

# EFI Q3 2010 Earnings Call



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# Safe Harbor For Forward-Looking Statements

Certain statements in this presentation are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Statements other than statements of historical fact including words such as “anticipate”, “believe”, “estimate”, “expect”, “consider” and “plan” and statements in the future tense are forward looking statements. The statements in this presentation that could be deemed forward-looking statements include statements regarding our financial prospects, product development, demand for our products and any statements or assumptions underlying any of the foregoing.

Forward-looking statements are subject to certain risks and uncertainties that could cause our actual future results to differ materially, or cause a material adverse impact on our results. Potential risks and uncertainties include, but are not necessarily limited to, inaccurate data or assumptions; unforeseen expenses; the difficulty of aligning expense levels with revenue changes; execution of actions to reduce our operational costs and ability to maintain effective cost control measures; unexpected declines in revenues or increases in expenses; management’s ability to forecast revenues, expenses and earnings, especially on a quarterly basis; the market prices of the Company’s common stock; the uncertainty regarding the amount and timing of future share repurchases by the Company and the origin of funds used for such repurchases; any world-wide financial and economic difficulties and downturns, including contraction in credit markets, and adverse variations in foreign exchange rates, that could affect demand for our products, and increase the volatility of our profitability, as well as the risk of bank failures, insolvency or illiquidity of other financial institutions and other adverse conditions in financial markets that could cause a loss of our cash deposits and invested cash and cash equivalents; uncertainty to accurately predict the outcome of foreign tax audits and determine our tax provisions; uncertainty regarding our effective tax rate in the future that may be impacted by various factors, including but not limited to new U.S. tax legislative proposals; changes in, or the failure or inability to comply with U.S., foreign and local governmental regulations, including import/export regulations or duties; failure to retain key employees; product cancellation costs; a significant decline or delay in demand for our products by any of our important OEM partners; the unpredictability of development schedules and commercialization of the products manufactured and sold by our OEM partners; variations in growth rates or declines in the printing and imaging markets across various geographic regions; changes in historic customer order patterns, including changes in customer and channel inventory levels; changes in the mix of products sold leading to variations in operating results; the uncertainty of market acceptance of new product introductions; delays in product deliveries that cause quarterly revenues and income to fall significantly short of anticipated levels; competition and/or market factors, which may adversely affect margins; competition in each of our businesses, including competition from products internally developed by EFI’s customers; challenge of managing assets levels, including inventory and variations in inventory valuation; intense competition in the industrial and commercial digital inkjet market; the uncertainty of continued success in technological advances, including development and implementation of new processes and strategic products; the challenges of obtaining timely, efficient and quality product manufacturing and components supplying; litigation involving intellectual property rights or other related matters; our ability to successfully integrate acquired businesses, without operational disruption to our existing businesses; the potential that investments in new business strategies and initiatives could disrupt the Company’s ongoing businesses and may present risks not originally contemplated; the potential loss of sales, unexpected costs or adverse impact on relations with customers or suppliers as a result of acquisitions; differences between the financial results as filed with the SEC and the preliminary results included in our earnings or other press releases due to the complexity in accounting rules; and any other risk factors that may be included from time to time in the Company’s SEC reports.

The statements in this presentation are made as of the date of this presentation. EFI undertakes no obligation to update information contained in this presentation. For further information regarding risks and uncertainties associated with EFI’s businesses, please refer to the section entitled “Factors That Could Adversely Affect Performance” in the Company’s SEC filings, including, but not limited to, its annual report on Form 10-K and its quarterly reports on Form 10-Q, copies of which may be obtained by contacting EFI’s Investor Relations Department by phone at 650-357-3828 or by email at [investor.relations@efi.com](mailto:investor.relations@efi.com) or EFI’s Investor Relations website at [www.efi.com](http://www.efi.com).

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# About our Non-GAAP Net Income and Adjustments

To supplement our consolidated financial results prepared under generally accepted accounting principles, or GAAP, we use non-GAAP measures of net income (loss) and earnings per diluted share that are GAAP net income (loss) and GAAP earnings per diluted share adjusted to exclude certain recurring and non-recurring costs, expenses and gains.

We believe that the presentation of non-GAAP net income (loss) and non-GAAP earnings per diluted share provides important supplemental information to management and investors regarding non-cash expenses, significant recurring and non-recurring items that we believe are important to understanding our financial and business trends relating to our financial condition and results of operations. Non-GAAP net income (loss) and non-GAAP earnings per diluted share are among the primary indicators used by management as a basis for planning and forecasting future periods and by management and our board of directors to determine whether our operating performance has met specified targets and thresholds. Management uses non-GAAP net income (loss) and non-GAAP earnings per diluted share when evaluating operating performance because it believes that the exclusion of the items described below, for which the amounts and/or timing may vary significantly depending upon the Company's activities and other factors, facilitates comparability of the Company's operating performance from period to period. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our business and the valuation of our Company.

We compute non-GAAP net income (loss) and non-GAAP earnings per diluted share by adjusting GAAP net income (loss) and GAAP earnings per diluted share to remove the impact of recurring amortization of acquisition-related intangibles, stock-based compensation expense, as well as restructuring related and non-recurring charges and gains and the tax effect of these adjustments. Such non-recurring charges and gains include end-of-life inventory purchase and related obsolescence, project abandonment costs, asset impairment charges, certain legal settlements, our sale of certain real estate assets, acquisition-related transaction costs and legal expenses, and costs to integrate such acquisitions into our business. Examples of these excluded items are:

Recurring charges and gains, including:

- Amortization of acquisition-related intangibles. Intangible assets acquired to date are being amortized on a straight-line basis.
- Stock-based compensation expense is recognized in accordance with FASB Accounting Standards Codification, Topic 718, Stock Compensation.

Non-recurring charges and gains, including:

- Excess solvent inventories and related end-of-life purchases.
- Acquisition-related transaction costs and legal expenses associated with the acquisition of privately held Golflane Limited, a UK private limited company, the parent holding company of Radius Solutions Incorporated, which closed on July 2, 2010.
- Restructuring and Other consists of:
  - Restructuring related charges. We have incurred restructuring charges as we reduce the number and size of our facilities and the size of our workforce.
  - Asset impairment costs consist primarily of equipment and non-cancellable purchase orders incurred relating to a planned product that was cancelled, a facility closure, and the write-off of a private minority investment.
  - Integration expenses required to integrate Radius into our business.
- Gain on sale of building & land. On January 29, 2009, we sold a portion of the Foster City, California campus for a final amount of \$137.3 million to Gilead Sciences, Inc., resulting in a gain on sale of approximately \$80.0 million as of June 30, 2009.

Tax effect of non-GAAP adjustments. After removing the non-GAAP items, we apply the principles of ASC 740, Income Taxes, to estimate the non-GAAP income tax provision in each jurisdiction in which we operate.

We have excluded the recognition of previously unrecognized tax benefits of \$8.4 million from our non-GAAP net income (loss) for the three and nine months ended September 30, 2010, respectively, to facilitate comparability of our operating performance from period to period.

These non-GAAP measures are not in accordance with or an alternative for GAAP and may be materially different from other non-GAAP measures, including similarly titled non-GAAP measures, used by other companies. The presentation of this additional information should not be considered in isolation from, as a substitute for, or superior to, net income or earnings per diluted share prepared in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect certain items that may have a material impact upon our reported financial results. We expect to continue to incur expenses of a nature similar to the non-GAAP adjustments described above, and exclusion of these items from our non-GAAP net income and non-GAAP earnings per diluted share should not be construed as an inference that these costs are unusual, infrequent or non-recurring.

For more information on the non-GAAP adjustments, please see the table captioned "Reconciliation of GAAP Net Income to Non-GAAP Net Income" included in this presentation.

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## Q3 2010 Results Summary

	9/30/10	6/30/10	% Change	9/30/09	% Change
Revenue	\$129.0M	\$119.1M	8.3%	\$100.9M	27.8%
GAAP Net Income (Loss)^*	\$13.4M	(\$2.5M)	N/M	(\$12.2M)	N/M
GAAP EPS*	\$0.29	(\$0.06)	N/M	(\$0.25)	N/M
Non-GAAP Net Income (Loss)	\$10.7M	\$4.0M	167.5%	(\$2.6M)	N/M
Non-GAAP EPS	\$0.23	\$0.09	155.6%	(\$0.05)	N/M

^Q3 2010 GAAP net income of \$13.4 million was primarily driven by the recognition of previously unrecognized tax benefits of \$8.4 million.

\*See GAAP to Non-GAAP reconciliation on later slide.

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## Reconciliation of GAAP to Non-GAAP Net Income Q3 2010 \*

(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
GAAP Net Income (Loss)	<u>\$13.4</u>	<u>(\$12.2)</u>	<u>(\$0.6)</u>	<u>\$1.2</u>
Excess solvent inventories and related end-of-life purchases	—	—	2.3	—
Amortization of identified intangibles	3.4	3.1	9.2	15.5
Stock-based compensation expense	4.9	4.9	12.1	13.3
Acquisition-related transaction costs and legal expenses	0.1	—	1.2	(0.1)
Restructuring and Other	1.0	2.2	4.0	12.2
Gain on sale of building & land	—	—	—	<u>(80.0)</u>
Tax effect of non-GAAP adjustments	<u>(12.0)</u>	<u>(0.6)</u>	<u>(13.7)</u>	<u>24.8</u>
Non-GAAP Net Income (Loss)	<u>\$10.7</u>	<u>(\$2.6)</u>	<u>\$14.5</u>	<u>(\$13.1)</u>

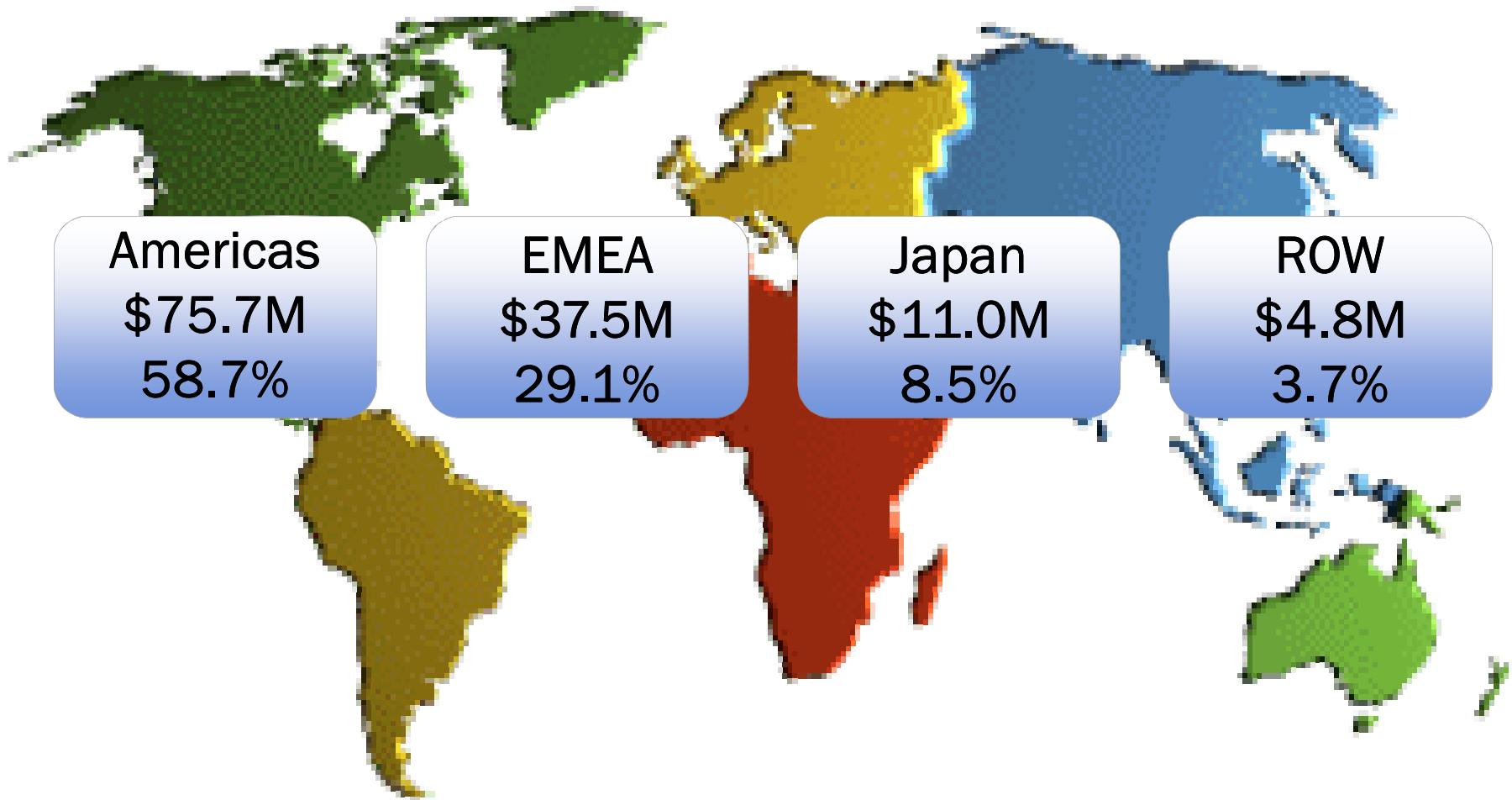
\* A description of EFI's use of non-GAAP measures is provided on slide 3 "About our non-GAAP Net Income and Adjustments."

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# Geographical Revenue

## Q3 2010: \$129.0M



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## 2010 Revenue By Business Segment

Business Segment	Q1 2010	Q2 2010	Q3 2010	Q4 2010	YTD 2010
Fiere	\$55.5M	\$56.4M	\$61.0M		\$172.9M
Inkjet	\$43.8M	\$50.2M	\$52.2M		\$146.2M
APPS (Advanced Professional Print Software)	\$11.5M	\$12.5M	\$15.8M		\$39.8M
<b>Total Revenue</b>	<b>\$110.8M</b>	<b>\$119.1M</b>	<b>\$129.0M</b>		<b>\$358.9M</b>

\*Previously reported revenue in the Fiere and APPS operating segments for the three months ended March 31, 2010 and June 30, 2010 has been revised to conform to the September 30, 2010 presentation, reflecting the reclassification of Proofing software revenue from the APPS operating segment to the Fiere operating segment. Total revenue for the three months ended March 31, 2010 and June 30, 2010 has not changed.  
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## 2009 Revenue By Business Segment

Business Segment	Q1 2009	Q2 2009	Q3 2009	Q4 2009	YTD 2009
Fieri	\$51.0M	\$41.9M	\$44.9M	\$55.2M	\$193.1M
Inkjet	\$32.1M	\$36.5M	\$44.3M	\$46.8M	\$159.7M
APPS (Advanced Professional Print Software)	\$13.0M	\$11.8M	\$11.6M	\$11.9M	\$48.3M
<b>Total Revenue</b>	<b>\$96.1M</b>	<b>\$90.1M</b>	<b>\$100.9M</b>	<b>\$114.0M</b>	<b>\$401.1M</b>

\* Previously reported revenue in the Fieri and APPS operating segments for each of the periods presented has been revised to conform to the September 30, 2010 presentation, reflecting the reclassification of Proofing software revenue from the APPS operating segment to the Fieri operating segment. Total revenue for each of the periods presented has not changed.

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## 2008 Revenue By Business Segment

Business Segment	Q1 2008	Q2 2008	Q3 2008	Q4 2008	YTD 2008
Fierey	\$71.6M	\$74.5M	\$70.6M	\$72.3M	\$289.1M
Inkjet	\$53.4M	\$58.0M	\$60.8M	\$47.8M	\$220.0M
APPS (Advanced Professional Print Software)	\$11.6M	\$11.3M	\$13.2M	\$15.2M	\$51.3M
<b>Total Revenue</b>	<b>\$136.6M</b>	<b>\$143.8M</b>	<b>\$144.7M</b>	<b>\$135.3M</b>	<b>\$560.4M</b>

\* Previously reported revenue in the Fierey and APPS operating segments for each of the periods presented has been revised to conform to the September 30, 2010 presentation, reflecting the reclassification of Proofing software revenue from the APPS operating segment to the Fierey operating segment. Total revenue for each of the periods presented has not changed.

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## 2007 Revenue By Business Segment

Business Segment	Q1 2007	Q2 2007	Q3 2007	Q4 2007	YTD 2007
Fiere	\$89.3M	\$94.3M	\$88.8M	\$69.7M	\$342.1M
Inkjet	\$48.1M	\$54.8M	\$57.1M	\$69.3M	\$229.3M
APPS (Advanced Professional Print Software)	\$10.4M	\$13.3M	\$12.4M	\$13.0M	\$49.1M
<b>Total Revenue</b>	<b>\$147.8M</b>	<b>\$162.4M</b>	<b>\$158.3M</b>	<b>\$152.0M</b>	<b>\$620.6M</b>

\* Previously reported revenue in the Fiere and APPS operating segments for each of the periods presented has been revised to conform to the September 30, 2010 presentation, reflecting the reclassification of Proofing software revenue from the APPS operating segment to the Fiere operating segment. Total revenue for each of the periods presented has not changed.

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## Gross Margin by Business Segment (Non- GAAP)

	Q3 2010	Q2 2010	Q3 2009
Fieri	68.3%	67.4%	66.0%
Inkjet *	34.5%	33.6%	33.7%
APPS	67.2%	69.1%	67.7%
EFI Consolidated	54.5%	53.3%	52.0%

\* Inkjet business segment includes VUTEk, Jetrion and Rastek product lines

\* Inkjet Q2 2010 non-GAAP gross margin excludes \$2.3M charge for excess solvent inventory and related end of life purchases



## Non-GAAP Operating Expenses

	Q3 2010	Q2 2010	Q3 2009
Non-GAAP Operating Expenses*	\$59.1M	\$56.4M	\$57.3M
Research & Development	\$26.0M (20.1% of rev.)	\$24.1M (20.2% of rev.)	\$25.3M (25.1% of rev.)
Sales & Marketing	\$26.2M (20.3% of rev.)	\$25.2M (21.1% of rev.)	\$24.7M (24.5% of rev.)
General & Administrative	\$6.9M (5.4% of rev.)	\$7.1M (6.0% of rev.)	\$7.3M (7.2% of rev.)

\* Non-GAAP operating expenses exclude the impact of amortization of acquisition-related intangibles, stock based compensation expense, as well as restructuring related and non-recurring charges and gains and the tax effect of these adjustments. Such non-recurring charges and gains include excess solvent inventories and related end of life purchases and related obsolescence, project abandonment costs, asset impairment charges, certain legal settlements, our sale of certain real estate assets, acquisition-related transaction costs and legal expenses, and costs to integrate such acquisitions into our business.

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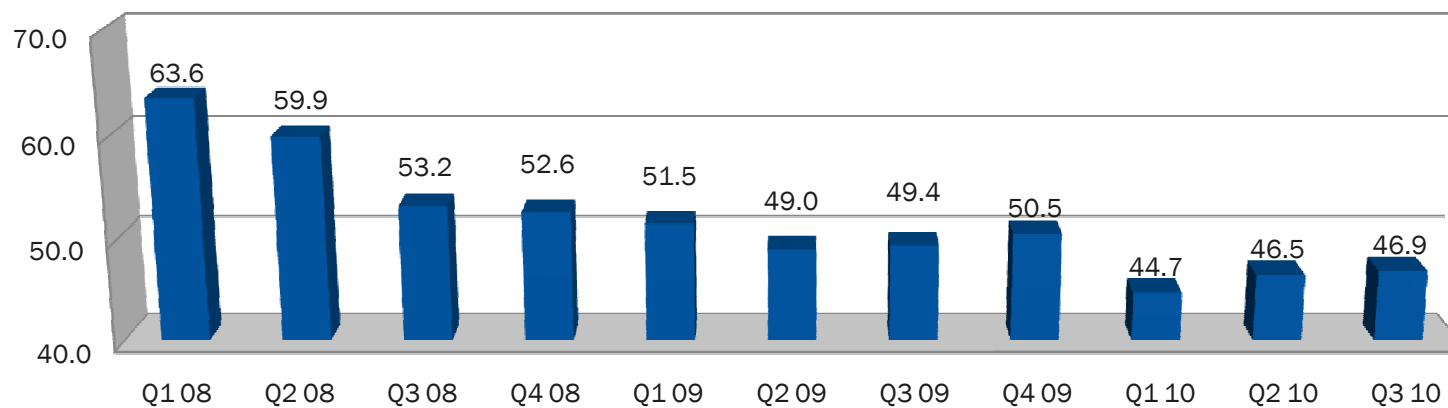
## Q3 2010 Key Balance Sheet Figures

<b>Net cash used</b> (Total cash generated was approximately \$9M after adjusting out special items such as \$14.4M in payments for the Radius acquisition and \$0.9M of other acquisition and restructuring related expenses)	<b>\$6.2 million</b>
<b>Total Cash and Investments *</b>	<b>\$ 207.0 million</b>
<b>Accounts Receivable, net</b>	<b>\$85.6 million</b>
<b>DSO</b>	<b>61.0 days</b>
<b>Inventory, net</b>	<b>\$ 45.2 million</b>
<b>Total Assets</b>	<b>\$ 684.9 million</b>

\* Excludes \$56.9 million long term restricted investments

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## EFI Share Count Fully Diluted Shares (Non-GAAP)



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## Key Takeaways

- 28% year-over-year overall revenue growth and greater than 35% year-over-year revenue growth in Fiery and Apps
- Fiery revenue eclipsed the \$60M level for the first time since Q4 08
- UV Ink volume increased 43% year-over-year, establishing a new quarterly record for UV Ink volume and revenue
- Non-GAAP EPS improved to \$0.23, compared to \$0.09 in Q2 10. Q3 EPS includes \$0.04 FX gain
- Non-GAAP Operating Margin improved to 8.6%, highest level since Q3 08 and 2.6% higher than Q2
- Inkjet gross margin improving, making positive progress toward achieving long-term Inkjet gross margin objectives
- Radius successfully integrated into the APPS segment