



November 1, 2016

ESI Announces Second Quarter Fiscal 2017 Results

PORTLAND, Ore., Nov. 01, 2016 (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 2017 second quarter ended October 1, 2016. Financial measures are provided on both a GAAP and a non-GAAP basis, which excludes the impact of purchase accounting, equity compensation, acquisition costs, and other items.

Second quarter revenue was \$29.7 million, compared to \$47.7 million in the first quarter of 2017 and \$46.5 million in the second quarter of last fiscal year. GAAP net loss was \$9.7 million or \$0.30 per share, compared to a net loss of \$0.1 million, or \$0.00 per share in the first quarter. On a non-GAAP basis net loss was \$7.7 million or \$0.24 per share, compared to net income of \$3.0 million or \$0.09 per diluted share in the prior quarter.

Michael Burger, president and CEO of ESI, said, "Our second quarter was challenging for ESI, with short-term overcapacity in our core business resulting in sequentially lower revenues, earnings, and cash flow. The team reacted appropriately to the change in market environment, by controlling operating expenses while keeping focused on our long-term growth initiatives."

Bookings in the second quarter were \$28.0 million, compared to \$30.4 million in the prior quarter and \$51.5 million last year. Burger continued, "The demand environment continues to be challenging in fiscal 2017, with year-to-date bookings down 37% from a year ago. As we expected, capital spending in the flex via drilling market remained low during the quarter. Nevertheless, we added three new flex customers, and we expect to see improvement in flex before the end of the fiscal year. Further, our Micromachining division has begun to see traction with improved quote and design-in activity. Lastly, our Visicon acquisition is beginning to produce new business opportunities, as customer interest in a laser solution with integrated verification is growing."

On a GAAP basis gross margin was 37.0%, compared to 43.7% in the prior quarter. Operating expenses were \$20.9 million, up slightly from \$20.5 million in the prior quarter. Operating loss was \$9.9 million, compared to income of \$0.3 million last quarter.

Non-GAAP gross margin was 38.2% compared to 46.7% in the prior quarter. Non-GAAP operating expenses remained flat at \$18.9 million, despite the addition of the Visicon acquisition completed during the quarter. Non-GAAP operating loss was \$7.6 million, down from income of \$3.3 million in the first quarter.

Balance Sheet and Cash Flow

At quarter end, cash and investments were \$59.1 million, compared to \$69.8 million last quarter. The company used \$7.5 million of operating cash. Inventories increased by \$2.4 million, due to the addition of Visicon inventory. Trade receivables decreased by \$4.5 million, and accounts payable decreased by \$5.4 million. In addition, the company paid approximately \$2.0 million of cash for the acquisition of Visicon.

Third Quarter 2017 Outlook

Based on current orders and backlog, revenues for the third quarter of fiscal 2017 are expected to be approximately flat with second quarter levels. Non-GAAP loss per share is expected to be \$0.25 to \$0.30.

Burger concluded, "Over the past two and a half years Ed Grady has led an effort to transform ESI by strengthening its core business while expanding into large and growing market segments that leverage ESI's technology advantages. I want to thank Ed for his visionary leadership during this turnaround."

He continued, "I'm happy to be at ESI, and I am excited by the potential for growth. The technology at this company continues to amaze me. As I begin to work with our management team during these challenging market conditions, I see opportunities to sharpen our execution and focus our efforts on new product development and adoption."

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 17972950. A live audio webcast can be accessed at www.esi.com. The webcast will be available on ESI's website for one year.

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, integration costs, inventory write-down 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's integrated solutions allow industrial designers and process engineers to control the power of laser light to transform materials in ways that differentiate their consumer electronics, wearable devices, semiconductor circuits and high-precision components for market advantage. ESI's laser-based manufacturing solutions feature the industry's highest precision and speed, 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

This press release includes forward-looking statements about the markets we serve, growth, products, revenue, and earnings per share. These forward-looking statements are based on information available to us on the date of this release and we assume 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: 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—which is dependent on many factors, including component prices, global and regional economic strength and political stability, timing of consumer product introductions and overall demand for electronic devices (such as semiconductors, printed circuit boards, displays, LEDs, capacitors and other components) used in wireless telecommunications equipment, computers and consumer and automotive electronics; the health of the financial markets and availability of credit for end customers and related effect on the global economy; 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; the ability of the company to respond promptly to customer requirements; the risk that the company may not be able to ship products on the schedule required by customers, whether as a result of production delays, supply delays, or otherwise; the ability of the company 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; the company's need to continue investing in research and development; the company's ability to hire and retain key employees; the company's ability to create and sustain intellectual property protection around its 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 we do not successfully integrate Visicon Technologies or achieve the anticipated cost synergies; the risk that the incorporation of Visicon's vision technology does not give us a competitive advantage; 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 efficiencies realized from our site consolidation are not as large as expected; the company's 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.
Second Quarter Fiscal 2017 Results
(In thousands, except per share data)
(Unaudited)

Operating Results:

| | Fiscal quarter ended | | | Two fiscal quarters ended | |
|------------|----------------------|--------------|-----------------------|---------------------------|-----------------------|
| | October 1, 2016 | July 2, 2016 | September 26, 2015 | October 1, 2016 | September 26, 2015 |
| Net sales: | | | | | |
| Systems | \$ 21,442 | \$ 38,200 | \$ 35,570 | \$ 59,642 | \$ 67,632 |
| Services | 8,216 | 9,468 | 10,902 | 17,684 | 21,931 |

| | | | | | |
|------------------------------------------|------------|----------|------------|------------|------------|
| Total net sales | 29,658 | 47,668 | 46,472 | 77,326 | 89,563 |
| Cost of sales: | | | | | |
| Systems | 14,146 | 22,422 | 22,345 | 36,568 | 43,630 |
| Services | 4,532 | 4,438 | 5,706 | 8,970 | 12,135 |
| Total cost of sales | 18,678 | 26,860 | 28,051 | 45,538 | 55,765 |
| Gross profit | 10,980 | 20,808 | 18,421 | 31,788 | 33,798 |
| | 37.0% | 43.7% | 39.6% | 41.1% | 37.7% |
| Operating expenses: | | | | | |
| Selling, general and administrative | 12,766 | 12,871 | 12,534 | 25,637 | 25,151 |
| Research, development and engineering | 7,760 | 7,630 | 8,283 | 15,390 | 16,928 |
| Acquisition and integration costs | 335 | — | 40 | 335 | 194 |
| Restructuring costs | — | — | 591 | — | 653 |
| Net operating expenses | 20,861 | 20,501 | 21,448 | 41,362 | 42,926 |
| Operating (loss) profit | (9,881) | 307 | (3,027) | (9,574) | (9,128) |
| Non-operating income (expense): | | | | | |
| Interest and other income (expense), net | 206 | (78) | 6 | 128 | 1 |
| Total non-operating income (expense) | 206 | (78) | 6 | 128 | 1 |
| (Loss) income before income taxes | (9,675) | 229 | (3,021) | (9,446) | (9,127) |
| Provision for income taxes | — | 347 | 239 | 347 | 497 |
| Net loss | \$ (9,675) | \$ (118) | \$ (3,260) | \$ (9,793) | \$ (9,624) |
| Net loss per share - basic | \$ (0.30) | \$ — | \$ (0.10) | \$ (0.30) | \$ (0.31) |
| Net loss per share - diluted | \$ (0.30) | \$ — | \$ (0.10) | \$ (0.30) | \$ (0.31) |

Electro Scientific Industries, Inc.
Second Quarter Fiscal 2017 Results
(Amounts in thousands)
(Unaudited)

Financial Position As Of:

| | <u>October 1, 2016</u> | <u>July 2, 2016</u> | <u>April 2, 2016</u> |
|---------------------------------------------|------------------------|---------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 52,685 | \$ 62,463 | \$ 42,413 |
| Short-term investments | 3,500 | 4,506 | 15,252 |
| Trade receivables, net | 29,744 | 34,272 | 42,770 |
| Inventories | 61,895 | 59,522 | 60,470 |
| Shipped systems pending acceptance | 3,893 | 2,319 | 1,181 |
| Other current assets | 5,547 | 5,219 | 5,340 |
| Total current assets | <u>157,264</u> | <u>168,301</u> | <u>167,426</u> |
| Non-current assets: | | | |
| Property, plant and equipment, net | 24,581 | 24,775 | 24,543 |
| Non-current deferred income taxes, net | 884 | 951 | 914 |
| Goodwill | 12,652 | 7,445 | 7,445 |
| Acquired intangible assets, net | 6,589 | 6,866 | 7,146 |
| Other assets | 15,448 | 14,556 | 12,626 |
| Total assets | <u>\$ 217,418</u> | <u>\$ 222,894</u> | <u>\$ 220,100</u> |
| Liabilities and shareholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 13,611 | \$ 19,031 | \$ 16,061 |
| Accrued liabilities | 17,170 | 15,024 | 18,334 |
| Deferred revenue | 10,951 | 8,812 | 6,373 |
| Total current liabilities | <u>41,732</u> | <u>42,867</u> | <u>40,768</u> |
| Non-current liabilities | | | |
| Income taxes payable | 1,360 | 1,343 | 1,266 |
| Deferred income tax liability, net | 226 | 227 | 234 |
| Other liabilities | 6,529 | 7,676 | 7,801 |
| Total liabilities | <u>49,847</u> | <u>52,113</u> | <u>50,069</u> |
| Shareholders' equity: | | | |

| | | | |
|--------------------------------------------|------------|------------|------------|
| Preferred and common stock | 202,493 | 196,077 | 195,024 |
| Accumulated deficit | (33,792) | (24,116) | (23,998) |
| Accumulated other comprehensive loss | (1,130) | (1,180) | (995) |
| Total shareholders' equity | 167,571 | 170,781 | 170,031 |
| Total liabilities and shareholders' equity | \$ 217,418 | \$ 222,894 | \$ 220,100 |
| End of period shares outstanding | 32,966 | 32,175 | 31,613 |

Electro Scientific Industries, Inc.
Analysis of Second Quarter Fiscal 2017 Results
(Dollars and shares in thousands)
(Unaudited)

| | Fiscal quarter ended | | | Two fiscal quarters ended | |
|------------------------------------------------------|----------------------|------------------|-----------------------|---------------------------|-----------------------|
| | October 1, 2016 | July 2, 2016 | September 26, 2015 | October 1, 2016 | September 26, 2015 |
| Sales detail: | | | | | |
| Component Processing | | | | | |
| Interconnect Products (IP) | \$ 13,527 | \$ 30,918 | \$ 21,500 | \$ 44,445 | \$ 42,145 |
| Component Test Products (CTP) | 4,990 | 4,602 | 4,491 | 9,592 | 10,989 |
| Semiconductor Products (SP) | 7,222 | 7,609 | 6,763 | 14,831 | 17,904 |
| | 25,739 | 43,129 | 32,754 | 68,868 | 71,038 |
| Micromachining | | | | | |
| Micromachining Products (MP) | 3,919 | 4,539 | 13,718 | 8,458 | 18,525 |
| Net Sales | \$ 29,658 | \$ 47,668 | \$ 46,472 | \$ 77,326 | \$ 89,563 |
| Gross margin % | 37.0% | 43.7% | 39.6% | 41.1% | 37.7% |
| Selling, general and administrative expense % | 43% | 27% | 27% | 33% | 28% |
| Research, development and engineering expense % | 26% | 16% | 18% | 20% | 19% |
| Operating (loss) income % | (33%) | 1% | (7%) | (12%) | (10%) |
| Effective tax rate % | —% | 152% | (8%) | (4%) | (5%) |
| Weighted average shares outstanding - basic | 32,396 | 31,815 | 31,384 | 32,109 | 31,280 |
| Weighted average shares outstanding - diluted - GAAP | 32,396 | 31,815 | 31,384 | 32,109 | 31,280 |
| End of period employees | 725 | 657 | 677 | 725 | 677 |

Electro Scientific Industries, Inc.
Second Quarter Fiscal 2017 Results
(In thousands, except per share data)
(Unaudited)

Reconciliation of GAAP to Non-GAAP Financial Measures:

| | Fiscal quarter ended | | | Two fiscal quarters ended | |
|----------------------------------------------------|----------------------|------------------|-----------------------|---------------------------|-----------------------|
| | October 1, 2016 | July 2, 2016 | September 26, 2015 | October 1, 2016 | September 26, 2015 |
| Gross profit per GAAP | \$ 10,980 | \$ 20,808 | \$ 18,421 | \$ 31,788 | \$ 33,798 |
| Purchase accounting | 228 | 229 | 325 | 457 | 591 |
| Equity compensation | 136 | 120 | 114 | 256 | 243 |
| Charges for inventory write-off of damaged product | — | 1,116 | — | 1,116 | — |
| Non-GAAP gross profit | \$ 11,344 | \$ 22,273 | \$ 18,860 | \$ 33,617 | \$ 34,632 |
| Non-GAAP gross margin | 38.2% | 46.7% | 40.6% | 43.5% | 38.7% |
| Operating expenses per GAAP | \$ 20,861 | \$ 20,501 | \$ 21,448 | \$ 41,362 | \$ 42,926 |
| Purchase accounting | (203) | (250) | (74) | (453) | (910) |
| Equity compensation | (1,383) | (1,170) | (1,126) | (2,553) | (1,866) |
| Charges for asset write-off of damaged product | — | (100) | — | (100) | — |
| Acquisition and integration costs | (335) | — | (40) | (335) | (308) |
| Restructuring costs | (14) | (37) | (591) | (51) | (124) |

| | | | | | |
|-----------------------------------------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| Non-GAAP operating expenses | \$ 18,926 | \$ 18,944 | \$ 19,617 | \$ 37,870 | \$ 39,718 |
| % of Net sales | 64 % | 40 % | 42 % | 49 % | 44 % |
| Operating (loss) income per GAAP | \$ (9,881) | \$ 307 | \$ (3,027) | \$ (9,574) | \$ (9,128) |
| Non-GAAP adjustments to gross profit | 364 | 1,465 | 439 | 1,829 | 834 |
| Non-GAAP adjustments to operating expenses | 1,935 | 1,557 | 1,831 | 3,492 | 3,208 |
| Non-GAAP operating (loss) income | \$ (7,582) | \$ 3,329 | \$ (757) | \$ (4,253) | \$ (5,086) |
| % of Net sales | (26 %) | 7 % | (2 %) | (6 %) | (6 %) |
| Non-operating income (expense), net per GAAP | \$ 206 | \$ (78) | \$ 6 | \$ 128 | \$ 1 |
| Acquisition-related adjustments | \$ (190) | \$ — | \$ — | \$ (190) | \$ — |
| Non-GAAP non-operating income (expense) | \$ 16 | \$ (78) | \$ 6 | \$ (62) | \$ 1 |
| Net income per GAAP | \$ (9,675) | \$ (118) | \$ (3,260) | \$ (9,793) | \$ (9,624) |
| Non-GAAP adjustments to gross profit | 364 | 1,465 | 439 | 1,829 | 834 |
| Non-GAAP adjustments to operating expenses | 1,935 | 1,557 | 1,831 | 3,492 | 3,208 |
| Non-GAAP adjustments to non-operating expense | (190) | — | — | (190) | — |
| Income tax effect of other non-GAAP adjustments | (101) | 65 | (53) | (36) | (152) |
| Non-GAAP net (loss) income | \$ (7,667) | \$ 2,969 | \$ (1,043) | \$ (4,698) | \$ (5,734) |
| % of Net sales | (26 %) | 6 % | (2 %) | (6 %) | (6 %) |
| Basic Non-GAAP net (loss) income per share | \$ (0.24) | \$ 0.09 | \$ (0.03) | \$ (0.15) | \$ (0.18) |
| Diluted Non-GAAP net (loss) income per share | \$ (0.24) | \$ 0.09 | \$ (0.03) | \$ (0.15) | \$ (0.18) |

Electro Scientific Industries, Inc.
Second Quarter Fiscal 2017 Results

(Amounts in thousands)
(Unaudited)

Consolidated Condensed Statements of Cash Flows:

| | Fiscal quarter ended | | | Two fiscal quarters ended | |
|------------------------------------------------------------|----------------------|------------------|-----------------------|---------------------------|-----------------------|
| | October 1, 2016 | July 2, 2016 | September 26, 2015 | October 1, 2016 | September 26, 2015 |
| Net loss | \$ (9,675) | \$ (118) | \$ (3,260) | \$ (9,793) | \$ (9,624) |
| Non-cash adjustments and changes in operating activities | 2,204 | 11,566 | 5,428 | 13,770 | 14,119 |
| Net cash (used in) provided by operating activities | (7,471) | 11,448 | 2,168 | 3,977 | 4,495 |
| Net cash (used in) provided by investing activities | (2,475) | 8,979 | (12,264) | 6,504 | (11,795) |
| Net cash provided by (used in) financing activities | 259 | (398) | 264 | (139) | 134 |
| Effect of exchange rate changes on cash | (91) | 21 | (357) | (70) | (186) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (9,778) | 20,050 | (10,189) | 10,272 | (7,352) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 62,463 | 42,413 | 53,831 | 42,413 | 50,994 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 52,685 | \$ 62,463 | \$ 43,642 | \$ 52,685 | \$ 43,642 |

Reconciliation of GAAP to Non-GAAP Financial Measures - Projected Fiscal quarter ending
December 31, 2016

| | |
|--------------------------------|------------------------|
| Non-GAAP loss per share | (0.25) - (0.30) |
| Purchase accounting | (0.01) - (0.02) |
| Equity compensation | (0.06) |
| Other items | (0.01) - (0.02) |
| GAAP loss per share | (0.33) - (0.40) |

Brian Smith

ESI

503-672-5760

smithb@esi.com

 Primary Logo

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