

Third Quarter of Fiscal 2019 Earnings Call

August 8, 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.

Third Quarter Highlights

- › **Record Revenue of \$272M; exceeded prior year revenue by \$121M, or 81%**
 - Driven by acquisition of KMG Chemicals, Inc. (“KMG”) and growth in CMP pads business

- › **Adjusted Pro Forma Revenue* was essentially flat compared with last year**
 - Driven by growth in CMP pads, electronic chemicals and pipeline performance products
 - CMP slurries revenue declined due to challenging semiconductor industry conditions

- › **Net Income of \$19M; Adjusted Pro Forma Net Income* of \$47M, 1% higher compared with prior year, and represents 17% of revenue**

- › **Diluted EPS of \$0.64; Adjusted Pro Forma EPS* of \$1.59, up \$0.02, or 1% vs. prior year**

- › **Adjusted Pro Forma EBITDA* of \$86M, up \$6M, or 7%, and represents 31.5% of revenue**
 - Adjusted Pro Forma EBITDA Margin increased 210 basis points over prior year

- › **Continued strong execution in a challenging industry environment; Solid performance of acquired KMG businesses**

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 and certain costs related to a warehouse fire at KMG-Bernuth in Tuscaloosa, Alabama.
Reference Appendix for Pro Forma to Adjusted Pro Forma reconciliation*



Financial Details

	GAAP Results		Adjusted Pro Forma Results*		Comments on Adjusted Results
	2019 Q3	2018 Q3	2019 Q3	2018 Q3	
Revenue	\$271.9M	\$150.4M	\$271.9M	\$272.6M	↔ Growth in CMP pads, electronic chemicals and pipeline performance products was offset by lower revenue in CMP slurries
Gross Margin	42.4%	53.6%	45.3%	45.4%	↔
Net Income	\$18.9M	\$35.2M	\$46.9M	\$46.5M	↔
Diluted EPS	\$0.64	\$1.34	\$1.59	\$1.57	↑
EBITDA	-----	-----	\$85.8M	\$80.2M	↑
EBITDA Margin	-----	-----	31.5%	29.4%	↑

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

Data reflects rounded values

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Segment and Business Revenue

	As Reported			Pro Forma*		
	2019 Q3	2018 Q3		2019 Q3	2018 Q3	
Total Revenue	\$272M	\$150M	↑	\$272M	\$273M	↔
Electronic Materials	\$212M	\$144M	↑	\$212M	\$222M	↓
CMP Slurries**	\$109M	\$123M	↓	\$109M	\$123M	↓
CMP Pads	\$23M	\$21M	↑	\$23M	\$21M	↑
Electronic Chemicals	\$80M	-		\$80M	\$78M	↑
Performance Materials	\$60M	\$7M	↑	\$60M	\$50M	↑

Quarter Highlights:

- › CMP slurries revenue was negatively impacted by lower demand from memory and foundry 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 (DRA's)

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 Q3
Electronic Materials Revenue	\$212M
Adjusted EBITDA*	\$71M
Adjusted EBITDA Margin	33%

Performance Materials Revenue	\$60M
Adjusted EBITDA*	\$27M
Adjusted EBITDA Margin	46%

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 June 30, 2019 (unless stated otherwise)

- › **Cash balance of \$169M**

- › **Year-to-date Operating Cash Flow was \$117M**
 - Year-to-Date Capital Expenditures were \$33M
 - Therefore, Year-to-Date Free Cash Flow was \$84M

- › **Prepaid \$55M of Debt in April**
 - \$100M Year-to-Date

- › **Continued appropriate deleveraging of the balance sheet remains a priority**
 - Targeting 2x Net Debt/EBITDA by the end of FY20

Data reflects rounded values

Closing Remarks

- › **Adjusted Pro Forma Revenue*** was essentially flat compared to last year
 - Driven by growth in CMP pads, electronic chemicals, and pipeline performance products
 - CMP slurries revenue was negatively impacted by weakness in memory and foundry, but advanced logic remained strong

- › **Adjusted Pro Forma Gross Margin*** of 45.3% was essentially flat compared to last year

- › **Adjusted Pro Forma Net Income*** of \$47M was essentially flat compared to last year

- › **Activities taken through July 2019 to achieve the synergies are expected to deliver \$24M annually on a run-rate basis**
 - Delivered \$4M in synergies to the third quarter P&L
 - Approaching goal of \$25M of synergies on a run-rate basis ahead of schedule

- › **Earnings accretion of approximately \$1 per share from KMG since acquisition**

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 and certain costs related to a warehouse fire at KMG Bernuth in Tuscaloosa, Alabama.
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Current Financial Guidance

		2019 Q4	FY2019
Segment	Electronic Materials Revenue	Approximately flat*	
	Performance Materials Revenue	Approximately flat*	
Total Company	Revenue	Approximately flat*	
	Adjusted EBITDA		\$325M-\$335M
	Depreciation and Amortization**		\$35M-\$40M
	Interest Expense	~\$13M	\$45M-\$46M
	Tax Rate***		24%-25%
	Capital Spending		\$55M-\$60M

Data reflects rounded values

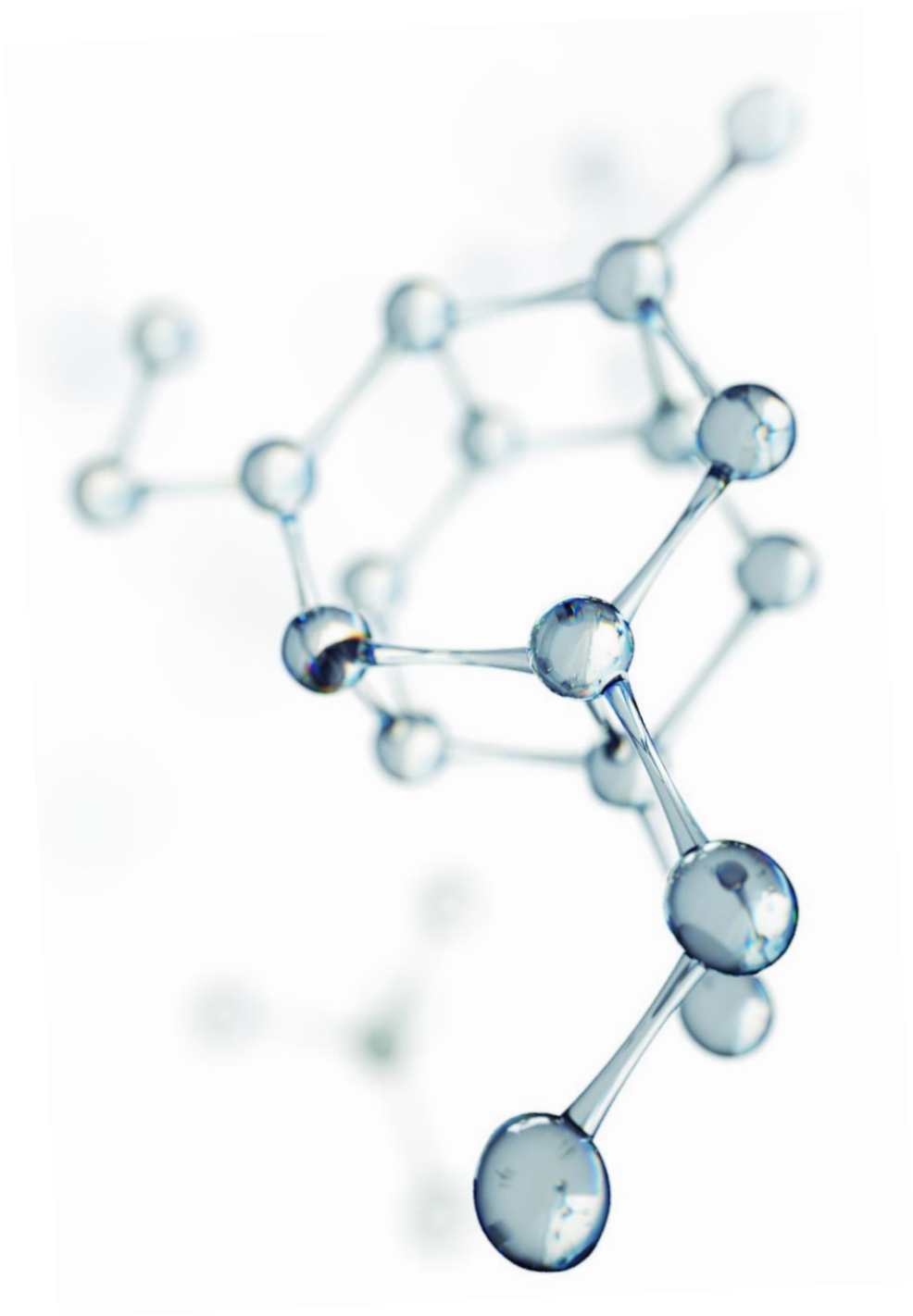
*Based on sequential changes compared to third quarter of fiscal 2019

**Excludes approximately \$60 million in amortization of intangibles related to acquisitions

***Excludes tax impact from acquisitions-related expenses



Appendix



Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA

(in thousands, except per share and percentage amounts)

	Quarter Ended	
	June 30, 2019	June 30, 2018
Net Income	\$18,878	\$35,171
Interest expense	12,757	513
Interest income	(417)	(1,141)
Income taxes	20,550	7,873
Depreciation & amortization	26,587	6,410
EBITDA*	\$78,355	\$48,826
Acquisition and integration-related expenses	2,910	—
Charge for fair value write-up of acquired inventory sold	42	—
Costs related to Tuscaloosa Fire	4,450	—
Adjusted EBITDA**	\$85,757	\$48,826
Adjusted EBITDA margin	31.5%	32.5%

*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



Pro Forma Condensed Combined Statement of Income

For the Three Months Ended June 30, 2019 (in thousands, except per share data)

	Reported	Adjustments ¹	Pro Forma Combined	Adjustments ²	Adjusted Pro Forma
Revenue	\$271,882		\$271,882		\$271,882
Gross Profit	115,390	42	115,432	7,670	123,102
Gross Margin	42.4%		42.5%		45.3%
Total Operating Expenses	63,150	3,696	66,846	(20,309)	46,537
Operating Income	52,240	(3,654)	48,586	27,979	76,565
Income before income taxes	39,428	(3,656)	35,772	27,979	63,751
Provision for Income Taxes	20,550	(855)	19,695	(2,827)	16,868
Net Income	18,878	(2,801)	16,077	30,806	46,883
Diluted earnings per share	\$0.64	(\$0.10)	\$0.54	\$1.04	\$1.59
Weighted average diluted shares outstanding	29,568		29,568		29,568

¹ 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

² Primarily reflects the elimination of acquisition related amortization expense and non-recurring integration costs



Pro Forma Condensed Combined Statement of Income

For the Three Months Ended June 30, 2018 (in thousands, except per share data)

	Cabot Microelectronics Reported	KMG Reported	Adjustments ¹	Pro Forma Combined	Adjustments ²	Adjusted Pro Forma
Revenue	\$150,437	\$122,152		\$272,589		\$272,589
Gross Profit	80,700	52,188	(12,713)	120,175	3,470	123,645
Gross Margin	53.6%	42.7%		44.1%		45.4%
Total Operating Expenses	38,770	28,214	(901)	66,083	(12,380)	53,703
Operating Income	41,930	23,974	(11,812)	54,092	15,850	69,942
Income before income taxes	43,044	20,953	(21,709)	42,288	15,850	58,138
Provision for Income Taxes	7,873	4,795	(5,083)	7,585	4,080	11,665
Net Income	35,171	16,158	(16,626)	34,703	11,770	46,473
Diluted earnings per share	\$1.34	\$1.02	(1.19)	\$1.17	\$0.40	\$1.57
Weighted average diluted shares outstanding	26,319	15,905		29,556		29,556

¹ Pro forma adjustments are related to the reclassification of KMG distribution expenses from operating expenses to cost of sales, in order to conform with Cabot Microelectronics' accounting policies. In addition, depreciation, amortization, financing and share-based compensation costs were adjusted as if the companies were combined as of October 1, 2017

² Primarily reflects the elimination of acquisition related amortization expense and an incremental tax adjustment related to the U.S. Tax Act



Thank you for your interest in Cabot Microelectronics Corporation

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