



January 31, 2018

ESI Announces Strong Third Quarter Fiscal 2018 Results

PORTLAND, Ore., Jan. 31, 2018 (GLOBE NEWSWIRE) -- Electro Scientific Industries, Inc. (NASDAQ:ESIO), an innovator of laser-based manufacturing solutions for the microtechnology industry, today announced results for its fiscal 2018 third quarter ended December 30, 2017. Financial measures are provided on both a GAAP and a non-GAAP basis. Non-GAAP results exclude the impact of purchase accounting, equity compensation, restructuring, and other items shown in the non-GAAP reconciliation table below.

Third quarter revenue was \$110.8 million, compared to \$33.8 million in the third quarter of last fiscal year. GAAP net income was \$34.0 million or \$0.94 per diluted share, compared to a net loss of \$9.7 million or \$0.29 per share one year ago. On a non-GAAP basis net income was \$35.6 million or \$0.99 per diluted share, compared to net loss of \$7.6 million or \$0.23 per share in the prior year's third quarter.

Michael Burger, ESI's president and CEO, stated, "We delivered another quarter of excellent financial results. I'm particularly proud of the entire ESI team as they demonstrated the power of our highly scalable cost model by shipping a record amount of product, resulting in dramatic increases in revenue and profitability. Our non-GAAP gross margin rate of nearly 49% enabled adjusted operating margin of over 32% and adjusted quarterly earnings of nearly \$1.00 per share."

Total orders for the quarter were \$134.0 million, compared to \$44.1 million one year ago and \$128.9 million in the prior quarter. Burger continued, "Bookings more than tripled year over year as increasingly complex consumer electronics have driven an expansion of the flexible circuit content per device, requiring flexible circuit manufacturers to add capacity of our industry-leading laser drilling products."

GAAP gross margin was 48.0%, compared to 33.9% in the third quarter of last year, on significantly higher revenues. Operating expense was \$19.9 million, down from \$21.5 million last year, as a result of our now-completed cost reduction activities that were partially offset in the quarter by higher volume-related variable expenses. Operating income was \$33.2 million, or 30% of revenue, compared to a loss of \$10.1 million in last year's third quarter.

Balance Sheet and Cash Flow

At quarter end, total cash, restricted cash and current investments increased to \$100.2 million. The company generated \$15.1 million of cash from operations during the quarter. Sequentially, and as a result of our increased production and shipment levels, inventories increased by \$13.1 million to \$74.5 million, and accounts receivable increased by \$28.0 million to \$75.7 million. Inventory turnover improved to 3.4 times and days sales outstanding remained relatively steady at 62 days.

Fourth Quarter 2018 Outlook

Based on current market and backlog conditions, revenues for the fourth quarter of fiscal 2018 are expected to be between \$95 and \$110 million. Non-GAAP earnings per diluted share is expected to be \$0.75 to \$0.95.

Burger concluded, "Similar to other capital equipment providers, our visibility of specific demand levels beyond the first quarter of fiscal 2019 remains limited. That said, we believe the underlying technology trends for our products will drive long-term growth in our targeted markets, and our business model should translate the incremental revenue into leveraged earnings growth."

The company will hold a conference call today at 5:00 p.m. ET. The session will include a review of the financial results, operational performance and business outlook, and also a question and answer period. The conference call can be accessed by calling 888-339-2688 (domestic participants) or 617-847-3007 (international participants). The conference ID number is 24885109. A live audio webcast can be accessed at www.esi.com.

Discussion of Non-GAAP Financial Measures

In this press release, we have presented financial measures which have not been determined in accordance with generally accepted accounting principles (GAAP) and are therefore non-GAAP financial measures. Non-GAAP, or adjusted, financial measures exclude the impact of purchase accounting, equity compensation, restructuring, and other items. We believe that this presentation of non-GAAP financial measures allows investors to assess the company's operating performance by

comparing it to prior periods on a more consistent basis. We have included a reconciliation of various non-GAAP financial measures to those measures reported in accordance with GAAP. Because our calculation of non-GAAP financial measures may differ from similar measures used by other companies, investors should be careful when comparing our non-GAAP financial measures to those of other companies.

About ESI

ESI enables our customers to commercialize technology using precision laser processes. ESI's solutions produce the industry's highest quality and throughput, and target the lowest total cost of ownership. ESI is headquartered in Portland, Oregon, with global operations and subsidiaries in Asia, Europe and North America. More information is available at www.esi.com.

Forward-Looking Statements

The statements contained in this press release that are not statements of historical fact, including our expected financial results for the fiscal 2018 fourth quarter and fiscal 2019 first quarter, our projections for orders and backlog, anticipated technology trends, the ability of our business model to translate incremental revenue into leveraged earnings growth, and other statements containing the words "believes", "expects", "anticipates," "continue," "will," "may," "should," and similar words, constitute forward-looking statements that are subject to a number of risks and uncertainties. These forward-looking statements are based on information available to us on the date of this release and we undertake no obligation to update these forward-looking statements for any reason. Actual results may differ materially from those in the forward-looking statements. Risks and uncertainties that may affect the forward-looking statements include those described in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, as well as: the risk that anticipated growth opportunities may be smaller than anticipated or may not be realized; risks related to the relative strength and volatility of the electronics industry; the volatility associated with the industries we serve which includes the relative level of capacity and demand, and financial strength of the manufacturers; the risk that customer orders may be canceled or delayed, including as a result of any shipment delays; our ability to respond promptly to customer requirements; the risk, especially at heightened production levels, that we may not be able to ship products on the schedule required by customers, whether as a result of production delays, supply delays, or otherwise; our ability to develop, manufacture and successfully deliver new products and enhancements; the risk that customer acceptance of new or customized products may be delayed; the risk that large orders and related revenues may not be repeated; our ability to create and sustain intellectual property protection around our products; the risk that competing or alternative technologies could reduce demand for our products; the risk that we may not be successful in penetrating new or adjacent markets; the risk that our new products may not gain acceptance in the marketplace; the risk that new products may not be introduced to the market in the anticipated time frame or at all; foreign currency fluctuations; the risk that duties or tariffs could be imposed or increased on goods imported or exported by us; the risk of timing of shipments or increased costs related to licenses for goods exported by us; the risk that changes to policies regarding immigration and visits to the United States could negatively impact our ability to hire or retain and train qualified personnel or our ability to operate internationally on an integrated basis; our ability to utilize recorded deferred tax assets; taxes, interest or penalties resulting from tax audits; and changes in tax laws or the interpretation of such tax laws.

ELECTRO SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES

Third Quarter Fiscal 2018 Results

Condensed Consolidated Statements of Operations (Unaudited)

| | Fiscal quarter ended | | | Three fiscal quarters ended | |
|---------------------------------------|----------------------|--------------|--------------|-----------------------------|--------------|
| | Dec 30, 2017 | Sep 30, 2017 | Dec 31, 2016 | Dec 30, 2017 | Dec 31, 2016 |
| (In thousands, except per share data) | | | | | |
| Net sales: | | | | | |
| Systems | \$ 99,418 | \$ 60,316 | \$ 25,427 | \$ 221,827 | \$ 85,069 |
| Services | 11,422 | 10,651 | 8,352 | 32,664 | 26,036 |
| Total net sales | 110,840 | 70,967 | 33,779 | 254,491 | 111,105 |
| Cost of sales: | | | | | |
| Systems | 52,502 | 38,179 | 17,283 | 132,107 | 53,851 |
| Services | 5,182 | 6,256 | 5,048 | 16,276 | 14,018 |
| Total cost of sales | 57,684 | 44,435 | 22,331 | 148,383 | 67,869 |
| Gross profit | 53,156 | 26,532 | 11,448 | 106,108 | 43,236 |
| Gross margin | 48.0% | 37.4% | 33.9% | 41.7% | 38.9% |
| Operating expenses: | | | | | |
| Selling, general and administrative | 11,040 | 11,648 | 13,280 | 35,496 | 38,917 |

| | | | | | |
|---|-----------|----------|------------|-----------|-------------|
| Research, development and engineering | 8,165 | 8,274 | 7,868 | 25,373 | 23,258 |
| Restructuring costs | 706 | 2,162 | 321 | 4,079 | 321 |
| Acquisition and integration costs | — | — | 31 | — | 366 |
| Total operating expenses | 19,911 | 22,084 | 21,500 | 64,948 | 62,862 |
| Operating income (loss) | 33,245 | 4,448 | (10,052) | 41,160 | (19,626) |
| Non-operating income (expense): | | | | | |
| Interest and other income (expense), net | 789 | (229) | 34 | 376 | 162 |
| Total non-operating income (expense) | 789 | (229) | 34 | 376 | 162 |
| Income (loss) before income taxes | 34,034 | 4,219 | (10,018) | 41,536 | (19,464) |
| (Benefit from) provision for income taxes | 61 | (41) | (325) | 401 | 22 |
| Net income (loss) | \$ 33,973 | \$ 4,260 | \$ (9,693) | \$ 41,135 | \$ (19,486) |
| Net income (loss) per share - basic | \$ 0.99 | \$ 0.13 | \$ (0.29) | \$ 1.22 | \$ (0.60) |
| Net income (loss) per share - diluted | \$ 0.94 | \$ 0.12 | \$ (0.29) | \$ 1.16 | \$ (0.60) |

Electro Scientific Industries, Inc.

Third Quarter Fiscal 2018 Results

Condensed Consolidated Balance Sheets (Unaudited)

| (In thousands) | Dec 30, 2017 | Sep 30, 2017 | Apr 1, 2017 |
|---|--------------|--------------|-------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 62,251 | \$ 47,973 | \$ 56,642 |
| Short-term investments | 36,824 | 32,802 | 5,743 |
| Trade receivables, net | 75,674 | 47,565 | 40,494 |
| Inventories | 74,502 | 61,423 | 58,942 |
| Shipped systems pending acceptance | 5,780 | 7,765 | 5,713 |
| Other current assets | 5,116 | 5,309 | 6,180 |
| Total current assets | 260,147 | 202,837 | 173,714 |
| Non-current assets: | | | |
| Property, plant and equipment, net | 19,732 | 18,874 | 21,619 |
| Goodwill | 2,626 | 2,626 | 3,027 |
| Acquired intangible assets, net | 5,525 | 5,883 | 6,564 |
| Income taxes receivable | 935 | — | — |
| Other assets ⁽¹⁾ | 17,339 | 17,819 | 19,821 |
| Total assets | \$ 306,304 | \$ 248,039 | \$ 224,745 |
| Liabilities and shareholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 38,577 | \$ 24,378 | \$ 21,213 |
| Accrued liabilities | 40,391 | 32,050 | 22,186 |
| Deferred revenue | 11,982 | 15,782 | 14,712 |
| Total current liabilities | 90,950 | 72,210 | 58,111 |
| Non-current liabilities | | | |
| Long-term debt | 12,875 | 12,982 | 13,489 |
| Income taxes payable | 1,587 | 1,285 | 1,036 |
| Other liabilities | 10,085 | 7,956 | 7,578 |
| Total liabilities | 115,497 | 94,433 | 80,214 |
| Shareholders' equity: | | | |
| Preferred and common stock | 211,330 | 208,670 | 207,152 |
| Accumulated deficit | (20,273) | (54,246) | (61,407) |
| Accumulated other comprehensive loss | (250) | (818) | (1,214) |
| Total shareholders' equity | 190,807 | 153,606 | 144,531 |
| Total liabilities and shareholders' equity | \$ 306,304 | \$ 248,039 | \$ 224,745 |
| End of period shares outstanding | 34,309 | 34,067 | 33,260 |

(1) Included in Other assets is long-term restricted cash of \$1.1 million each on Dec 30, 2017, Sep 30, 2017 and Apr 1, 2017.

Electro Scientific Industries, Inc.

Analysis of Third Quarter Fiscal 2018 Results

(Unaudited)

| (Dollars and shares in thousands) | Fiscal quarter ended | | | Three fiscal quarters ended | |
|-----------------------------------|----------------------|------------------|------------------|-----------------------------|-------------------|
| | Dec 30, 2017 | Sep 30, 2017 | Dec 31, 2016 | Dec 30, 2017 | Dec 31, 2016 |
| Sales detail: | | | | | |
| Printed Circuit Board | \$ 83,799 | \$ 43,541 | \$ 15,987 | \$ 179,658 | \$ 60,432 |
| Component Test | 7,473 | 7,677 | 5,407 | 23,331 | 14,999 |
| Semiconductor | 12,351 | 12,028 | 6,690 | 31,116 | 21,521 |
| Industrial Machining | 7,217 | 7,721 | 5,695 | 20,386 | 14,153 |
| Net Sales | \$ 110,840 | \$ 70,967 | \$ 33,779 | \$ 254,491 | \$ 111,105 |

As % of Net Sales

| GAAP | | | | | |
|---|--------|--------|--------|--------|--------|
| Gross profit | 48.0% | 37.4% | 33.9% | 41.7% | 38.9% |
| Selling, general and administrative expense | 10% | 16% | 39% | 14% | 35% |
| Research, development and engineering expense | 7% | 12% | 23% | 10% | 21% |
| Total operating expenses | 18% | 31% | 64% | 26% | 57% |
| Operating income (loss) | 30% | 6% | (30%) | 16% | (18%) |
| Non-GAAP | | | | | |
| Gross profit | 48.9% | 46.4% | 34.5% | 47.6% | 40.7% |
| Net operating expenses | 17% | 26% | 57% | 23% | 51% |
| Operating income (loss) | 32% | 20% | (23%) | 25% | (11%) |
| GAAP - Effective tax rate % | 0.2% | (1.0%) | 3.2% | 1.0% | (0.1%) |
| Weighted average shares outstanding | | | | | |
| Basic | 34,224 | 33,861 | 32,919 | 33,839 | 32,379 |
| Diluted GAAP | 36,010 | 34,874 | 32,919 | 35,562 | 32,379 |
| Diluted Non-GAAP | 36,010 | 34,874 | 32,919 | 35,562 | 32,379 |
| End of period employees | 595 | 594 | 716 | 595 | 716 |

Reconciliation of Cash and Investments

| | Dec 30, 2017 | Sep 30, 2017 | Apr 1, 2017 | Dec 31, 2016 |
|---|----------------|---------------|---------------|---------------|
| Cash | 33,565 | 29,998 | 29,302 | 30,325 |
| Cash equivalents | 28,686 | 17,975 | 27,340 | 14,566 |
| Restricted cash | 1,087 | 1,098 | 1,090 | — |
| Cash, cash equivalents, and restricted cash at end of period | 63,338 | 49,071 | 57,732 | 44,891 |
| Short-term investments | 36,824 | 32,802 | 5,743 | 6,301 |
| Cash, restricted cash and current investments | 100,162 | 81,873 | 63,475 | 51,192 |

Electro Scientific Industries, Inc. Third Quarter Fiscal 2018 Results Reconciliation of GAAP to Non-GAAP Financial Measures: (Unaudited)

| (In thousands, except per share data) | Fiscal quarter ended | | | Three fiscal quarters ended | |
|--|----------------------|------------------|------------------|-----------------------------|------------------|
| | Dec 30, 2017 | Sep 30, 2017 | Dec 31, 2016 | Dec 30, 2017 | Dec 31, 2016 |
| Gross profit per GAAP | \$ 53,156 | \$ 26,532 | \$ 11,448 | \$ 106,108 | \$ 43,236 |
| Purchase accounting | 242 | 242 | 229 | 735 | 686 |
| Equity compensation | 64 | 77 | 142 | 208 | 398 |
| Charges for other asset and inventory impairment | — | 6,083 | (170) | 13,277 | 946 |

| | | | | | |
|--|------------------|------------------|--------------------|-------------------|--------------------|
| Charges from VAT audit | 777 | — | — | 777 | — |
| Non-GAAP gross profit | \$ 54,239 | \$ 32,934 | \$ 11,649 | \$ 121,105 | \$ 45,266 |
| Operating expenses per GAAP | \$ 19,911 | \$ 22,084 | \$ 21,500 | \$ 64,948 | \$ 62,862 |
| Purchase accounting | (116) | (117) | (210) | (452) | (663) |
| Equity compensation | (649) | (1,253) | (1,674) | (3,113) | (4,227) |
| Impairment of assets | — | — | 54 | — | (46) |
| Acquisition and integration costs | — | — | (31) | — | (366) |
| Restructuring costs | (706) | (2,162) | (321) | (4,079) | (372) |
| Non-GAAP operating expenses | \$ 18,440 | \$ 18,552 | \$ 19,318 | \$ 57,304 | \$ 57,188 |
| Operating income (loss) per GAAP | \$ 33,245 | \$ 4,448 | \$ (10,052) | \$ 41,160 | \$ (19,626) |
| Non-GAAP adjustments to gross profit | 1,083 | 6,402 | 201 | 14,997 | 2,030 |
| Non-GAAP adjustments to operating expenses | 1,471 | 3,532 | 2,182 | 7,644 | 5,674 |
| Non-GAAP operating income (loss) | \$ 35,799 | \$ 14,382 | \$ (7,669) | \$ 63,801 | \$ (11,922) |
| Non-operating income (expense), net per GAAP | \$ 789 | \$ (229) | \$ 34 | \$ 376 | \$ 162 |
| Gain on asset sale net of other non-operating expenses | (687) | — | — | (687) | — |
| Acquisition-related adjustments | — | — | — | — | (190) |
| Non-GAAP non-operating income (expense) | \$ 102 | \$ (229) | \$ 34 | \$ (311) | \$ (28) |
| Non-GAAP income (loss) before income taxes | \$ 35,901 | \$ 14,153 | \$ (7,635) | \$ 63,490 | \$ (11,950) |
| Net income (loss) per GAAP | \$ 33,973 | \$ 4,260 | \$ (9,693) | \$ 41,135 | \$ (19,486) |
| Non-GAAP adjustments to gross profit | 1,083 | 6,402 | 201 | 14,997 | 2,030 |
| Non-GAAP adjustments to operating expenses | 1,471 | 3,532 | 2,182 | 7,644 | 5,674 |
| Non-GAAP adjustments to non-operating expense | (687) | — | — | (687) | (190) |
| Income tax effect of other non-GAAP adjustments | (235) | (483) | (248) | (742) | (284) |
| Non-GAAP net income (loss) | \$ 35,605 | \$ 13,711 | \$ (7,558) | \$ 62,347 | \$ (12,256) |
| Basic Non-GAAP net income (loss) per share | \$ 1.04 | \$ 0.40 | \$ (0.23) | \$ 1.84 | \$ (0.38) |
| Diluted Non-GAAP net income (loss) per share | \$ 0.99 | \$ 0.39 | \$ (0.23) | \$ 1.75 | \$ (0.38) |

Electro Scientific Industries, Inc.

Third Quarter Fiscal 2018 Results

Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Fiscal quarter ended | | | Three fiscal quarters ended | |
|--|----------------------|------------------|------------------|-----------------------------|------------------|
| | Dec 30, 2017 | Sep 30, 2017 | Dec 31, 2016 | Dec 30, 2017 | Dec 31, 2016 |
| (In thousands) | | | | | |
| Net income (loss) | \$ 33,973 | \$ 4,260 | \$ (9,693) | \$ 41,135 | \$ (19,486) |
| Non-cash adjustments and changes in operating activities | (18,872) | 14,005 | 6,017 | (338) | 19,787 |
| Net cash provided by (used in) operating activities | 15,101 | 18,265 | (3,676) | 40,797 | 301 |
| Net cash (used in) provided by investing activities | (2,974) | (28,597) | (3,687) | (36,360) | 2,817 |
| Net cash provided by (used in) financing activities | 1,838 | (725) | 381 | 607 | 242 |
| Effect of exchange rate changes on cash | 302 | 125 | (812) | 562 | (882) |
| NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 14,267 | (10,932) | (7,794) | 5,606 | 2,478 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD | 49,071 | 60,003 | 52,685 | 57,732 | 42,413 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD | \$ 63,338 | \$ 49,071 | \$ 44,891 | \$ 63,338 | \$ 44,891 |

Reconciliation of GAAP to Non-GAAP Financial Measures - Projected**Fiscal quarter ending
March 31, 2018**

| | |
|--|--------------------|
| Non-GAAP earnings per diluted share | 0.75 - 0.95 |
| Purchase accounting | (0.01) |
| Equity compensation | (0.04) |
| Other items | (0.05) |
| GAAP earnings per diluted share | 0.65 - 0.85 |

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 Primary Logo

Source: Electro Scientific Industries, Inc.

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