



MKS Instruments, Inc.
First Quarter 2020 Financial Results
April 29, 2020



Safe Harbor for Forward Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and 21E of the Securities Exchange Act of 1934 regarding the future financial performance, business prospects and growth of MKS. These statements are only predictions based on current assumptions and expectations. Any statements that are not statements of historical fact (including statements containing the words “will,” “projects,” “intends,” “believes,” “plans,” “anticipates,” “expects,” “estimates,” “forecasts,” “continues” and similar expressions) should be considered to be forward-looking statements. Actual events or results may differ materially from those in the forward-looking statements set forth herein. Among the important factors that could cause actual events to differ materially from those in the forward-looking statements are the conditions affecting the markets in which MKS operates, including the fluctuations in capital spending in the semiconductor industry and other advanced manufacturing markets, fluctuations in sales to our major customers, the impact of the COVID-19 pandemic on the global economy and financial markets, including any restrictions on MKS’ operations and the operations of MKS’ customers and suppliers resulting from public health requirements and government mandates, the terms of our term loan, competition from larger or more established companies in MKS’ markets; MKS’ ability to successfully grow ESI’s business; the challenges, risks and costs involved with integrating the operations of the companies we have acquired, the Company’s ability to successfully grow our business, potential fluctuations in quarterly results, dependence on new product development, rapid technological and market change, acquisition strategy, manufacturing and sourcing risks, volatility of stock price, international operations, financial risk management, and the other factors described in MKS’ most recent Annual Report on Form 10-K for the year ended December 31, 2019 and any subsequent Quarterly Reports on Form 10-Q, as filed with the SEC. MKS is under no obligation to, and expressly disclaims any obligation to, update or alter these forward-looking statements, whether as a result of new information, future events or otherwise after the date of this presentation.

Use of Non-GAAP Measures

This presentation includes measures that are not in accordance with U.S. generally accepted accounting principles (“Non-GAAP measures”). These Non-GAAP measures should be viewed in addition to, and not as a substitute for, MKS’ reported GAAP results, and may be different from Non-GAAP measures used by other companies. In addition, these Non-GAAP measures are not based on any comprehensive set of accounting rules or principles. MKS management believes the presentation of these Non-GAAP measures is useful to investors for comparing prior periods and analyzing ongoing business trends and operating results. Please see the Appendix entitled “GAAP to Non-GAAP Reconciliations” at the end of this presentation for reconciliations of our Non-GAAP measures to the comparable GAAP measures.

Response to COVID-19: Employees / Customers / Communities



Ensuring employee safety & well-being is our top priority

- Expedited social distancing and facility sanitation measures
- Established work-from-home policy
- Ensured application of key safety precautions



Ensuring continuity of operations in support of our customers

- Secured critical components amidst disruptions to supply chain
- Addressed rapid changes in workforce availability
- Harnessed global Services footprint



Supporting response efforts with our critical enabling technologies

- Our valves & pressure measurement tools are used in sterilization of PPE
- Our optical filters are deployed in diagnostic systems
- Our gratings are incorporated in blood analyzers

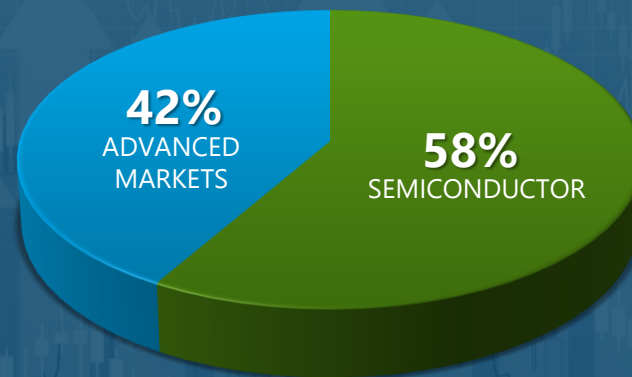


Providing support to our local communities

- Donated masks and PPE to hospitals
- Partnered with United Way for Employee Matching Program
- US & Mexico employees used 3D printing to fabricate relief straps for face shields

Q1'20 Results & Highlights

	Q4'19	Q1'20
REVENUE	\$500M	\$536M
NON-GAAP EPS	\$1.20	\$1.54
GAAP EPS	\$0.77	\$1.25



- Strong Semiconductor results across MKS portfolio (+15% Q/Q).
- Advanced Markets revenue declined slightly (-2% Q/Q) due to COVID-19 related disruptions to our Research market.
 - Research market headwinds contributed to the majority of the decline in Light and Motion.

	REVENUE
VACUUM & ANALYSIS	+14% Q/Q
LIGHT & MOTION	-6% Q/Q
EQUIPMENT & SOLUTIONS	+18% Q/Q

Q1'20 Market Highlights

Semiconductor Market

REVENUE	\$313M
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Q/Q GROWTH	+15%
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Advanced Markets

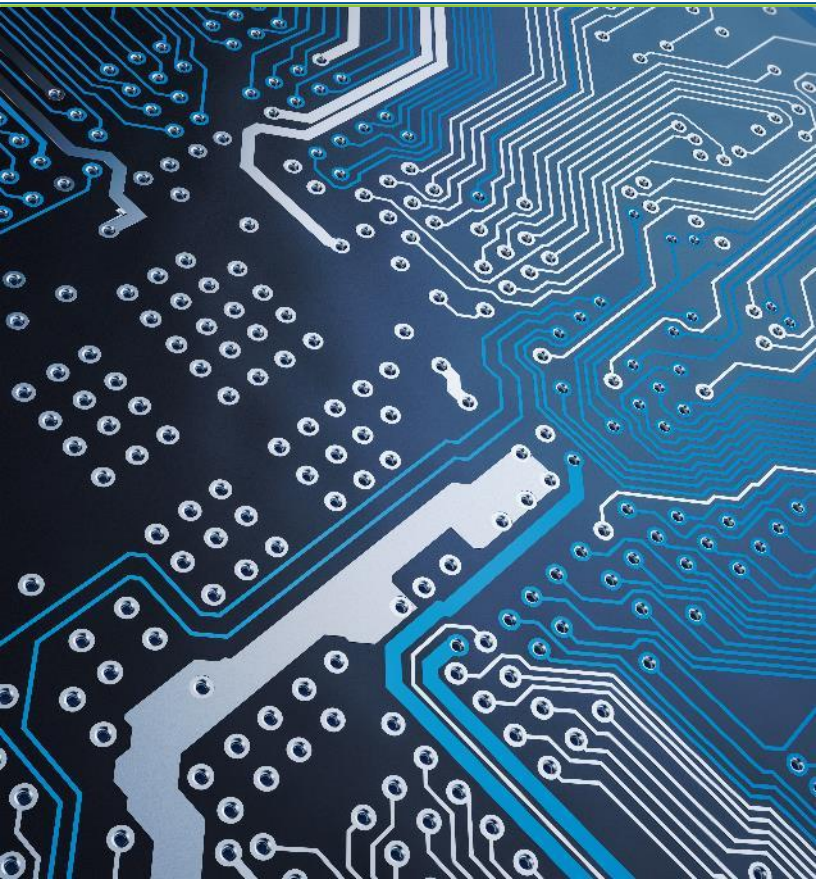
REVENUE	\$223M
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Q/Q GROWTH	-2%
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- Strong demand for Power Solutions across multiple customers and for both conductor and dielectric etch.
- Increased adoption of our Ozone solutions for Atomic Layer Deposition applications.
- Solid demand for our Remote Plasma Source offering, particularly in advanced deposition.

- Pleased with demand in Industrial markets, and secured several design wins for lasers in advanced electronics applications.
- Research market softness due to university and lab closures caused by COVID-19.
- Excluding the Research market, Advanced Markets would have grown on a sequential basis.

Q1'20 Equipment & Solutions Update

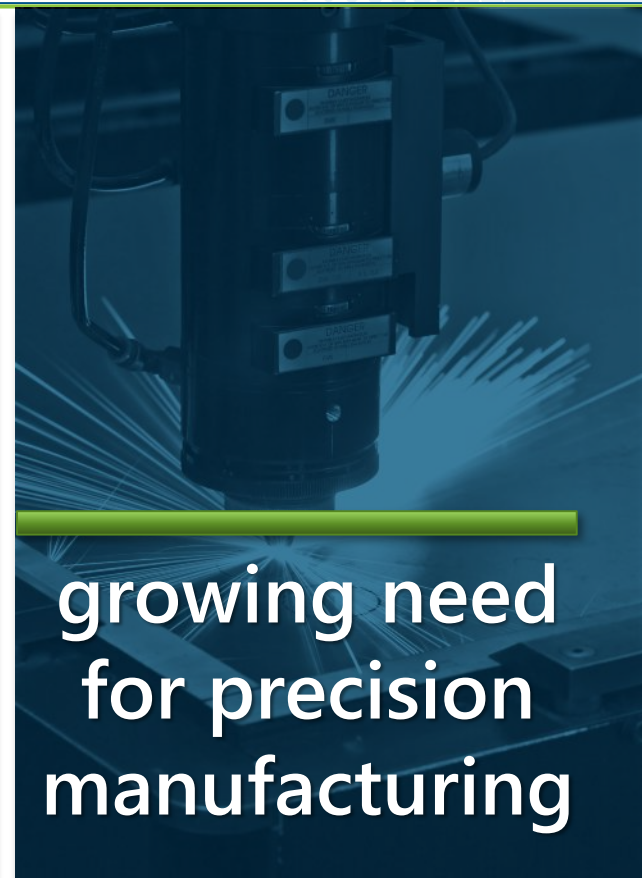


- Revenue of \$51M due to strong demand for Flex PCB via drilling solutions.
- Long-term opportunity in Flex PCB, as we expect its increasing usage in electronic devices to accelerate key secular trends such as 5G and IoT.
- Strong sequential gross margin increase to 45.6%, reflecting product mix and higher volume.
- Achieved annualized cost synergies of \$15M within 14 months of the acquisition date, well ahead of original estimate of 18-36 months post-closing.
- Interest in our HDI tool continues to grow and we continue working with our beta customers in qualifying our solution.

Geode: Via drilling for HDI PCB



Three Important Secular Trends Benefitting MKS



Revenue & Select Financial Measures

	Q1'19	Q4'19	Q1'20
Advanced Markets	\$243M	\$228M	\$223M
Semiconductor	\$221M	\$272M	\$313M
Revenue	\$464M	\$500M	\$536M

Non-GAAP Financial Measures

Gross Margin	43.8%	43.3%	44.7%
Operating Margin	17.7%	18.4%	20.5%
Interest Expense, Net	\$7M	\$8M	\$7M
Income Tax Rate	18.0%	18.6%	17.0%
Net Earnings	\$61M	\$66M	\$85M
Diluted Earnings per Share	\$1.12	\$1.20	\$1.54

GAAP Financial Measures

Gross Margin	42.7%	43.3%	44.7%
Operating Margin	5.0%	13.2%	16.8%
Interest Expense, Net	\$7M	\$8M	\$8M
Income Tax Rate	18.8%	22.6%	15.0%
Net Income	\$12M	\$43M	\$69M
Net Income per Share	\$0.23	\$0.77	\$1.25

Q1'20 Summary

- Revenue +7% Q/Q, +\$16M above midpoint of our guidance.
 - Semiconductor revenue +15% Q/Q reflecting strong industry fundamentals as end customers increased equipment spending.
 - Advanced Markets revenue -2% Q/Q, as Industrial, Life and Health Science and Defense collectively grew sequentially, while Research market negatively impacted due to COVID-19-related shutdowns.
- Gross Margin +140 bps Q/Q, +70 bps above midpoint of our guidance.
 - Q/Q gains led by product mix and factory utilization.
- Non-GAAP Operating Margin +210 bps Q/Q, +190 bps above midpoint of our guidance.
 - Highlights our core competency in managing business for sustainable and profitable growth.

Balance Sheet & Cash Flow

	Q1'19	Q4'19	Q1'20
Cash & Short-Term Investments	\$462M	\$524M	\$503M
Accounts Receivable	\$336M	\$341M	\$381M
Inventories	\$476M	\$462M	\$474M
Total Current Assets	\$1,360M	\$1,434M	\$1,457M
Total Assets	\$3,413M	\$3,416M	\$3,475M
Term Loan Principal	\$998M	\$892M	\$840M
Total Liabilities	\$1,492M	\$1,393M	\$1,422M
Stockholders' Equity	\$1,921M	\$2,023M	\$2,053M
Operating Cash Flow	\$29M	\$77M	\$75M
Free Cash Flow	\$15M	\$58M	\$65M

- Exited Q1'20 with \$503M of cash and investments and \$100M of incremental borrowing capacity, subject to certain borrowing base requirements.
- Completed a \$50M voluntary principal prepayment in Q1'20 – 11th since loan origination in April 2016.
- Net leverage ratio 0.8x at the end of Q1'20.
- Scheduled term loan principal payments over the next twelve months total \$9M with facility maturity in February 2026.
- Issued cash dividend in Q1'20 of \$11M or \$0.20 per share.

Q2 2020 Guidance

	Q1'20	Q2'20
Revenue	\$536M	\$450M - \$520M
Non-GAAP Financial Measures		
Gross Margin	44.7%	42.5% - 44.5%
Operating Expenses	\$130M	\$124M - \$132M
Operating Income	\$110M	\$67M - \$99M
Operating Margin	20.5%	15.0% - 19.0%
Interest Expense, Net	\$7M	\$7M
Tax Rate	17.0%	17.0%
Net Earnings	\$85M	\$50M - \$77M
Net Earnings per Diluted Share	\$1.54M	\$0.90- \$1.38
Diluted Share Count	55.2M	55.4M

- Order rates remain strong, driven by the Semiconductor market.
- However, manufacturing and service capacity of certain of our facilities and supply chain partners remains constrained.
- Based upon current business levels and absent COVID-19 constraints, we estimate our second quarter revenue would likely be at least consistent with first quarter levels.
- Gross margin reflects anticipated product mix and global shelter-in-place directives impacting capacity.



MKS Instruments, Inc. First Quarter 2020 Financial Results Q&A



Appendix – GAAP to Non-GAAP Reconciliations

	Q1'19	Q4'19	Q1'20
Gross profit	\$ 198.1	\$ 216.3	\$ 239.6
Acquisition inventory step-up (Note 2)	5.1	—	—
Non-GAAP gross profit (Note 11)	<u>\$ 203.2</u>	<u>\$ 216.3</u>	<u>\$ 239.6</u>
Non-GAAP gross margin (Note 11)	<u>43.8%</u>	<u>43.3%</u>	<u>44.7%</u>
Operating expenses	\$ 175.0	\$ 150.2	\$ 149.7
Acquisition and integration costs (Note 1)	30.2	1.8	2.2
Fees and expenses related to term loan (Note 3)	5.8	0.1	—
Amortization of intangible assets	15.7	17.1	16.3
Restructuring and other (Note 5)	1.9	2.3	0.4
Asset impairment (Note 6)	—	4.7	1.2
Non-GAAP operating expenses (Note 12)	<u>\$ 121.4</u>	<u>\$ 124.2</u>	<u>\$ 129.6</u>
Income from operations	\$ 23.1	\$ 66.1	\$ 89.9
Acquisition inventory step-up (Note 2)	5.1	—	—
Acquisition and integration costs (Note 1)	30.2	1.8	2.2
Fees and expenses related to term loan (Note 3)	5.8	0.1	—
Restructuring and other (Note 5)	1.9	2.3	0.4
Amortization of intangible assets	15.7	17.1	16.3
Asset impairment (Note 6)	—	4.7	1.2
Non-GAAP income from operations (Note 13)	<u>\$ 81.8</u>	<u>\$ 92.1</u>	<u>\$ 110.0</u>
Non-GAAP operating margin (Note 13)	<u>17.6%</u>	<u>18.4%</u>	<u>20.5%</u>

	Q1'19	Q4'19	Q1'20
Interest expense, net	\$ 7.4	\$ 7.7	\$ 8.2
Amortization of debt issuance costs (Note 4)	0.6	0.2	0.9
Non-GAAP interest expense, net	<u>\$ 6.8</u>	<u>\$ 7.5</u>	<u>\$ 7.3</u>
Net income	\$ 12.5	\$ 42.7	\$ 69.1
Acquisition and integration costs (Note 1)	30.2	1.8	2.2
Acquisition inventory step-up (Note 2)	5.1	—	—
Fees and expenses related to term loan (Note 3)	5.8	0.1	—
Amortization of debt issuance costs (Note 4)	0.6	0.2	0.9
Restructuring and other (Note 5)	1.9	2.3	0.4
Amortization of intangible assets	15.7	17.1	16.3
Asset impairment (Note 6)	—	4.7	1.2
Windfall tax (benefit) expense on stock-based compensation (Note 7)	(1.3)	(0.3)	(0.9)
Tax reform adjustments (Note 8)	—	(2.9)	—
Tax cost on the inter-company sale of an asset (Note 9)	—	5.4	—
Tax effect of pro-forma adjustments (Note 14)	(9.2)	(4.8)	(4.3)
Non-GAAP net earnings (Note 10)	<u>\$ 61.3</u>	<u>\$ 66.3</u>	<u>\$ 84.9</u>
Non-GAAP net earnings per diluted share (Note 10)	<u>\$ 1.12</u>	<u>\$ 1.20</u>	<u>\$ 1.54</u>
Weighted average diluted shares outstanding	54.8	55.4	55.2

Dollar amounts and weighted average shares outstanding in millions.

Appendix – GAAP to Non-GAAP Reconciliations

	Q1'19			Q1'20		
	Pre-Tax Income	Provision (benefit) for Income Taxes	Tax Rate	Pre-Tax Income	Provision (benefit) for Income Taxes	Tax Rate
GAAP	\$ 15.4	\$ 2.9	18.8%	\$ 81.3	\$ 12.2	15.0%
Acquisition and integration costs (Note 1)	30.2	—		2.2	—	
Acquisition inventory step-up (Note 2)	5.1	—		—	—	
Fees and expenses related to term loan (Note 3)	5.8	—		—	—	
Amortization of debt issuance costs (Note 4)	0.6	—		0.9	—	
Restructuring and other (Note 5)	1.9	—		0.4	—	
Amortization of intangible assets	15.7	—		16.3	—	
Asset impairment (Note 6)	—	—		1.2	—	
Windfall tax benefit on stock-based compensation (Note 7)	—	1.3		—	0.9	
Tax effect of pro-forma adjustments	—	9.2		—	4.3	
Non-GAAP	\$ 74.7	\$ 13.4	18.0%	\$ 102.3	\$ 17.4	17.0%

	Q4'19		
	Pre-Tax Income	Provision (benefit) for Income Taxes	Tax Rate
GAAP	\$ 55.2	\$ 12.5	22.6%
Acquisition and integration costs (Note 1)	1.8	—	
Fees and expenses related to term loan (Note 3)	0.1	—	
Amortization of debt issuance costs (Note 4)	0.2	—	
Restructuring and other (Note 5)	2.3	—	
Amortization of intangible assets	17.1	—	
Asset impairment (Note 6)	4.7	—	
Windfall tax benefit on stock-based compensation (Note 7)	—	0.3	
Tax reform adjustments (Note 8)	—	2.9	
Tax cost on the inter-company sale of an asset (Note 9)	—	(5.4)	
Tax effect of pro-forma adjustments	—	4.8	
Non-GAAP	\$ 81.4	\$ 15.1	18.6%

Dollar amounts in millions.

Appendix – GAAP to Non-GAAP Reconciliations

	Q1'19	Q4'19	Q1'20
Operating cash flow	\$ 29.1	\$ 77.3	\$ 74.9
Purchases of property, plant and equipment	(14.5)	(19.1)	(10.0)
Free cash flow	<u>\$ 14.6</u>	<u>\$ 58.2</u>	<u>\$ 64.9</u>

	Q2'20			
	Low Guidance		High Guidance	
	Amount	Per Share	Amount	Per Share
GAAP net income	\$ 34.5	\$ 0.62	\$ 61.0	\$ 1.10
Amortization	13.9	\$ 0.25	13.9	\$ 0.25
Deferred financing costs	0.2	\$ -	0.2	\$ -
Integration costs	0.1	\$ -	0.1	\$ -
Restructuring and other costs	5.3	\$ 0.10	5.3	\$ 0.10
Tax effect of adjustments (Note 14)	(4.0)	\$ (0.07)	(4.0)	\$ (0.07)
Non-GAAP net earnings	<u>\$ 50.0</u>	<u>\$ 0.90</u>	<u>\$ 76.5</u>	<u>\$ 1.38</u>
Estimated weighted average diluted shares outstanding		55.4		55.4

Dollar amounts and weighted average shares outstanding in millions.

Appendix – GAAP to Non-GAAP Reconciliations



Non-GAAP financial measures adjust GAAP financial measures for the items listed below. These Non-GAAP measures should be viewed in addition to, and not as a substitute for, MKS' reported GAAP results, and may be different from Non-GAAP measures used by other companies. In addition, these Non-GAAP measures are not based on any comprehensive set of accounting rules or principles. MKS management believes the presentation of these Non-GAAP measures is useful to investors for comparing prior periods and analyzing ongoing business trends and operating results.

Note 1: Acquisition and integration costs during the three months ended March 31, 2020, December 31, 2019 and March 31, 2019 related to our acquisition of Electro Scientific Industries, Inc. ("ESI") which closed on February 1, 2019.

Note 2: Cost of revenues during the three months ended March 31, 2019 includes the amortization of the step-up of inventory to fair value as a result of the ESI acquisition.

Note 3: We recorded fees and expenses during the three months ended December 31, 2019 related to Amendment No. 6 to our Term Loan Credit Agreement. We also recorded fees and expenses during the three months ended March 31, 2019 related to Amendment No. 5 to our Term Loan Credit Agreement.

Note 4: We recorded additional interest expense during the three months ended March 31, 2020, December 31, 2019 and March 31, 2019 as a result of amortization of debt issuance costs related to our Term Loan Credit Agreement and our ABL Credit Agreement.

Note 5: Restructuring and other costs during the three months ended March 31, 2020 resulted primarily from duplicate facility costs attributed to entering into new facility leases offset by an insurance reimbursement for costs recorded on a legal settlement. Restructuring costs recorded during the three months ended December 31, 2019 resulted primarily from the pending closure of a facility in Europe. Restructuring costs recorded during the three months ended March 31, 2019 consisted primarily of severance costs related to an organization-wide reduction in workforce. In the three months ended March 31, 2019, we also recorded a legal settlement.

Note 6: During the three months ended March 31, 2020, we recorded an asset impairment charge as a result of the write-down of long-lived assets related to the pending closure of a facility. During the three months ended December 31, 2019, we recorded an impairment charge related to a minority interest investment in a private company.

Note 7: We recorded windfall tax expenses (benefits) during the three months ended March 31, 2020, December 31, 2019, and March 31, 2019, on the vesting of stock-based compensation.

Note 8: We recorded tax adjustments resulting from additional guidance provided by tax authorities with respect to the 2017 U.S. tax reforms.

Note 9: We recorded taxes on the inter-company sales of assets during the three months ended December 31, 2019.

Note 10: Non-GAAP net earnings and Non-GAAP net earnings per diluted share amounts exclude acquisition and integration costs, amortization of the step-up of inventory to fair value, fees and expenses related to repricings and amendments of our secured term loan, amortization of debt issuance costs, restructuring and other costs, amortization of intangible assets, asset impairments, windfall tax adjustments related to stock compensation expense, tax reform adjustments, tax costs on the inter-company sale of an asset and the related tax effect of these adjustments to reflect the expected full year effective tax rate in the related period.

Note 11: The Non-GAAP gross profit amount and Non-GAAP gross margin exclude amortization of the step-up of inventory to fair value.

Note 12: Non-GAAP operating expenses exclude acquisition and integration costs, fees and expenses related to repricings of our secured term loan, restructuring and other costs, amortization of intangible assets and asset impairments.

Note 13: Non-GAAP income from operations and Non-GAAP operating margin percentages exclude acquisition and integration costs, amortization of the step-up of inventory to fair value, fees and expenses related to repricings and amendments of our secured term loan, restructuring and other costs, amortization of intangible assets and asset impairments.

Note 14: Non-GAAP adjustments are tax effected at applicable statutory rates resulting in a difference between the GAAP and Non-GAAP tax rates.