

# Fourth Quarter of Fiscal 2019 Earnings Call

November 18, 2019



## Safe Harbor Statement

*The information contained in and discussed during this presentation may include “forward-looking statements” within the meaning of federal securities regulations. These forward-looking statements involve a number of risks, uncertainties, and other factors, including those described in Cabot Microelectronics’ filings with the Securities and Exchange Commission (SEC), that could cause actual results to differ materially from those described by these forward-looking statements. Cabot Microelectronics Corporation assumes no obligation to update this forward-looking information.*

# Fourth Quarter Highlights

- › **Record Revenue of \$279M; exceeded prior year revenue by \$122M, or 78%**
  - Driven by acquisition of KMG Chemicals, Inc. (“KMG”) and growth in CMP pads business
- › **Pro Forma Revenue\* was essentially flat compared with prior year**
  - Driven by growth in CMP pads, electronic chemicals and pipeline performance products
  - CMP slurries revenue declined due to weaker semiconductor industry demand
- › **KMG-Bernuth Wood Treatment impairment charge of \$67 million,\*\* or \$50 million after-tax, due to decision to cease future investments in the business**
  - Focus to be on higher growth businesses, complementary to core
- › **Net Loss of \$20M; Adjusted Pro Forma Net Income\* of \$50M, 2% lower compared with prior year**
- › **Loss per share of \$0.70; Adjusted Pro Forma Diluted EPS\* of \$1.68, down \$0.05, or 3% vs. prior year**
- › **Adjusted Pro Forma EBITDA\* of \$85M, down \$1M, or 2%, and represents 30.6% of revenue**
  - Adjusted Pro Forma EBITDA Margin decreased 50 basis points over prior year
- › **Continued strong execution in a challenging semiconductor industry environment**

*Data reflects rounded values*

*These adjusted pro forma results are presented as if the company's acquisition of KMG Chemicals, Inc. (“KMG”) had been consummated on October 1, 2017, and exclude the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States (“tax act”) and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019). Reference Appendix for the reconciliations of selected GAAP financial data to adjusted pro forma financial data.*

*\*\*Impairment charge for the KMG-Bernuth wood treatment business is preliminary and subject to finalization of impairment analysis and control procedures.*



# Full Year Highlights

- › **Record Revenue of \$1,038M; exceeded prior year revenue by \$448M, or 76%**
  - Driven by acquisition of KMG Chemicals, Inc. (“KMG”) and growth in CMP pads business
- › **Pro Forma Revenue\* of \$1,100M; exceeded prior year pro forma revenue by \$36M, or 3%**
  - Driven by growth in CMP pads, electronic chemicals and pipeline performance products
  - CMP slurries revenue declined due to challenging semiconductor industry conditions, primarily memory
- › **Net Income of \$39M; Adjusted Pro Forma Net Income\* of \$198M, 9% higher compared with prior year**
- › **Diluted EPS of \$1.35; Adjusted Pro Forma Diluted EPS\* of \$6.72, up \$0.57, or 9% vs. prior year**
- › **Adjusted EBITDA of \$333M; Adjusted Pro Forma EBITDA\* of \$345M, up \$34M, or 11%, and represents 31.4% of revenue**
  - Adjusted Pro Forma EBITDA Margin increased 220 basis points over prior year
- › **Strong performance of acquired KMG businesses and growth in CMP pads**

*Data reflects rounded values*

*\*These adjusted pro forma results are presented as if the company's acquisition of KMG Chemicals, Inc. (“KMG”) had been consummated on October 1, 2017, and exclude the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States (“tax act”) and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019). Reference Appendix for the reconciliations of selected GAAP financial data to adjusted pro forma financial data.*



# Fourth Quarter Fiscal Year 2019 Financial Details

	Reported		Adjusted Pro Forma*		Comments on Adjusted Results
	2019 Q4	2018 Q4	2019 Q4	2018 Q4	
<b>Revenue</b>	<b>\$278.6M</b>	\$156.7M	<b>\$278.6M</b>	\$278.9M	↔ Lower revenue in CMP slurries was offset by growth in CMP pads, electronic chemicals and pipeline performance products
<b>Gross Margin</b>	<b>40.6%</b>	53.8%	<b>44.2%</b>	45.7%	↓ (-) Lower CMP slurries volume, higher expenses in wood treatment business and higher costs/less favorable product mix in electronic chemicals
<b>Net Income (Loss)</b>	<b>(\$20.2M)</b>	\$48.2M	<b>\$49.8M</b>	\$50.9M	↓ (+) Lower selling, general and administrative expenses, primarily from synergies
<b>Diluted EPS</b>	<b>(\$0.70)</b>	\$1.84	<b>\$1.68</b>	\$1.73	
<b>EBITDA</b>	-----	-----	<b>\$85.3M</b>	\$86.7M	
<b>EBITDA Margin</b>	-----	-----	<b>30.6%</b>	31.1%	

Data reflects rounded values

\* These adjusted pro forma results are presented as if the company's acquisition of KMG Chemicals, Inc. ("KMG") had been consummated on October 1, 2017, and exclude the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States ("tax act") and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019). Reference Appendix for the reconciliations of selected GAAP financial data to adjusted pro forma financial data.



# Fourth Quarter Fiscal Year 2019 Segment and Business Revenue

	Reported			Pro Forma*		
	2019 Q4	2018 Q4		2019 Q4	2018 Q4	
<b>Total Revenue</b>	\$279M	\$157M	↑	\$279M	\$279M	↔
<b>Electronic Materials</b>	\$217M	\$147M	↑	\$217M	\$226M	↓
CMP Slurries**	\$115M	\$124M	↓	\$115M	\$124M	↓
CMP Pads	\$23M	\$22M	↑	\$23M	\$22M	↑
Electronic Chemicals	\$80M	-		\$80M	\$79M	↑
<b>Performance Materials</b>	\$61M	\$10M	↑	\$61M	\$53M	↑

## Quarter Highlights:

- › CMP slurries revenue was negatively impacted by lower demand from memory customers
- › Growth in CMP pads revenue continued to be driven by customer adoption, partially offset by industry weakness
- › Electronic chemicals revenue benefited from increased demand in advanced logic
- › Performance Materials revenue growth was driven by pipeline performance products, primarily drag reducing agents (DRAs)

Data reflects rounded values

\*Pro Forma data represents calculations as if KMG results were included in total company results for the full quarter of each period represented

\*\*Includes Electronic Substrates



# Segment Financial Details

	2019 Q4	FY2019
<b>Electronic Materials Revenue</b>	<b>\$217M</b>	<b>\$833M</b>
Adjusted EBITDA*	\$74M	\$295M
Adjusted EBITDA Margin	34%	35%

<b>Performance Materials Revenue</b>	<b>\$61M</b>	<b>\$205M</b>
Adjusted EBITDA*	\$28M	\$91M
Adjusted EBITDA Margin	46%	45%

Data reflects rounded values

\*Adjusted EBITDA for the Electronic Materials and Performance Materials segments is presented in conformity with Accounting Standards Codification Topic 280, Segment Reporting. This measure is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For these reasons, this measure is excluded from the definition of non-GAAP financial measures under the SEC's Regulation G and Item 10(e) of Regulation S-K.



# Balance Sheet and Cash Flow

*as of September 30, 2019*

- › **Cash balance of \$188M**
  
- › **FY2019 Operating Cash Flow was \$177M**
  - Capital Expenditures were \$58M
  - Therefore, Free Cash Flow was \$119M
  
- › **Prepaid \$100M of debt during the fiscal year**
  
- › **Continued appropriate deleveraging of the balance sheet remains a priority**
  - Targeting 2x Net Debt/EBITDA by the end of FY20

*Data reflects rounded values*



# Wood Treatment Impairment Charge Details

- › **Future investments will focus on high-growth opportunities within the company that are complementary to core business**
  
- › **During the quarter, the company made a decision to cease future investment in the wood treatment business**
  - Will not invest to build the previously-planned U.S. production facility to replace current operations in Matamoros, Mexico and Tuscaloosa, Alabama
  - As previously communicated, will expect to continue production at current plants until around the end of calendar 2021
  - Working closely with customers on the transition
  - Exploring various options for the business
  
- › **Impairment is a non-cash after-tax charge of \$50M**
  - Adjustment to the long-lived assets associated with the business

*Data reflects rounded values*

# Current Financial Guidance

		2020 Q1	FY2020
<b>Segment</b>	<b>Electronic Materials Revenue</b>	Approximately flat*	
	<b>Performance Materials Revenue</b>	Approximately flat to up low single digit %*	
<b>Total Company</b>	<b>Revenue</b>	Approximately flat*	
	<b>Adjusted EBITDA</b>		\$350M-\$380M
	<b>Depreciation and Amortization**</b>		\$40M-\$45M
	<b>Interest Expense</b>	~\$12M	\$45M-\$48M
	<b>Tax Rate***</b>		22%-25%
	<b>Capital Spending</b>		\$100M-\$130M

Data reflects rounded values

\*Based on sequential changes compared to fourth quarter of fiscal 2019

\*\*Excludes approximately \$90 million in amortization of intangibles related to acquisitions

\*\*\*Excludes tax impact from acquisition-related expenses



# Closing Remarks

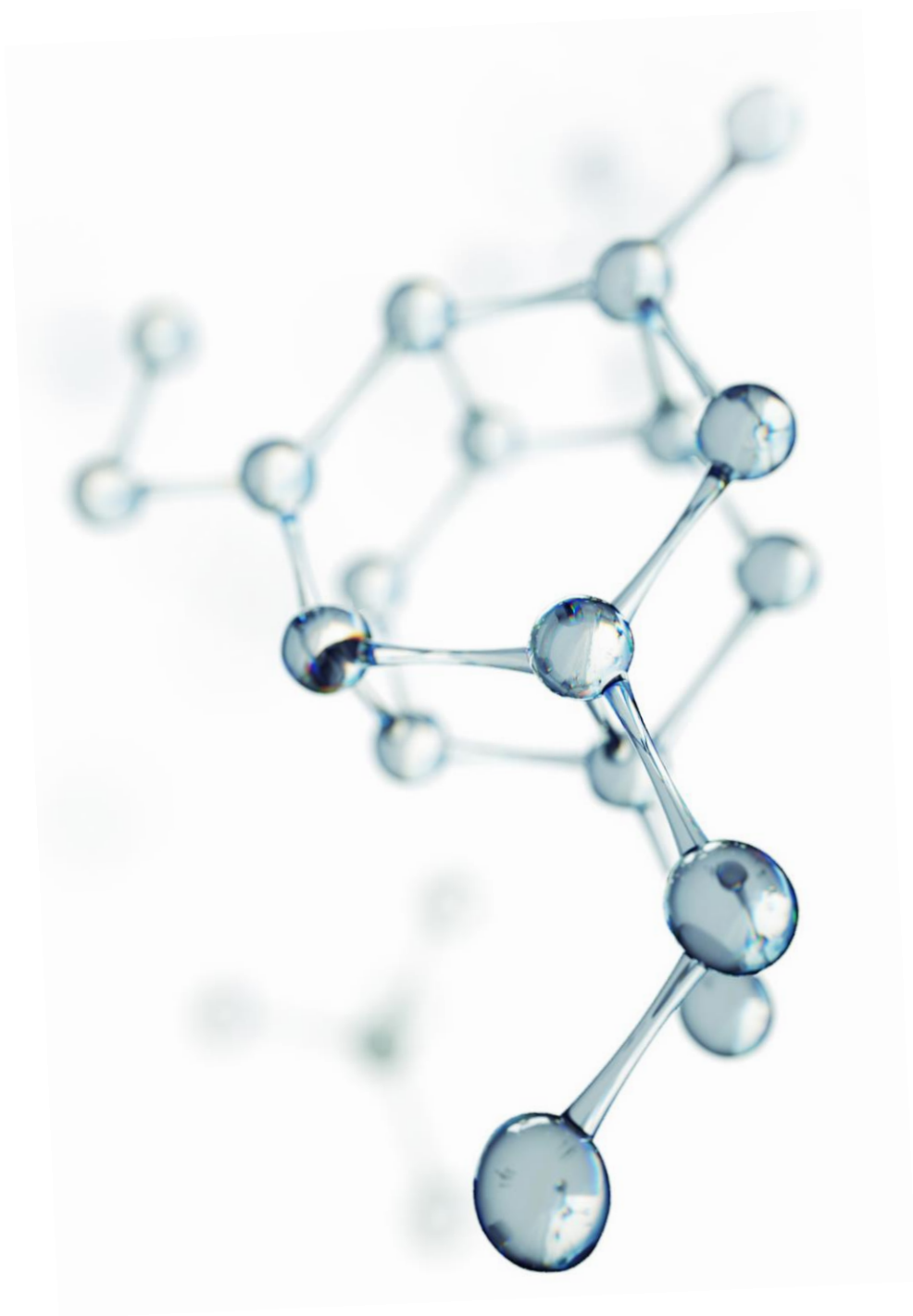
- › **Pro Forma Revenue\*** was essentially flat in Q4 and up 3% in FY19 compared to the prior year
  - Driven by growth in CMP pads, electronic chemicals, and pipeline performance products
  - CMP slurries revenue was negatively impacted by weakness in memory, but demand from advanced logic remained strong
  
- › **Adjusted Pro Forma FY19 Gross Margin\*** of 45.6% was up 50 bps compared to the prior year
  
- › **Adjusted Pro Forma FY19 EBITDA** of \$345 million, up \$34 million, or 11%
  
- › **Exceeded our goal of \$25M of synergies**
  - Ended FY19 with approximately \$26M in annualized run-rate
  - Delivered \$5M in synergies to P&L in Q4
  
- › **Earnings accretion of approximately \$1.60 per share from KMG acquisition since November 2018 close**

*Data reflects rounded values*

*\* These adjusted pro forma results are presented as if the company's acquisition of KMG Chemicals, Inc. ("KMG") had been consummated on October 1, 2017, and exclude the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States ("tax act") and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019). Reference Appendix for the reconciliations of selected GAAP financial data to adjusted pro forma financial data.*



# Appendix



# Full Fiscal Year 2019 Financial Details

	Reported		Adjusted Pro Forma*		Comments on Adjusted Results
	FY2019	FY2018	FY2019	FY2018	
<b>Revenue</b>	<b>\$1,037.7M</b>	\$590.1M	<b>\$1,099.7M</b>	\$1,063.6M	↑ Growth in CMP pads, electronic chemicals and pipeline performance offset lower revenue in CMP slurries
<b>Gross Margin</b>	<b>42.7%</b>	53.2%	<b>45.6%</b>	45.1%	↑
<b>Net Income</b>	<b>\$39.2M</b>	\$110.0M	<b>\$198.4M</b>	\$181.4M	↑
<b>Diluted EPS</b>	<b>\$1.35</b>	\$4.19	<b>\$6.72</b>	\$6.15	↑
<b>EBITDA</b>	-----	-----	<b>\$345.4M</b>	\$311.1M	↑
<b>EBITDA Margin</b>	-----	-----	<b>31.4%</b>	29.2%	↑

(+) Lower selling, general and administrative expenses, primarily from synergies  
 (-) Higher tax rate

Data reflects rounded values

\* These adjusted pro forma results are presented as if the company's acquisition of KMG Chemicals, Inc. ("KMG") had been consummated on October 1, 2017, and exclude the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States ("tax act") and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019). Reference Appendix for the reconciliations of selected GAAP financial data to adjusted pro forma financial data.



# Full Fiscal Year 2019 Segment and Business Revenue

	Reported			Pro Forma*		
	FY2019	FY2018		FY2019	FY2018	
<b>Total Revenue</b>	\$1,038M	\$590M	↑	\$1,100M	\$1,064M	↑
<b>Electronic Materials</b>	\$833M	\$560M	↑	\$873M	\$866M	↑
CMP Slurries**	\$460M	\$477M	↓	\$460M	\$477M	↓
CMP Pads	\$95M	\$83M	↑	\$95M	\$83M	↑
Electronic Chemicals	\$278M	-		\$319M	\$306M	↑
<b>Performance Materials</b>	\$205M	\$30M	↑	\$227M	\$198M	↑

Data reflects rounded values

\*Pro Forma data represents calculations as if KMG results were included in total company results for the full quarter of each period represented

\*\*Includes Electronic Substrates



# Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA

*(in thousands, except per share and percentage amounts)*

	Quarter Ended	
	September 30, 2019	September 30, 2018
<b>Net Income (loss)</b>	<b>(\$20,243)</b>	<b>\$48,218</b>
Interest expense	12,703	102
Interest income	(342)	(1,161)
Income taxes (benefit)	(10,899)	(3,195)
Depreciation & amortization	28,116	6,349
<b>EBITDA*</b>	<b>\$9,335</b>	<b>\$50,313</b>
Acquisition and integration-related expenses	1,601	3,861
Costs related to KMG-Bernuth fire	5,455	-
Costs related to restructuring of wood treatment business	1,530	-
Asset impairment charges related to wood treatment business	67,372	-
<b>Adjusted EBITDA**</b>	<b>\$85,293</b>	<b>\$54,174</b>
<b>Adjusted EBITDA margin</b>	<b>30.6%</b>	<b>34.6%</b>

\*EBITDA represents earnings before interest, taxes, depreciation and amortization

\*\*Adjusted EBITDA is calculated by excluding items from EBITDA that are believed to be infrequent or not indicative of the company's continuing operating performance

# Reconciliation of Selected GAAP Financial Data to Adjusted Pro Forma Financial Data

<i>Three Months Ended (in thousands, except percentage and per share data)</i>	September 30, 2019	September 30, 2018
<b>Reported gross profit</b>	<b>\$113,110</b>	<b>\$84,346</b>
Reported gross margin	40.6%	53.8%
Adjustments <sup>(1)</sup>	(222)	39,534
<b>Pro forma gross profit</b>	<b>\$112,888</b>	<b>\$123,880</b>
Pro forma gross margin	40.5%	44.4%
Adjustments <sup>(2)</sup>	10,294	3,470
<b>Adjusted pro forma gross profit</b>	<b>\$123,182</b>	<b>\$127,350</b>
Adjusted pro forma gross margin	44.2%	45.7%
<b>Reported net income (loss)</b>	<b>(\$20,243)</b>	<b>\$48,218</b>
Adjustments <sup>(1)</sup>	8,150	4,729
<b>Pro forma net income (loss)</b>	<b>(\$12,093)</b>	<b>\$52,947</b>
Adjustments <sup>(2)</sup>	61,870	(2,067)
<b>Adjusted pro forma net income</b>	<b>\$49,777</b>	<b>\$50,880</b>
<b>Reported diluted earnings (loss) per share</b>	<b>(\$0.70)</b>	<b>\$1.84</b>
Adjustments <sup>(1)</sup>	0.28	0.04
<b>Pro forma diluted earnings (loss) per share</b>	<b>(\$0.42)</b>	<b>\$1.80</b>
Adjustments <sup>(2)</sup>	2.10	(0.07)
<b>Adjusted pro forma diluted earnings per share</b>	<b>\$1.68</b>	<b>\$1.73</b>

<sup>1</sup> Pro forma adjustments are related to non-recurring items directly attributable to the transaction as well as recurring differences related to depreciation, amortization or financing costs that were included as if the companies were combined as of October 1, 2017.

<sup>2</sup> Primarily reflects the elimination of the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States ("tax act") and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019).





# Reconciliation of Selected GAAP Financial Data to Adjusted Pro Forma Financial Data

<i>Twelve Months Ended (in thousands, except percentage and per share data)</i>	September 30, 2019	September 30, 2018
<b>Reported gross profit</b>	<b>\$442,653</b>	<b>\$314,105</b>
Reported gross margin	42.7%	53.2%
Adjustments <sup>(1)</sup>	33,718	151,409
<b>Pro forma gross profit</b>	<b>\$476,371</b>	<b>\$465,514</b>
Pro forma gross margin	43.3%	43.8%
Adjustments <sup>(2)</sup>	24,903	13,806
<b>Adjusted pro forma gross profit</b>	<b>\$501,274</b>	<b>\$479,320</b>
Adjusted pro forma gross margin	45.6%	45.1%
<b>Reported net income</b>	<b>\$39,215</b>	<b>\$110,043</b>
Adjustments <sup>(1)</sup>	30,458	16,337
<b>Pro forma net income</b>	<b>\$69,673</b>	<b>\$126,380</b>
Adjustments <sup>(2)</sup>	128,704	54,972
<b>Adjusted pro forma net income</b>	<b>\$198,377</b>	<b>\$181,352</b>
<b>Reported diluted earnings per share</b>	<b>\$1.35</b>	<b>\$4.19</b>
Adjustments <sup>(1)</sup>	1.01	0.10
<b>Pro forma diluted earnings per share</b>	<b>\$2.36</b>	<b>\$4.29</b>
Adjustments <sup>(2)</sup>	4.36	1.86
<b>Adjusted pro forma diluted earnings per share</b>	<b>\$6.72</b>	<b>\$6.15</b>

<sup>1</sup> Pro forma adjustments are related to non-recurring items directly attributable to the transaction as well as recurring differences related to depreciation, amortization or financing costs that were included as if the companies were combined as of October 1, 2017

<sup>2</sup> Primarily reflects the elimination of the impact of non-recurring acquisition and integration related costs, acquisition-related amortization expenses, the effect of the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States ("tax act") and the newly issued final regulations related to the tax act, the effect of asset impairment and restructuring charges related to the company's wood treatment business (recorded in fourth quarter of fiscal 2019), and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama (recorded in third and fourth quarters of fiscal 2019).



# Thank you for your interest in Cabot Microelectronics Corporation

For additional information, please contact:

✉ [investor\\_relations@cabotcmp.com](mailto:investor_relations@cabotcmp.com)

☎ 630.499.2600

