CABOT MICROELECTRONICS CORPORATION
FOURTH QUARTER FISCAL 2011 CONFERENCE CALL SCRIPT
OCTOBER 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 fourth quarter of fiscal year 2011, which ended September 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 third quarter of fiscal 2011, ended June 30, 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 operational results for our fourth quarter and strong results for full fiscal year 2011. During the fourth quarter, we reported revenue of $109.7 million dollars, gross profit margin of 46.4 percent of revenue, and earnings per share of 40 cents. For full fiscal year 2011, we achieved record annual revenue of $445.4 million dollars, gross profit margin of 48.1 percent and record earnings per share of $2.20. This record revenue represented 9 percent growth for fiscal year 2011 on top of the 40 percent revenue growth we achieved in fiscal year 2010.

Fiscal year 2011 was a year highlighted by strategic investments we made to further strengthen our global position. During the year, we expanded our global footprint, added more technical capabilities in the Asia Pacific region and enhanced our new product pipeline. We believe these investments will serve us well as we continue to collaborate closely with our customers around the world and provide differentiated solutions to meet their ever evolving business needs.

We executed a relatively aggressive capital investment program in 2011, which included a new research, development and manufacturing facility in South Korea, as well as expanding our manufacturing capacity in Japan and Singapore. Less than a year after breaking ground, we celebrated the grand opening of our new facility in South Korea in August. We believe this capital investment will enhance our manufacturing and technical capabilities in the region and will strengthen our ability to serve the second largest CMP consumables market in the world. We are currently closely collaborating with key customers in South Korea to qualify certain advanced dielectric products and we expect to continue making progress on these qualifications during the first quarter of the current fiscal year.

We also expanded our manufacturing capacity in Japan to meet increased demand for our CMP slurry products. Our manufacturing facility in Japan is our largest plant, supplying our customers in Japan as well as our customers throughout the Asia Pacific region.

Finally, during the year, we invested in the expansion of our slurry manufacturing facility in Singapore to meet higher demand from our Data Storage customers. Our Data Storage business had an outstanding year in fiscal 2011, with record annual revenue of approximately $28 million dollars, 34 percent higher than last year. This facility expansion will allow us to continue to meet the growing demand in the Data Storage market, which is closely adjacent to our core CMP consumables business for IC applications.

I would now like to review the strategic investments we made during 2011 in terms of innovating and commercializing new products. We are proud that during the fiscal year, we developed new products in all of our business areas to address more traditional CMP applications as well as new and emerging areas. The high quality solutions we introduced this year address a broad range of applications and technology nodes.

In the first half of the year, we introduced new D100 based pad products for advanced copper, shallow trench isolation and tungsten applications, and developed next generation D200 pad products that are tunable to meet specific customer needs. Our D100 pad products continue to gain customer adoptions for existing and new applications. This is demonstrated by the new D100 pad business we won for copper and pre-metal dielectric applications during the fourth quarter. You may recall that during our second fiscal quarter, we announced our first business win for our D200 pad for an advanced node Tungsten buff application. In addition, our D200 pad products are currently being evaluated by approximately 10 potential customers for multiple CMP applications. 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 look forward to continuing to transform these customer evaluations into customer adoptions in the future.

On the CMP slurry side, during the year we introduced an Aluminum CMP slurry, Through Silicon Via, or TSV solutions for various applications, two new Data Storage products and new solutions for post-CMP cleaning applications. We continue to develop and evaluate other CMP slurry products, such as in our advanced dielectrics business for bulk oxide and polysilicon applications. We are also involved in several joint development projects for other slurry applications related to advanced technologies and emerging applications, 22nm and smaller. We saw returns on some of these product development investments in the fourth quarter with new business wins for Aluminum, Copper, TSV and post-CMP cleans. We believe the investments we made in new product development for CMP slurries this year and in the preceding years will continue to generate revenue and earnings in the future as customers adopt our high performance, high quality products.

As I mentioned earlier, we achieved record annual revenue during fiscal year 2011. However, we are somewhat cautious regarding demand trends in fiscal year 2012 due to our limited visibility into our customers' demand patterns, broader semiconductor industry trends and the continuing uncertain global macroeconomic environment. The softness in demand that we experienced during our third fiscal quarter continued through the fourth quarter, and some industry analysts currently project that softening in demand may persist into the first half of fiscal 2012. In addition, IC inventories appear to be at the higher end of normal levels and recent updates from the foundries indicate that overall capacity utilization may be as low as 60 to 70 percent.

To conclude my remarks today, I am pleased with the strategic investments we made during the year, which we believe will continue to strengthen our global position for the future. I am confident that these investments will serve us well as we continue to collaborate with our customers around the world and provide high value solutions to meet their evolving business needs. We remain mindful of the uncertain macroeconomic outlook and recent semiconductor industry trends. Moving into fiscal 2012, we intend to continue to proactively manage our business activities and respond quickly to changing trends, in the ongoing execution of our strategies to strengthen and grow our core CMP consumables businesses.

And with that, I'll turn the call over to Bill Johnson.

Thanks, Bill.

Total fourth fiscal quarter revenue of $109.7 million represents a 0.5 percent decrease from the same quarter last year and a 1.9 percent decrease from the prior quarter. We believe the decreases in revenue from the same quarter last year and the prior quarter primarily reflect softening in demand within the global semiconductor industry.

Total revenue for the full fiscal year was $445.4 million and a record level for our company, which represents a 9.1 percent increase from fiscal year 2010. Revenue from each of our CMP slurry business areas, CMP polishing Pads business and Engineered Surface Finishes business, increased from the prior year. In fact, we achieved record annual revenue in our Tungsten, Dielectric, Copper, Data Storage, Pads and ESF business areas. Full year revenue grew in each geographic area in which we operate, except for Japan. Sales were especially strong in South Korea, where our revenue grew approximately 32 percent compared to last year.

Drilling down into revenue by business area, Tungsten slurries contributed 37.4 percent of total quarterly revenue, with revenue up 1.6 percent from the same quarter a year ago and 0.3 percent sequentially. For the full year, Tungsten slurry revenue increased by 11.0 percent.

Sales of Copper products represented 14.7 percent of our total revenue, and decreased 23.1 percent from the same quarter last year and 19.6 percent sequentially. The decrease in revenue is primarily a result of reduced demand from some of our foundry customers. For the full year, our Copper product revenue increased by one half percent.

Dielectric slurries provided 27.0 percent of our revenue this quarter, with sales down 6.6 percent from the same quarter a year ago and down 4.5 percent sequentially. For the full year, Dielectric slurry revenue increased by 3.5 percent.

Data Storage products represented 6.2 percent of our quarterly revenue. This revenue was up 39.5 percent from the same quarter last year and down 0.4 percent sequentially. For the full year, revenue for data storage slurries increased by 33.5 percent.

Sales of polishing pads represented 6.7 percent of our total revenue for the quarter and decreased 10.2 percent from the same quarter last year and 2.2 percent sequentially. For the full year, polishing pad revenue was up by 3.8 percent.

Finally, revenue from our Engineered Surface Finishes, or ESF business, which includes QED, generated 7.9 percent of our total sales. Our ESF revenue was up 113 percent from the same quarter last year and up 60.4 percent sequentially. For the full year, ESF revenue increased by 51.3 percent.

Our gross profit this quarter represented 46.4 percent of revenue, compared to 48.7 percent in the same quarter last year and 47.4 percent last quarter. Compared to the year ago quarter, gross profit percentage decreased primarily due to higher fixed manufacturing costs, foreign exchange rate changes (particularly with respect to the U.S. dollar versus the Japanese yen), and selective price reductions, partially offset by a higher valued product mix. The adverse effect of foreign exchange rates reduced gross margin by 1.6 percentage points. The decrease in gross profit percentage versus the previous quarter was primarily due to increased fixed manufacturing costs and foreign exchange rate changes, which accounted for a 0.7 percentage point reduction, partially offset by reductions in certain variable costs.

For the full fiscal year, gross profit represented 48.1 percent of revenue, which is within our full fiscal year guidance range of 48 to 50 percent of revenue. Gross profit margin decreased from 49.9 percent of revenue in fiscal 2010 primarily due to higher fixed manufacturing costs, foreign exchange rate changes, which accounted for a 1.5 percentage point reduction, and selective price reductions, partially offset by a higher valued product mix.

For full fiscal year 2012, we expect our gross profit margin to be within the range of 46 to 48 percent of revenue. Compared to 2011, the gross profit margin guidance for this fiscal year reflects continued adverse impacts of foreign exchange rate changes, fixed costs associated with our new South Korea facility and uncertainty within the semiconductor industry and global economy.

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 $34.1 million were $1.4 million higher than the same quarter a year ago. The increase was driven primarily by staffing related costs and foreign exchange rate changes, partially offset by lower professional fees. Operating expenses this quarter were $0.7 million higher than in the previous quarter.

For the full fiscal year, total operating expenses were $133.7 million, which is within our guidance range for full fiscal year 2011 of $130 million to $135 million. Operating expenses were $4.2 million higher than fiscal year 2010, primarily due to higher staffing related costs and foreign exchange rate changes, partially offset by lower professional fees.

Looking forward, we expect our operating expenses for full fiscal year 2012 to be in the range of $135 million to $140 million.

Diluted earnings per share were 40 cents this quarter, including an adverse impact of approximately 6 cents associated with a higher quarterly effective tax rate. The effective tax rate in the fourth fiscal quarter increased due to factors related to share based compensation expense, primarily stock option exercises during the year, and taxes related to our company's foreign income. The net effect of the higher quarterly rate increased our annual tax rate from 32.5 percent in fiscal year 2010 to 34.5 percent in fiscal year 2011. Our earnings per share this quarter were down from 66 cents in the fourth quarter of 2010, and down from 54 cents reported in the previous quarter. Diluted earnings per share for the full year were $2.20, which is up from $2.13 in fiscal 2010. Our earnings per share this year represent a record for the company.

Turning now to cash and balance sheet related items, capital additions for the quarter were $10.7 million, bringing our full year capital spending to $33.4 million, which is slightly lower than our full year guidance of $35 million. For fiscal 2012, we expect capital spending to be between $25 million and $30 million. Depreciation and amortization expense for the quarter were $6.0 million and share-based compensation expense was $2.7 million. In addition, we purchased $14.1 million of our stock during the quarter. We ended the quarter with a cash balance of approximately $302 million and have no debt outstanding.

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

Examining revenue patterns within the three months of our fourth fiscal quarter, we saw demand for our CMP consumables products in July and August at roughly the average of the three months in our June quarter. Then we saw a roughly 15 percent reduction in CMP consumables sales in the month of September. As we observe orders for our CMP consumables products received to date in October that we expect to ship by the end of the month, we see October results trending modestly higher than the rate we saw in September. 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.