Cabot Microelectronics Corporation
Second Quarter Fiscal 2012 Conference Call Script
April 26, 2012

Good morning. With me today are Bill Noglows, Chairman and CEO, and Bill Johnson, Chief Financial Officer.

This morning we reported results for our second quarter of fiscal year 2012, which ended March 31. A copy of our earnings release is available in the investor relations section of our website, cabotcmp.com, or by calling our investor relations office at 630-499-2600. A webcast of today's conference call and the script of this morning's formal comments will also be available on our website.

Please remember that our discussions today may include "forward-looking statements" that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from these forward-looking statements. These risk factors are discussed in our SEC filings, including our report filed on Form 10-K for the fiscal year ended September 30, 2011. We assume no obligation to update any of this forward-looking information.

I will now turn the call over to Bill Noglows.

Thanks, Trisha. Good morning, everyone, and thanks for joining us.

This morning we announced financial results for our second fiscal quarter of 2012. Our financial results are consistent with the preliminary financial performance we discussed in our press release on April 16. As reported then, we experienced continued softness in semiconductor industry demand during the quarter, as well as seasonal weakness that we have periodically experienced during our second fiscal quarter of the year. Over the past several quarters, we have discussed projections by some industry analysts for soft semiconductor industry demand to continue through the first half of our fiscal year, and our financial performance in our second quarter reflected these conditions.

For the second fiscal quarter of 2012, we reported revenue of $99.2 million dollars, gross profit margin of 46.1 percent, operating expense of $36.7 million dollars, and diluted earnings per share of 23 cents, including the adverse impact of a $3.7 million dollar increase in bad debt expense associated with a customer bankruptcy. Bill Johnson will provide more detail on our financial results later in the call.

As I mentioned during our earnings discussion last quarter, some industry analysts are predicting strengthening in overall semiconductor industry demand during the second half of our fiscal year. Industry analysts' consensus for IC unit growth in calendar 2012 is between four and six percent, supported by forecasted growth rates in the upper single digits for electronic system sales during 2012. Given the contraction that we believe the industry experienced in the first calendar quarter, this would imply stronger growth for the remainder of calendar year 2012. Industry reports also indicate that inventories of most types of IC devices have returned to normal levels and capacity utilization rates generally began to increase during the month of March. In addition, a number of semiconductor manufacturers continue to add capacity at advanced technology nodes. Consistent with these industry views, we began to see demand for our CMP consumables business increase slightly towards the end of the quarter. Although our view is limited, through the month of April to date, we are seeing a continued increase in orders compared to last quarter.

Longer term, we are optimistic regarding demand for our products going forward. For example, industry experts are estimating the compound annual growth rate for smart phones and tablets to range between forty and eighty percent from 2010 to 2015. Furthermore, cloud computing and the resulting need for larger and more powerful data centers and server farms are expected to strengthen the overall demand for hardware, including processors and hard disk drives. We believe we are well positioned with our customers to serve these growing needs and the evolving marketplace over the long-term.

Turning now to our business highlights, I am pleased to report that our CMP polishing pads business grew approximately 15 percent during the quarter on a sequential basis. We believe this is the result of our continued efforts and success in converting our pipeline of ongoing customer qualifications and evaluations across our Pad product platforms into business wins, and ultimately, revenue. During the quarter, we secured additional D100 and D200 customer wins and we are now selling our pads to more than thirty customers. On a combined basis, we continue to have more than 50 opportunities for our D100 and D200 pad products around the world in various stages of evaluation or qualification. We continue to expect our polishing pads business to be a significant long-term growth driver for the company and we believe the revenue growth this quarter reflects progress in this area of our business.

Turning to our CMP slurry business, we continue to benefit from the investment we made in our new research, development and manufacturing facility in South Korea. During the quarter, we continued to collaborate closely with key customers there and I am proud to report that our efforts resulted in the qualification of our first new Advanced Dielectrics product from our Korean facility. We continue to engage with our customers and we expect to qualify additional products at this facility in the near future. Korea is a very important geographic area for us, since it represents the second largest CMP consumables market in the world. Our close collaborations with our strategic memory customers in Korea resulted in 25 percent revenue growth year to date.

Our Data Storage business recorded approximately 15 percent sequential revenue growth over the previous quarter. We believe this is a clear indication that the hard disk drive industry is recovering from the severe flooding in Thailand that significantly impacted the industry, and more broadly, the IT supply chain, and is returning to baseline growth levels. We believe that additional opportunities for growth within the Data Storage business will occur as cloud computing activity continues and the need for server farms utilizing hard disk drive storage increases.

Finally, we are delighted to have recently been awarded Intel's 2011 Preferred Quality Supplier, or PQS, award for the third consecutive year. Out of thousands of suppliers to Intel, we were selected as one of only nineteen companies to receive the PQS award. We believe this award is recognition of our ongoing commitment and ability to consistently deliver reliable, high quality, innovative solutions to our customers.

Concluding my remarks today, I would like to reiterate that we believe the strength and quality of our business and the depth of our experience will allow us to continue our position as the leading CMP slurry provider. Based on industry trends and forecasts, we are optimistic regarding increased demand for our products in the second half of our fiscal year. I am confident that the combination of the forecasted strengthening in industry demand, along with our company’s focus and drive to deliver high quality, innovative solutions to our customers will continue to provide opportunities for near term and future profitable growth for our company.

And with that, I will turn the call over to Bill.

Thanks, Bill, and good morning everyone.

Revenue for the second quarter of fiscal 2012 was $99.2 million, which reflects continued soft demand within the global semiconductor industry, coupled with traditional seasonal weakness we periodically experience during our second fiscal quarter of the year. Revenue was down by 9.5 percent from the second quarter of last year and down 2.8 percent from the prior quarter. Despite the year over year decrease in total revenue, our revenue in Korea increased by approximately 23 percent. Year to date, revenue of $201.4 million represents a decrease of 10.1 percent from the prior year, reflecting generally softer industry demand conditions this year compared to last. However, on a year to date basis, our revenue in Korea increased by approximately 25 percent.

Drilling down into revenue by business area, Tungsten slurries contributed 38.5 percent of total quarterly revenue, with revenue down 5.1 percent from the same quarter a year ago and down 6.2 percent sequentially.

Sales of Copper products represented 16.2 percent of our total revenue, and decreased 17.6 percent from the same quarter last year and were essentially flat sequentially.

Dielectric slurries provided 27.4 percent of our revenue this quarter, with sales down 8.5 percent from the same quarter a year ago and down 2.8 percent sequentially.

Data Storage slurry products represented 5.8 percent of our quarterly revenue. This revenue was down 17.6 percent from the same quarter last year, and up 15.5 percent sequentially as the hard disk drive industry began to recover from the floods in Thailand.

Sales of our polishing pads represented 8.0 percent of our total revenue for the quarter and reflects an increase of 2.8 percent from the same quarter last year and an increase of 14.6 percent sequentially. As Bill mentioned earlier, we are pleased with the revenue growth in this area of our business after several quarters of soft revenue.

Finally, revenue from our Engineered Surface Finishes business, which includes QED, generated 4.1 percent of our total sales, and was down approximately 25 percent from both the same quarter last year and sequentially. Volatility in our QED revenue is not surprising, given that it is primarily a capital equipment oriented business.

Our gross profit this quarter represented 46.1 percent of revenue, which is down from 48.1 percent in the same quarter a year ago and 48.3 percent in the prior quarter. Compared to the year ago quarter, gross profit percentage decreased primarily due to lower production volumes, higher fixed manufacturing costs and selective price reductions, partially offset by lower variable manufacturing costs. The decrease in gross profit percentage versus the previous quarter was primarily due to lower production volumes and higher variable manufacturing costs. Year to date, gross profit represented 47.2 percent of revenue. This is consistent with our full year guidance range of 46 to 48 percent of revenue, and this guidance remains unchanged.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses this quarter of $36.7 million were $3.4 million higher than in the second quarter of fiscal 2011. The increase was primarily due to a $3.7 million increase in our reserve for bad debt expense related to Elpida, a significant customer in Japan that recently filed for bankruptcy protection. Operating expenses were approximately $2.7 million higher than in the previous quarter, primarily due to the increase in the reserve for bad debt expense, partially offset by lower professional fees, including costs associated with our recent leveraged recapitalization with a special cash dividend. Operating expenses this quarter include approximately $800,000 of costs associated with the leveraged recapitalization with a special cash dividend.

Year to date, total operating expenses were $70.7 million, which is 6.6 percent higher than during the same period last year. We continue to expect our full year operating expenses to be within a range of $135 million to $140 million for fiscal 2012.

Diluted earnings per share were 23 cents this quarter, which includes the adverse impact of approximately 10 cents related to the increase in bad debt expense and two cents due to costs associated with the leveraged recapitalization with a special cash dividend. Diluted EPS this quarter was down from the 55 cents reported in the second quarter of fiscal 2011 primarily due to the bad debt expense and industry softness. Our EPS was down from 45 cents in the prior quarter, mainly due to the bad debt expense and seasonal weakness in demand, partially offset by lower costs associated with the leveraged recapitalization with a special cash dividend. Year to date, diluted earnings per share of 68 cents are down 46.1 percent compared to last year.

Turning now to balance sheet related items, during the quarter we implemented a significant change to our capital structure. On March 1st, we paid a special cash dividend of $15 per share to our shareholders, or approximately $347 million in total. Approximately half of the dividend was funded from our cash balance, with the other half from a term loan that is part of the new credit facility that we closed in February. Reflecting the leveraged recapitalization with a special cash dividend, we ended the quarter with a cash balance of approximately $155 million, down from approximately $294 million at the end of the prior quarter, and we now have $175 million of new debt outstanding.

Capital additions for the quarter were $3.8 million, depreciation and amortization expense was $5.9 million and share-based compensation expense was $4.0 million.

I'll conclude my remarks with a few comments on recent sales and order patterns.

Examining revenue patterns within the three months of our second fiscal quarter, we saw demand for our CMP consumables products at a level approximately 2 percent below our first fiscal quarter; however, we did see a 3.5 percent increase in demand from February to March. As we observe orders for our CMP consumables products received to date in April that we expect to ship by the end of the month, we see April results trending approximately 10 percent above the average rate in our first fiscal quarter. However, I would caution, as I always do, that several weeks of CMP related orders out of a quarter represent only a limited window on full quarter results.

Thank you for your time and your interest in Cabot Microelectronics.