Cabot Microelectronics Corporation
Third Fiscal Quarter 2011 Conference Call Script
July 27, 2011

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

This morning we reported results for our third quarter of fiscal year 2011, which ended June 30. 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-Q for the second quarter of fiscal 2011, ended March 31, 2011, and Form 10-K for the fiscal year ended September 30, 2010. 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 solid financial results for our third fiscal quarter of 2011, including revenue growth of 10 percent compared to the same quarter last year, a gross profit margin of 47.4 percent of revenue, and earnings per share of 54 cents. We believe our solid revenue and earnings growth this quarter reflect continued execution against our strategic initiatives and sustained growth in the semiconductor industry. On a year to date basis, we are also proud to have achieved revenue growth of approximately 13 percent and earnings per share growth of 23 percent over the record level of performance we achieved last year.

After approximately eight consecutive quarters of relative strength for the semiconductor industry, reports and comments by certain industry analysts and some customers indicate that there appears to be some softening of demand within the industry. At Semicon West earlier this month in San Francisco, they mentioned a couple of factors as possible contributors to the 'softness' they forecasted, including a potential modest correction of IC inventory and general ongoing macroeconomic uncertainty.

To be clear, these cautionary sentiments were all about near term "softness" in demand with more modest growth than previously expected, but not a downturn. For example, IC Insights, a leading semiconductor market research company, now projects unit growth for calendar year 2011 of 7 percent, down from its prior forecast of 8 percent. This continued positive, although more muted, outlook is based on expectations for continued strong demand of consumer products such as smart phones and tablets. We believe that these semiconductor unit growth projections, coupled with continued consumer demand, in what is typically a historically strong fourth fiscal quarter for our company, will contribute to solid financial results for us for the full fiscal year.

Turning now to company-related matters, we continue to execute on our strategy to strengthen and grow our CMP consumables business as well as advance our Engineered Surface Finishes business.

As the leading supplier of CMP slurries, we are committed to our company's mission and vision in which we strive to be the trusted industry partner, collaborating with our customers to provide solutions to meet their ever increasing performance requirements. For example, our development teams are collaborating with our customers and generating innovative products and solutions that are designed to meet their high quality and performance requirements and lower their total cost of ownership; this includes products for the most advanced nodes including 32nm through 14nm technologies. As a result, our new product pipeline is robust and includes product development projects for a wide range of application areas and nodes. We are currently pursuing more than 30 new product introductions that span the entire spectrum of CMP slurry applications, including established applications as well as emerging areas such as slurries for polishing High K Metal Gates that utilize Aluminum CMP, Through Silicon Via applications and post CMP clean solutions.

We have a relatively new program to develop state of the art post CMP cleaning solutions, which are referred to as the Epoch CLEAN series, to deliver optimal post CMP wafer surface properties. We are pleased with the ongoing, high level of customer interest since the inception of this program, and we are excited that multiple purchase orders have been received from leading edge Asia foundry customers and US integrated device manufacturers.

Another example of our commitment to being a trusted industry partner is visible in our Data Storage business. We continue to work closely with data storage customers in the Asia Pacific region to quickly develop products and solutions that meet their needs. During our third fiscal quarter, we launched two new data storage products and are currently in the qualification process with customers for a number of new business opportunities. In response to the growth we are experiencing in this area of our business, we expanded our manufacturing capacity for Data Storage products during the third fiscal quarter. We believe this additional manufacturing capacity will not only support continued growth in customer demand but also will lower our unit costs.

Our success in our pads business is another example of how we continue to partner to provide innovative solutions. Our pad development activities are focused on providing high quality products with longer pad life and lower defectivity, which we believe translate to significantly lower cost of ownership for our customers. We continue to develop both our original D100 and our next generation D200 platforms in order to expand our pad product offerings.

We are pleased to report that during the third fiscal quarter, we won additional D100 pad business with an existing pad customer for a new Copper application at the 28nm node. During the quarter, we began to see the initial impact of this win and we believe volume will gradually increase quarter over quarter. We believe this new business win strengthens our competitive position at this customer for all Copper technology nodes from 130nm to 28nm.

Up to now, all of the growth in our pads business has been through our D100 pad product platform, and we continue to sell products within this family to approximately 25 customers. We also continue to commercialize our next generation D200 pad platform, which we expect to drive additional growth in our pad business. We can tune the D200 platform by adjusting the porosity, pore size and hardness of the pad to meet a wide variety of customer needs, especially for applications requiring very low defectivity.

During our last earnings call, we announced our first commercial business win with our D200 pad technology. I am pleased to report that in addition to this win, we are now sampling our D200 pad products to approximately 10 prospective customers and several of these customers are evaluating this product across multiple applications. A number of these potential business opportunities are at leading edge technology nodes.

We believe the opportunity pipeline for our D100 and D200 pad platforms is healthy, with more than 50 opportunities combined across the Asia Pacific, Europe and North America regions. We look forward to partnering with these customers and transforming these opportunities over time into new business results for our customers and our company.

We are also very pleased with the strong performance of our Engineered Surface Finishes business, which is primarily due to increased demand for our QED products and services. QED is currently on track to report record revenue during fiscal year 2011.

I would now like to provide a brief update on our new research, development and manufacturing facility in South Korea. The construction of this facility, which began in December 2010, is nearly complete and the grand opening is planned for the end of August. We expect to begin customer qualifications in South Korea during the first quarter of fiscal 2012. We believe this facility will enable us to collaborate more closely with important memory customers in South Korea, and we are confident that this investment will further strengthen our global competitive position and contribute to our company's continued profitable growth.

The expansion of our facility in Japan is also on schedule to be completed during the fourth quarter. We believe, similar to the expansion of our Data Storage business, that this additional manufacturing capacity will support continued growth in customer demand and help to lower our unit costs.

Concluding my prepared remarks today, despite analyst expectations for a near term softening in semiconductor industry demand, which we would presently characterize as representing more moderate industry growth for the year, and not a downturn, we remain optimistic about our performance for the full 2011 fiscal year. We continue to execute against our strategic initiatives to achieve our vision to be a trusted industry partner, providing high-quality solutions with speed and delivering superior cost of ownership. We believe this approach, and in particular, our investments in product development and manufacturing capacity will continue to position us for sustained future growth and higher earnings potential.

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

Thanks, Bill, and good morning everyone.

Total third fiscal quarter revenue of $111.8 million represents a 10.0 percent increase from the $101.7 million reported in the same quarter last year and a 2.0 percent increase from $109.7 million last quarter. The increase in revenue from the same period last year reflects continued solid demand for our company's products, with all business areas showing revenue increases except for pads. Compared to the prior quarter, revenue for each of our CMP slurry application areas except data storage increased, and revenue from our pads and Engineered Surface Finishes, or ESF, business areas decreased. Year to date revenue of $335.7 million represents an increase of 12.7 percent from the prior year, driven by double-digit growth in our CMP slurry and ESF businesses and continued growth in pads.

Drilling down into revenue by business area, Tungsten slurries contributed 36.6 percent of total quarterly revenue, with revenue up 13.6 percent from the same quarter a year ago and 1.6 percent sequentially.

Sales of Copper products represented 18 percent of our total revenue, and increased 3.6 percent from the same quarter last year and 3.1 percent sequentially.

Dielectric slurries provided 27.7 percent of our revenue this quarter, with sales up 1.5 percent from the same quarter a year ago and up 4.2 percent sequentially.

Data Storage slurry products represented 6.1 percent of our quarterly revenue. This revenue was up 43.1 percent from the same quarter last year, and down 1.6 percent sequentially.

Sales of our polishing pads represented 6.8 percent of our total revenue for the quarter, and decreased 3.3 percent from the same quarter last year and 2.1 percent sequentially. Our pads sales volume is up sequentially, and year over year; however, a change in product mix contributed to the modest decrease in revenue.

Finally, revenue from our ESF business, which includes QED, generated 4.9 percent of our total sales. ESF revenue was up 73.8 percent from the same quarter last year, as a result of several new machine orders, and down 0.4 percent sequentially. As Bill mentioned earlier, QED is on track to achieve record revenue for fiscal year 2011.

Gross profit, expressed as a percentage of revenue, was 47.4 percent this quarter, which is lower than the 49.1 percent reported in the same quarter a year ago and 48.1 percent last quarter. Compared to the year ago quarter, gross profit percentage decreased primarily due to foreign exchange rate changes, in particular the weakening of the U.S. dollar versus the Japanese yen, and selective price reductions, partially offset by a higher value product mix. The decrease in gross profit percentage versus the previous quarter was primarily due to lower yields in the company's manufacturing operations and increased fixed manufacturing costs, partially offset by reductions in certain variable manufacturing costs. Year to date, gross profit represented 48.6 percent of revenue, which is consistent with our full year guidance range of 48 to 50 percent of revenue.

Now I'll turn to operating expenses, which include research, development and technical, selling and marketing, and general and administrative costs. Operating expenses were $33.4 million in the third fiscal quarter, or $1.1 million less than the $34.5 million reported in the same quarter a year ago, driven primarily by lower professional fees. Operating expenses were $0.1 million higher than the $33.3 million reported in the previous quarter.

Year to date, total operating expenses were $99.7 million, or 29.7 percent of revenue, which is 2.9 percent higher than during the same period last year. We continue to expect our full year operating expenses to be within a range of $130 million to $135 million for fiscal 2011.

Diluted earnings per share were 54 cents this quarter, which is up from 43 cents reported in the third quarter of fiscal 2010. Year to date, diluted earnings per share of $1.80 were up 23.3 percent compared to last year.

Turning now to cash and balance sheet related items, depreciation and amortization expense was $5.9 million, share-based compensation expense was $2.7 million and capital spending for the quarter was $11.5 million. We continue to expect our full year capital spending to be about $35 million, which is a relatively high year for our company, primarily due to our expansions in South Korea and Japan. In addition, we purchased $15 million of our stock during the quarter under our $125 million share repurchase program. We ended the quarter with a cash balance of approximately $293 million and no debt outstanding.

I'll conclude my remarks with comments on recent orders.

As we observe orders for our CMP consumables products received to date in July that we expect to ship by the end of the month, we see July results trending approximately 5% lower than the average rate we saw in the June 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 this morning and your interest in Cabot Microelectronics. We look forward to the next opportunity to speak with you.