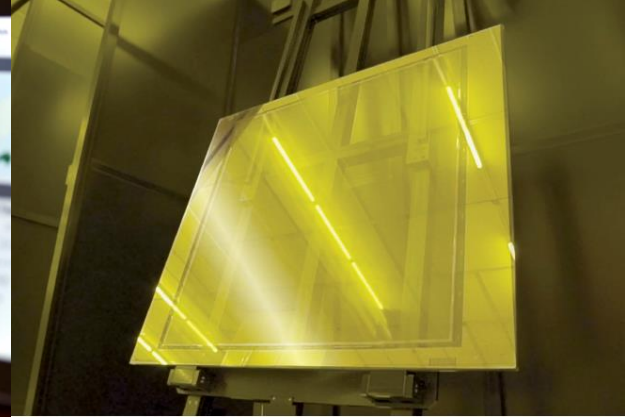
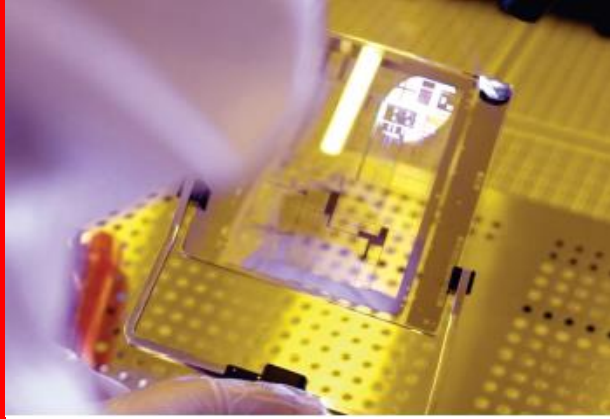
- ▶ **High uncertainty related to coronavirus reaction**
- ▶ **FPD demand growing (AMOLED, LTPS, G10.5+)**
- ▶ **High-end IC markets stable to improving; ramping Xiamen production**
- ▶ **Potential geopolitical headwind due to trade policy decisions**
- ▶ **Due to end-market demand uncertainty, we are withdrawing previously established 2020 targets**



# Thank you for your interest!

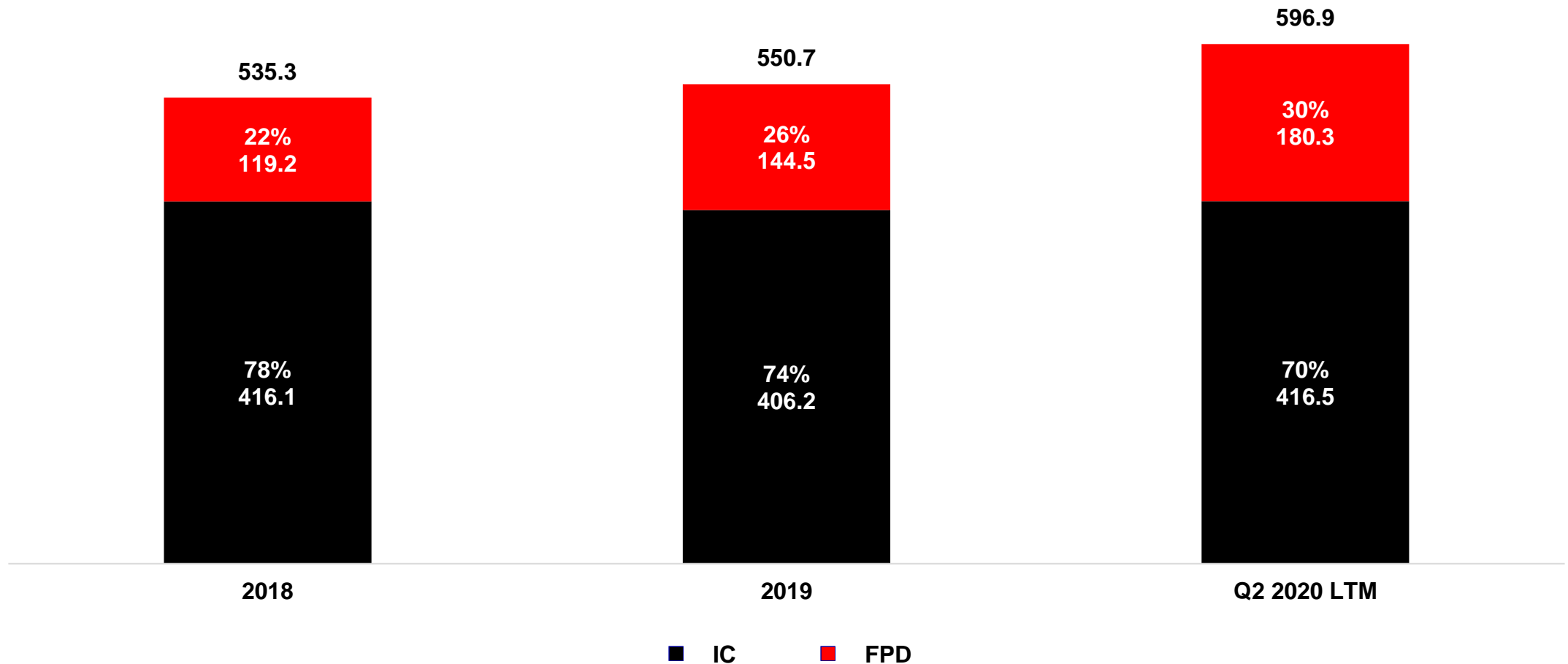
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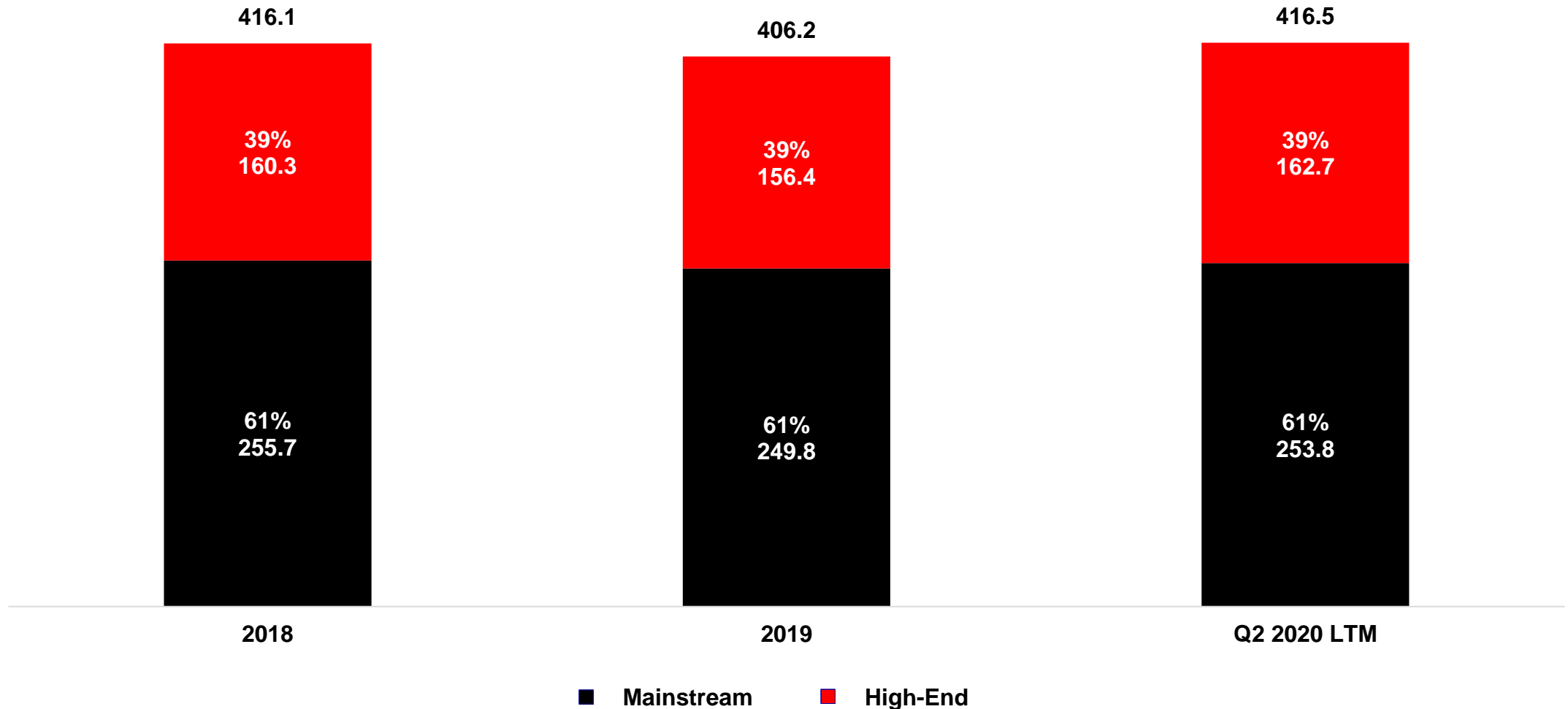
# Appendix

# Total Revenue



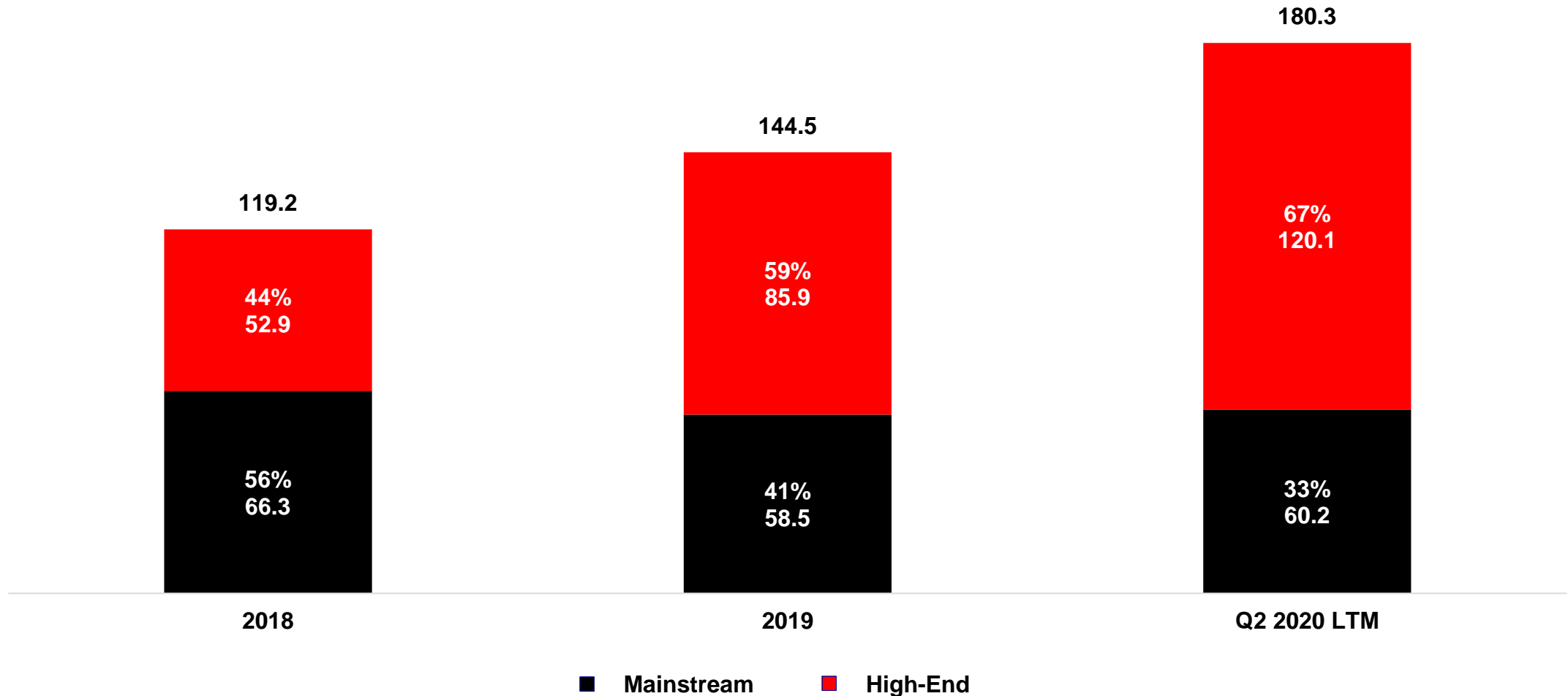
Total may differ due to rounding

# IC Photomask Revenue



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

# FPD Photomask Revenue



High-End: ≥G10.5, AMOLED and LTPS; total may differ due to rounding