Cabot Microelectronics Corporation

Second Fiscal Quarter 2011 Conference Call Script

April 28, 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 second quarter of fiscal year 2011, 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-Q for the first quarter of fiscal 2011, ended December 31, 2010, 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, Amy. Good morning, everyone, and thanks for joining us.

This morning we announced strong financial results for our second fiscal quarter of 2011. We reported revenue of $109.7 million, which was up 11.3 percent from the same period a year ago due to stronger demand across all our business areas. Compared to the prior quarter, revenue was down four percent, reflecting historical seasonal trends for our company. When compared to our results in the second quarter in previous fiscal years, we achieved a record level of revenue and earnings per share. Year to date revenue was up 14.1 percent and diluted earnings per share were up 22.8 percent versus last year, which we believe positions us well for another outstanding fiscal year.

As we consider the current semiconductor industry outlook, we continue to see many positive signs. A number of semiconductor industry analysts are continuing to forecast solid semiconductor industry growth in 2011, with estimates generally ranging from five to nine percent growth in semiconductor units. In addition, our customers' near term forecasts appear to remain strong and end-use demand for electronics appears healthy. This strong end-use demand is being driven by mobile wireless platforms, enterprise spending and emerging economies.

Like all of you, we are deeply saddened by the tragic events in Japan last month. Fortunately our employees and facilities in Japan were not directly impacted, and we continue to operate without interruption. Our global team, and in particular our colleagues in Japan, have been proactively addressing the status and needs of our customers and suppliers, and we have made it our priority to assist them through this difficult time, as a trusted industry partner. It currently appears that the industry will be able to fill potential supply chain gaps before they become a significant problem. Although a number of important semiconductor manufacturers are located in Japan, it is estimated that only four percent of the world's advanced wafer starts were directly impacted by the disasters. Therefore, we believe, the effect on global wafer starts is expected to be minimal.

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

Within our CMP pad business, we continue to make inroads on customer adoptions and have a solid pipeline of evaluation activity for both our Epic D100 portfolio, as well as our new Epic D200 tunable pad platform. I am delighted to report that our D200 pad has been selected and qualified by a new pad customer as a result of the consistent performance of our D200 pad over the life of the pad, as well as its ultra low defectivity. The application for which our D200 pad was selected is currently in our customer's R and D phase, and we expect to receive related revenue from this win once the customer begins ramping production of its sub-32 nanometer technology node. We believe the timing for this revenue is likely to be several quarters away. We also have a couple of other promising opportunities with other customers in various stages of alpha testing and evaluation for leading edge applications. Overall, we are pleased with the robustness of our pad technology and the continued customer interest in our pads' capabilities, including opportunities for total cost of ownership reduction through improved yields and pad life.

Next, I want to give an update on our expansion efforts in South Korea. The construction of our manufacturing and research and development facility is progressing on schedule and we are hiring and training employees for this operation. We currently expect the building construction to be completed by the end of this fiscal year and equipment commissioning to begin in October. We believe this new facility will provide the local manufacturing and development presence that our South Korean customers desire, and will enhance our ability to collaborate in real time on development programs, positioning us well for future business opportunities.

We have also made significant progress on the expansion of our manufacturing capacity in Geino, Japan, which we anticipate will come on-line next month. This additional capacity in Japan was driven by the growth of our Tungsten and Dielectric businesses in the Asia Pacific region. In particular, we successfully targeted and are providing solutions for a new segment of the Tungsten slurry business called "buff" applications. As the name implies, this type of CMP polish step is very quick and requires minimal material removal. Our revenue from this new business area has grown to roughly $20 million a year and complements our existing strong position in Tungsten slurries for bulk removal applications.

The situation in Japan has served as a reminder to us and to our customers that there is tremendous value in working with suppliers that not only have redundant manufacturing facilities and solid business continuity plans, but also operate as trusted business partners. With four, soon to be five, slurry manufacturing plants worldwide and a global network of suppliers, we believe we are well positioned to mitigate supply interruptions when the unexpected occurs.

Also, immediately following the earthquake, we received a number of urgent sample orders from customers looking to qualify a second source of certain CMP slurries. Our account teams, which are familiar with our customers' processes and needs, were able to quickly engage with our customers regarding potential solutions. During this time, our employees pulled out all the stops to expedite requests and support qualifications with the attendant service and speed that our customers' expect. We believe that our ability to address our customers concerns with openness and speed reflects the strength of our customer relationships and their trust in us as a supplier and as a business partner.

Finally, our customers continue to recognize the success we have had in building our business partnerships with the supplier awards that we win. For example, last week we were one of only 16 suppliers to be honored with Intel's prestigious Preferred Quality Supplier award for 2010, which represents the fourth time in the last five years we have received this award. Intel is known as a leader in the industry for its very high quality, supply chain and technology standards. So, achieving an award like this is quite gratifying and speaks volumes about our ability to supply innovative, high performing CMP solutions on a consistent and reliable basis.

Concluding my remarks today, we are pleased with our solid financial results and progress with executing our strategies. We are optimistic regarding continued strong semiconductor industry demand in 2011. We believe our investment in South Korea will enhance our competitive positioning with the advanced memory customers there, much like our expanded footprint in Taiwan has enhanced our business with the foundries. We also look forward to translating potential opportunities from our new products into value for our shareholders and strengthening relationships with our customers.

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

Thanks, Bill, and good morning everyone.

Revenue for the second quarter of fiscal 2011 was $109.7 million, which was up by 11.3 percent from the second quarter of last year on increased demand across each of our business areas and down 4.0 percent from the prior quarter reflecting historical seasonal trends. Compared to the prior quarter, revenue increased within our Engineered Surface Finishes business, while all other business areas decreased. Year to date, revenue is up 14.1 percent, driven by double-digit growth in each of our business areas.

Drilling down into revenue by business area,

Tungsten slurries contributed 36.7 percent of total quarterly revenue, with revenue up 13.7 percent from the same quarter a year ago and down 4.0 percent sequentially.

Sales of Copper products represented 17.8 percent of our total revenue, and increased 7.3 percent from the same quarter last year and decreased 4.9 percent sequentially.

Dielectric slurries provided 27.1 percent of our revenue this quarter, with sales up 4.7 percent from the same quarter a year ago and down 4.6 percent sequentially.

Data Storage slurry products represented 6.4 percent of our quarterly revenue; this revenue was up 38.4 percent from the same quarter last year, reflecting several new customer wins, and down 1.9 percent sequentially.

Sales of our polishing pads represented 7.0 percent of our total revenue for the quarter; and represents an increase of 7.1 percent from the same quarter last year and a decrease of 7.6 percent sequentially.

Finally, revenue from our ESF business, which includes QED, generated 5.0 percent of our total sales, and was up 26.8 percent from the same quarter last year and up 7.2 percent sequentially.

Our gross profit this quarter represented 48.1 percent of revenue, which is down from 50.2 percent in the same quarter a year ago and 50.3 percent in the prior quarter. Compared to the year ago quarter, gross profit percentage decreased primarily due to the adverse impact of foreign exchange rate changes, selective price reductions and higher fixed manufacturing costs, partially offset by the benefit of increased utilization of our manufacturing capacity. The decrease in gross profit percentage versus the previous quarter was primarily due to selective price reductions, higher sample costs related to product evaluations, higher logistics costs driven by increased oil prices and lower manufacturing yields. Year to date, gross profit represented 49.2 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 this quarter of $33.3 million were $1.1 million higher than in the second quarter of fiscal 2010. The increase was primarily driven by higher staffing related costs and higher clean room material expenses, partially offset by lower professional fees, including costs to enforce our intellectual property, and lower travel expenses. Operating expenses were approximately $0.3 million higher than in the previous quarter, mainly due to higher clean room material expenses, staffing related costs and professional fees, partially offset by lower travel expenses.

Year to date, operating expenses were $66.3 million, or 29.6 percent of revenue. We currently expect our full year operating expenses to be in the range of $130 to $135 million, which represents an increase from our previous full year estimate of $125 to $130 million for fiscal 2011. The increase in full year operating expenses is primarily due to higher staffing related costs than previously estimated. The midpoint of this new range represents a 2.3 percent increase versus fiscal 2010.

Diluted earnings per share were 55 cents this quarter, which is up from the 47 cents reported in the second quarter of fiscal 2010 primarily due to the higher level of sales. Compared to the previous quarter, diluted EPS was down from 71 cents, mainly due to the lower level of sales and gross profit margin. Earnings per share for the quarter were adversely impacted by approximately five cents versus the prior quarter, due to taxes associated with compensation expense we had previously recognized, as well as higher average diluted shares outstanding as a result of stock option exercises and the dilutive impact of in-the-money outstanding options in light of our higher stock price. These share count increases were only partially offset by share repurchases. Year to date, diluted earnings per share of $1.26 were up 22.8 percent compared to last year.

Turning now to cash and balance sheet related items, depreciation and amortization expense was $6.0 million, share-based compensation expense was $3.8 million and capital spending for the quarter was $7.9 million. Based on updated assumptions around timing and costs associated with our South Korea and Japan expansions, we now expect our full year capital spending to be about $35 million, which is up from our previous estimate of $25 million. In addition, we purchased $15 million of our stock during the quarter, which completes our $75 million share repurchase program. Future share repurchases will be made under our new $125 million program, which was authorized last November. We ended the quarter with a cash balance of $278.3 million, which also reflects $18.3 million in cash proceeds from the exercise of stock options.

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 decrease in January, reflecting decreased demand around the Lunar New Year, and then a further decrease in February, which is a short month. These declines were followed by a strong uptick in March, our highest total revenue month on record. 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 orders trending in line with the level we saw in March. 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.