

Cabot Microelectronics Corporation

Second Fiscal Quarter 2013 Conference Call Script

April 25, 2013

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

This morning we reported results for our second quarter of fiscal year 2013, 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, 2012. 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 second fiscal quarter of 2013. We believe our financial performance this quarter continues to demonstrate our ability to successfully manage our business over a range of industry conditions. Despite continued soft semiconductor industry demand and normal seasonal weakness during the quarter, we reported revenue of \$100.4 million dollars and gross profit margin of 48.2 percent, which is 210 basis points higher than the same quarter a year ago and 120 basis points higher than last quarter. In addition, earnings per share for the quarter were 40 cents.

Furthermore, for the first half of fiscal 2013, our financial performance reflects increases in revenue, gross margin and net income compared to last year. Bill Johnson will provide more detail on our financial results later in the call.

Let me start this morning with an overview of the industry environment.

Industry reports suggest that there is a slight oversupply of some IC inventories as of the end of the March quarter, compared to normal inventory levels. In response to this, IC manufacturers appear to be adjusting their utilization rates to cautiously manage inventory in the supply chain.

Indications are that manufacturers within the DRAM supply chain are being conservative, primarily due to the sluggish demand for PCs. The weak PC market is partly due to consumers favoring mobile devices, such as smartphones and tablets,

over PCs, a relatively weak reception of Windows 8 and an uncertain economic outlook. According to data from the International Data Corporation, PC shipments in the March quarter were down by approximately fourteen percent year-over-year. This decrease marks the fourth consecutive quarter of year on year declines of PC shipments. This sustained weakness in PC demand, despite the strong demand for mobile DRAM and NAND, is resulting in a negative net impact on the memory segment, which appears to be contributing to softer demand for some of our CMP consumables products. However, industry reports indicate that DRAM prices strengthened during the month of March, which suggests that inventory levels are approaching more normal levels.

While actual IC units in calendar year 2012 were even with 2011 levels, industry analysts' consensus for IC unit growth for calendar year 2013 continues to be between three and seven percent. Additionally, the Semiconductor Industry Association reported that year-to-date, global semiconductor sales through February were two percent higher than at the same point last year. Industry reports and some IC manufacturers continue to expect some strengthening in demand during the June and September quarters.

Despite the usual limited visibility into near term demand for our products, we believe that the positive trends in mobile connectivity, mobile devices, and cloud computing, and emerging markets will help offset the soft PC demand environment. We believe our global infrastructure and broad product portfolio position us well to respond quickly when industry demand strengthens.

Now let me discuss company-related matters.

As a result of our intensive focus on supporting our customers, as well as careful management of our supply chain to assure that we deliver innovative, reliable, high quality solutions to our customers, during the quarter we received two important supplier awards. We are honored to have earned Intel's most prestigious award for suppliers, the Supplier Continuous Quality Improvement award, and Texas Instruments' Supplier Excellence award for our performance in 2012. The criteria to win these awards are extremely rigorous. In particular, we are one of only eight of Intel's thousands of suppliers who won this award, and we are delighted to be recognized as an elite supplier within our customers' broader supply chains. We believe these supplier awards exemplify our commitment to deliver industry leading CMP consumable products while driving the highest standards for quality and continuous improvement throughout our robust supply chain.

Turning to trends within our core CMP consumables business, revenue from our CMP slurries increased year over year for the quarter, and year-to-date, despite continued soft industry demand. In particular, this quarter, we experienced increased demand for a number of our slurries for advanced dielectrics and aluminum applications by some of our foundry and memory customers, compared to both the same quarter last year and year-to-date. We continue to leverage our global capabilities to collaborate with our key strategic customers, and we remain committed to developing innovative solutions to help enable advanced node technologies.

Turning to our CMP polishing pads business, year-to-date our pads business grew seven percent compared to last year, but we saw a sequential revenue reduction of thirteen percent for the quarter. We believe the revenue reduction is primarily due to continued soft industry conditions, particularly at certain foundries. However, key to our value proposition in our pads business is longer pad life, and it appears that some customers are successfully polishing more wafers with our pads, thereby further extending the life of the pad. While this pad life extension validates a key element of our value proposition and reinforces customer loyalty to our products, it does serve to mitigate growth somewhat in the near term. We expect that this product benefit, and the associated customer value, will provide long term opportunities for new business wins in the future. In addition, during the quarter we captured new D100 and D200 business wins across multiple polishing applications, with both new and existing customers.

Our Data Storage business grew for the second consecutive quarter, and it is notable that it grew during a period of generally weak PC demand. Industry reports suggest that demand may have stabilized to the pre-Thailand flood levels of 2011, largely driven by cloud computing and server infrastructure expansion.

Concluding my remarks this morning, we continue to execute our strategic business initiatives in order to enable technology advancements in the industry to meet the emerging and stringent needs of our customers. As we have demonstrated over the years, we continue to manage our business successfully over a range of industry environments. We remain excited about participating in a dynamic, consumer electronics- driven industry, with growing opportunities as new technologies are introduced to the marketplace.

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

Thanks, Bill, and good morning everyone.

Revenue for the second quarter of fiscal 2013 was \$100.4 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 up by 1.1 percent from the same quarter last year and down 5.8 percent from the prior quarter. Year to date, revenue of \$206.9 million represents an increase of 2.8 percent from the prior year.

Drilling down into revenue by business area, Tungsten slurries contributed 36.7 percent of total quarterly revenue, with revenue down 3.7 percent from the same quarter a year ago and down 9.6 percent sequentially. We believe the decline in demand for PCs, with the associated reduction in demand for DRAM, which Bill mentioned earlier, accounts for our lower Tungsten business revenue this quarter.

Dielectrics slurries provided 29.6 percent of our revenue this quarter, with sales up 9.3 percent from the same quarter a year ago and down 2.1 percent sequentially.

Sales of Copper products, including slurries for polishing Barrier and Aluminum, represented 17.0 percent of our total revenue, and increased 6.2 percent from the same quarter last year and decreased 5.2 percent sequentially.

Sales of our polishing pads represented 7.4 percent of our total revenue for the quarter and reflect a decrease of 6.8 percent from the same quarter last year and a decrease of 12.5 percent sequentially. We believe the sequential revenue reduction is primarily due to continued soft industry conditions, particularly at certain foundries, and partially due to our longer pad life value proposition.

Data Storage products represented 5.4 percent of our quarterly revenue. This revenue was down 5.7 percent from the same quarter last year, and up 7.1 percent sequentially.

Finally, revenue from our Engineered Surface Finishes business, which includes QED, generated 3.9 percent of our total sales, and was down 3.3 percent from the same quarter last year and down 0.8 percent sequentially.

Our gross profit this quarter represented 48.2 percent of revenue, which is up from 46.1 percent in the same quarter a year ago and up from 47.0 percent in the prior quarter. Compared to the year ago quarter, gross profit percentage increased primarily due to lower variable manufacturing costs and benefits associated with a weaker Japanese yen versus the U.S. dollar, partially offset by a lower valued product mix. The increase in gross profit percentage versus the previous quarter was primarily due to lower variable and fixed manufacturing costs, including the positive impact of Japanese yen exchange rate changes, partially offset by lower sales volume, and a lower valued product mix.

Year to date, gross profit represented 47.6 percent of revenue, which is in the upper half of our full year guidance range of 46 to 48 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 this quarter of \$34.4 million were \$2.3 million lower than in the second quarter of fiscal 2012. The decrease was primarily due to the absence of bad debt expense related to a customer bankruptcy, partially offset by higher staffing related costs. Operating expenses were approximately \$1.0 million higher than in the previous quarter, primarily due to higher staffing related costs that we typically see during the first quarter of the calendar year, partially offset by lower depreciation expense and lower clean room materials expense.

Year to date, total operating expenses were \$67.8 million, which is 4.1 percent lower than during the same period last year. We continue to expect our full year operating expenses to be within a range of \$132 million to \$136 million for fiscal year 2013.

Diluted earnings per share were 40 cents this quarter, up from the 23 cents reported in the second quarter of fiscal 2012 primarily due to the absence of 12 cents attributable to certain adverse items recorded last year, as well as a higher gross profit margin. Our EPS was down from 41 cents in the prior quarter, mainly due to

lower revenue, partially offset by a lower effective tax rate due to enacted tax legislation. Year to date, diluted earnings per share of 81 cents is up 19.1 percent compared to last year.

Turning now to cash and balance sheet related items, capital investments for the quarter were \$2.5 million, and depreciation and amortization expense was \$5.1 million. We now expect our capital spending for the full year to be about \$20 million, which is lower than our previous estimate of between \$20 million and \$25 million. We purchased \$10.0 million of our stock during the quarter. And we ended the quarter with a cash balance of \$188.4 million, which is \$18.7 million higher than in the prior quarter, and we have \$168.4 million of debt outstanding.

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

During the second fiscal quarter, we saw a decrease in revenue for our CMP consumables products of approximately six percent compared to the prior quarter. 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 ten percent higher than the average rate in our second 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.