



May 10, 2016

ESI Announces Fourth Quarter Fiscal 2016 Results

PORTLAND, Ore., May 10, 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 2016 fourth quarter and year ended April 2, 2016. The fourth quarter comprised thirteen weeks, compared to fourteen weeks in the prior quarter and thirteen weeks in the year-ago quarter. Financial measures are provided on both a GAAP and a non-GAAP basis, which excludes the impact of purchase accounting, equity compensation, and other items.

Fourth quarter revenue was \$51.5 million, compared to \$43.3 million in the third quarter of 2016 and \$37.6 million in the fourth quarter of last fiscal year. GAAP net income was \$2.0 million or \$0.06 per diluted share. Non-GAAP net income was \$3.4 million or \$0.11 per diluted share.

"Revenue grew 19% sequentially and 37% over the same quarter last year," stated Ed Grady, president and CEO of ESI. "Revenue growth combined with diligent expense management led to a quarter of solid profitability. Further, we continued to advance our strategy by introducing Garnet™, a new large format micromachining platform, and receiving commitments for placement of our new nViant™ system at multiple customers."

Bookings in the fourth quarter were \$55.6 million, compared to \$52.6 million in the prior quarter and \$40.0 million last year. Grady continued, "Our GemStone™ flex via drilling system continues to win in the market, as we received our highest bookings to date. This more than offset low micromachining demand based on timing of project design wins and lower service contract bookings."

On a GAAP basis gross margin was 41.1%, compared with 40.9% in the third quarter. Operating expenses were \$20.1 million, down from \$22.2 million in the prior quarter. Operating income was \$1.1 million, up from a loss of \$4.5 million in the third quarter.

On a non-GAAP basis gross margin was 42.7% compared to 44.9% in the prior quarter. Non-GAAP operating expenses decreased slightly to \$18.7 million from \$19.0 million last quarter. Non-GAAP operating income was \$3.3 million, or 6.4% of sales, compared to \$0.5 million in the third quarter.

Full Year Fiscal 2016 Results

Fiscal 2016 revenue was \$184 million, up 16% compared to \$159 million in fiscal 2015. On a GAAP basis, fiscal 2016 net loss was \$12.3 million or \$0.39 per share, compared to net loss of \$43.8 million or \$1.43 per share in the prior year. On a non-GAAP basis, net loss was \$1.7 million or \$0.05 per share, compared to net loss of \$23.4 million or \$0.76 per share in 2015. Grady continued, "We began to see the impact of our turnaround strategy in fiscal 2016 as we grew revenues for the first time in four years, achieved our goal of reaching breakeven during the year, generated positive cash from operations, and advanced our strategy by introducing several new products that we believe will serve as a platform for long-term growth."

Balance Sheet and Cash Flow

At quarter end, total cash and investments were \$60 million. The company used \$3.3 million of cash in operations during the quarter. For the fiscal year the company generated \$4.7 million of operating cash. During the quarter, inventories decreased \$0.4 million, and trade receivables increased by \$5.7 million.

First Quarter 2017 Outlook

Based on current market conditions, revenues for the first quarter of fiscal 2017 are expected to be between \$48 and \$53 million. Non-GAAP earnings per diluted share is expected to be \$0.04 to \$0.09.

Grady concluded, "This quarter we continued to make progress on expanding our technology and product portfolio and growing our served market. For fiscal 2017 our focus is on driving the adoption of our new products and penetrating new markets and customers. We are starting the year with strong backlog and exciting new products, and we believe our long term growth strategy is on track. However, our quarterly results are not expected to be linear as slowing economic and market growth, capacity utilization, and timing of new product adoption may impact our results quarter to quarter over the

next year."

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 79476157. 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, 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 micro-machining industry's highest precision and speed, and target the lowest total cost of ownership. ESI is headquartered in Portland, Oregon, with global operations from the Pacific Northwest to the Pacific Rim. 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 Topwin Optoelectronics; 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 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.
Fourth Quarter and Fiscal 2016 Results
(In thousands, except per share data)
(Unaudited)

Operating Results:

| | Fiscal quarter ended | | | Fiscal year ended | |
|--|----------------------|-------------|--------------|-------------------|--------------|
| | Apr 2, 2016 | Jan 2, 2016 | Mar 28, 2015 | Apr 2, 2016 | Mar 28, 2015 |

| | | | | | |
|--|----------|------------|-------------|-------------|-------------|
| Net sales: | | | | | |
| Systems | 44,043 | 31,282 | 26,156 | 142,957 | 111,603 |
| Service | 7,443 | 12,060 | 11,415 | 41,434 | 47,515 |
| Total Net Sales | 51,486 | 43,342 | 37,571 | 184,391 | 159,118 |
| Cost of sales: | | | | | |
| Systems | 25,247 | 20,292 | 18,488 | 89,169 | 78,195 |
| Service | 5,055 | 5,329 | 6,168 | 22,519 | 26,242 |
| Total cost of sales | 30,302 | 25,621 | 24,656 | 111,688 | 104,437 |
| Gross profit | 21,184 | 17,721 | 12,915 | 72,703 | 54,681 |
| | 41.1 % | 40.9 % | 34.4 % | 39.4 % | 34.4 % |
| Operating expenses: | | | | | |
| Selling, service and administration | 12,134 | 12,468 | 12,451 | 49,753 | 48,525 |
| Research, development and engineering | 7,694 | 7,778 | 9,214 | 32,400 | 35,166 |
| Restructuring costs | 227 | 1,944 | 2,069 | 2,824 | 2,069 |
| Acquisition and integration costs | — | — | 465 | 194 | 776 |
| Impairment of goodwill | — | — | 7,889 | — | 7,889 |
| Net operating expenses | 20,055 | 22,190 | 32,088 | 85,171 | 94,425 |
| Operating income (loss) | 1,129 | (4,469) | (19,173) | (12,468) | (39,744) |
| Non-operating income (expense): | | | | | |
| Loss and other-than-temporary impairment of cost method investment | — | — | (4,263) | — | (4,263) |
| Interest and other income, net | 127 | 67 | 564 | 195 | 430 |
| Total non-operating income (expense) | 127 | 67 | (3,699) | 195 | (3,833) |
| Income (loss) before income taxes | 1,256 | (4,402) | (22,872) | (12,273) | (43,577) |
| (Benefit from) provision for income taxes | (697) | 184 | 69 | (16) | 234 |
| Net income (loss) | \$ 1,953 | \$ (4,586) | \$ (22,941) | \$ (12,257) | \$ (43,811) |
| Net income (loss) per share—basic | \$ 0.06 | \$ (0.15) | \$ (0.75) | \$ (0.39) | \$ (1.43) |
| Net income (loss) per share—diluted | \$ 0.06 | \$ (0.15) | \$ (0.75) | \$ (0.39) | \$ (1.43) |

Electro Scientific Industries, Inc.
Fourth Quarter and Fiscal 2016 Results
(Amounts in thousands)
(Unaudited)

Financial Position as of:

| | <u>Apr 2, 2016</u> | <u>Jan 2, 2016</u> | <u>Mar 28, 2015</u> |
|---|--------------------|--------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 42,413 | \$ 42,071 | \$ 50,994 |
| Short-term investments | 15,252 | 20,771 | 6,612 |
| Trade receivables, net | 42,770 | 37,012 | 42,295 |
| Inventories | 60,470 | 60,881 | 56,637 |
| Shipped systems pending acceptance | 1,181 | 1,470 | 2,516 |
| Deferred income taxes, net | — | 134 | 178 |
| Other current assets | 5,340 | 4,371 | 6,090 |
| Total current assets | <u>167,426</u> | <u>166,710</u> | <u>165,322</u> |
| Non-current assets: | | | |
| Property, plant and equipment, net | 24,543 | 23,507 | 25,858 |
| Non-current deferred income taxes, net | 914 | 98 | 174 |
| Goodwill | 7,445 | 7,445 | 7,717 |
| Acquired intangible assets, net | 7,146 | 7,909 | 8,958 |
| Other assets | 12,626 | 11,064 | 13,211 |
| Total assets | <u>\$ 220,100</u> | <u>\$ 216,733</u> | <u>\$ 221,240</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 16,061 | \$ 16,344 | \$ 9,514 |
| Accrued liabilities | 18,334 | 20,980 | 18,666 |
| Deferred income tax liability, net | — | 174 | 173 |

| | | | |
|---|------------|------------|------------|
| Deferred revenue | 6,373 | 7,708 | 12,376 |
| Total current liabilities | 40,768 | 45,206 | 40,729 |
| Non-current liabilities: | | | |
| Income taxes payable | 1,266 | 1,384 | 1,176 |
| Deferred income tax liability, net | 234 | 232 | 443 |
| Other liabilities | 7,801 | 3,166 | 1,571 |
| Total liabilities | 50,069 | 49,988 | 43,919 |
| Shareholders' equity: | | | |
| Preferred and common stock | 195,024 | 193,547 | 189,134 |
| (Accumulated deficit) retained earnings | (23,998) | (25,950) | (11,741) |
| Accumulated other comprehensive (loss) income | (995) | (852) | (72) |
| Total shareholders' equity | 170,031 | 166,745 | 177,321 |
| Total liabilities and shareholders' equity | \$ 220,100 | \$ 216,733 | \$ 221,240 |
| End of period shares outstanding | 31,613 | 31,537 | 30,704 |

Electro Scientific Industries, Inc.
Analysis of Fourth Quarter and Fiscal 2016 Results
(Dollars and shares in thousands)
(Unaudited)

| | Fiscal quarter ended | | | Fiscal year ended | |
|---|----------------------|-------------|--------------|-------------------|--------------|
| | Apr 2, 2016 | Jan 2, 2016 | Mar 28, 2015 | Apr 2, 2016 | Mar 28, 2015 |
| Sales detail: | | | | | |
| Component Processing | | | | | |
| Interconnect Products (IP) | \$ 29,152 | \$ 22,824 | \$ 18,382 | \$ 94,121 | \$ 66,913 |
| Component Products (CP) | 5,609 | 3,303 | 5,113 | 19,901 | 19,099 |
| Semiconductor Products (SP) | 8,974 | 11,384 | 6,617 | 38,262 | 38,586 |
| Total Component Processing | \$ 43,735 | \$ 37,511 | \$ 30,112 | \$ 152,284 | \$ 124,598 |
| Micromachining | | | | | |
| Micromachining Products (MP) | 7,751 | 5,831 | 7,459 | 32,107 | 34,520 |
| Net Sales | \$ 51,486 | \$ 43,342 | \$ 37,571 | \$ 184,391 | \$ 159,118 |
| Gross margin % | 41.1% | 40.9% | 34.4% | 39.4% | 34.4% |
| Selling, service and administration expense % | 24% | 29% | 33% | 27% | 30% |
| Research, development and engineering expense % | 15% | 18% | 25% | 18% | 22% |
| Operating income/(loss) % | 2% | (10%) | (51%) | (7%) | (25%) |
| Effective tax rate % | (55.5%) | (4%) | —% | 0.1% | (0.5%) |
| Weighted average shares outstanding - basic | 31,580 | 31,495 | 30,923 | 31,411 | 30,611 |
| Weighted average shares outstanding - diluted | 32,393 | 31,713 | 30,923 | 31,411 | 30,611 |
| End of period employees | 651 | 647 | 695 | 651 | 695 |

Electro Scientific Industries, Inc.
Fourth Quarter and Fiscal 2016 Results
(In thousands, except per share data)
(Unaudited)

Reconciliation of GAAP to Non-GAAP Financial Measures:

| | Fiscal quarter ended | | | Fiscal year ended | |
|--|----------------------|-------------|--------------|-------------------|--------------|
| | Apr 2, 2016 | Jan 2, 2016 | Mar 28, 2015 | Apr 2, 2016 | Mar 28, 2015 |
| Gross profit per GAAP | \$ 21,184 | \$ 17,721 | \$ 12,915 | \$ 72,703 | \$ 54,681 |
| Purchase accounting | 278 | 271 | 298 | 1,140 | 1,134 |
| Equity compensation | 99 | 103 | 112 | 445 | 586 |
| Charges for inventory write-off of discontinued product | — | 1,356 | 952 | 1,356 | 952 |
| Charges for intangible write-off of discontinued product | 435 | — | — | 435 | — |

| | | | | | |
|---|------------------|------------------|-------------------|-------------------|--------------------|
| Non-GAAP gross profit | \$ 21,996 | \$ 19,451 | \$ 14,277 | \$ 76,079 | \$ 57,353 |
| Non-GAAP gross margin | 42.7% | 44.9% | 38.0% | 41.3% | 36.0% |
| Operating expenses per GAAP | \$ 20,055 | \$ 22,190 | \$ 32,088 | \$ 85,171 | \$ 94,425 |
| Purchase accounting | (262) | (264) | (90) | (1,229) | (360) |
| Equity compensation | (882) | (1,020) | (946) | (3,787) | (3,874) |
| Acquisition and integration costs | — | — | (465) | (194) | (776) |
| Restructuring costs | (227) | (1,944) | (2,069) | (2,824) | (2,069) |
| Impairment of goodwill | — | — | (7,889) | — | (7,889) |
| Non-GAAP operating expenses | \$ 18,684 | \$ 18,962 | \$ 20,629 | \$ 77,137 | \$ 79,457 |
| % of Net sales | 36% | 44% | 55% | 42% | 50% |
| Operating income (loss) per GAAP | \$ 1,129 | \$ (4,469) | \$ (19,173) | \$ (12,468) | \$ (39,744) |
| Non-GAAP adjustments to gross profit | 812 | 1,730 | 1,362 | 3,376 | 2,672 |
| Non-GAAP adjustments to operating expenses | 1,371 | 3,228 | 11,459 | 8,034 | 14,968 |
| Non-GAAP operating income (loss) | \$ 3,312 | \$ 489 | \$ (6,352) | \$ (1,058) | \$ (22,104) |
| % of Net sales | 6% | 1% | (17%) | (1%) | (14%) |
| Non-operating income (expense), net per GAAP | \$ 127 | \$ 67 | \$ (3,699) | \$ 195 | \$ (3,833) |
| Loss and other-than-temporary impairment of cost method investments | — | — | 4,263 | — | 4,263 |
| Gain on liquidation of foreign subsidiary | — | — | (597) | — | (597) |
| Non-GAAP non-operating income (expense) | \$ 127 | \$ 67 | \$ (33) | \$ 195 | \$ (167) |
| Net income (loss) per GAAP | \$ 1,953 | \$ (4,586) | \$ (22,941) | \$ (12,257) | \$ (43,811) |
| Non-GAAP adjustments to gross profit | 812 | 1,730 | 1,362 | 3,376 | 2,672 |
| Non-GAAP adjustments to operating expenses | 1,371 | 3,228 | 11,459 | 8,034 | 14,968 |
| Non-GAAP adjustments to non-operating expense | — | — | 3,666 | — | 3,666 |
| Income tax effect of other non-GAAP adjustments | (731) | 26 | (83) | (857) | (913) |
| Non-GAAP net income (loss) | \$ 3,405 | \$ 398 | \$ (6,537) | \$ (1,704) | \$ (23,418) |
| % of Net sales | 7% | 1% | (17%) | (1%) | (15%) |
| Basic Non-GAAP net income (loss) per share | \$ 0.11 | \$ 0.01 | \$ (0.21) | \$ (0.05) | \$ (0.76) |
| Diluted Non-GAAP net income (loss) per share | \$ 0.11 | \$ 0.01 | \$ (0.21) | \$ (0.05) | \$ (0.76) |

Electro Scientific Industries, Inc.
Fourth Quarter and Fiscal 2016 Results
(Amounts in thousands)
(Unaudited)

Consolidated Condensed Statements of Cash Flows:

| | Fiscal quarter ended | | | Fiscal year ended | |
|--|----------------------|------------------|------------------|-------------------|------------------|
| | Apr 2, 2016 | Jan 2, 2016 | Mar 28, 2015 | Apr 2, 2016 | Mar 28, 2015 |
| Net income (loss) | \$ 1,953 | \$ (4,586) | \$ (22,941) | \$ (12,257) | \$ (43,811) |
| Non-cash adjustments and changes in operating activities | (5,249) | 8,089 | 11,969 | 16,959 | 16,318 |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (3,296) | 3,503 | (10,972) | 4,702 | (27,493) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 3,217 | (5,234) | (8,213) | (13,812) | 20,207 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 313 | 277 | 456 | 724 | (8,709) |
| Effect of exchange rate changes on cash | 108 | (117) | (343) | (195) | (1,472) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 342 | (1,571) | (19,072) | (8,581) | (17,467) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 42,071 | 43,642 | 70,066 | 50,994 | 68,461 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 42,413 | \$ 42,071 | \$ 50,994 | \$ 42,413 | \$ 50,994 |

Reconciliation of GAAP to Non-GAAP Financial Measures - Projected Fiscal quarter ending
Jul 2, 2016

| | |
|--|-------------------------|
| Non-GAAP diluted earnings per share | \$ 0.04 - \$0.09 |
| Purchase accounting | (0.02) |
| Equity compensation | (0.04) |
| Other items | — |
| GAAP diluted EPS | <hr/> \$(0.02) - \$0.03 |

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 Primary Logo

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