



## MKS Instruments Reports Second Quarter 2019 Financial Results

July 30, 2019

- **Quarterly revenue of \$474 million, an increase of 2% compared to Q1 2019**
- **Voluntarily prepaid \$50 million towards our Term Loan Credit Facility**
- **Non-GAAP net earnings of \$59.9 million, or \$1.09 per diluted share**
- **GAAP net income of \$37.7 million, or \$0.69 per diluted share**

ANDOVER, Mass., July 30, 2019 (GLOBE NEWSWIRE) -- MKS Instruments, Inc. (NASDAQ: MKSI), a global provider of technologies that enable advanced processes and improve productivity, today reported second quarter 2019 financial results.

"Another quarter of strong operational and financial execution drove our Non-GAAP operating margin and Non-GAAP net earnings above the mid-point of our guidance range in the second quarter despite the effects of uncertainty in the global trade environment," said Gerald Colella, Chief Executive Officer.

Mr. Colella added, "The acquisition of ESI adds laser-based systems to our Advanced Markets portfolio, further expanding our ability to penetrate into these profitable and growing markets. The long-term growth potential in our Advanced Markets remains robust and we are committed to continue to outperform these markets over the long term. In the second quarter, we are pleased to report that, with the ESI acquisition, our revenue in Advanced Markets achieved a new record of over \$260 million in the quarter, an increase of 10% from a year ago."

"In the quarter, we completed a \$50 million voluntary prepayment on our term loan as we are committed to reduce our leverage and interest costs. This was our ninth voluntary prepayment since loan origination in April 2016," said Seth Bagshaw, Senior Vice President and Chief Financial Officer. "Furthermore, we exited the quarter with a strong balance sheet and liquidity with \$460 million of cash and short-term investments and trailing twelve-month net leverage ratio of under 1 times."

### Quarterly Consolidated Financial Results (in millions, except per share data)

|                         | Q2 2019 |       | Q1 2019 |       |
|-------------------------|---------|-------|---------|-------|
| <b>GAAP Results</b>     |         |       |         |       |
| Net revenues            | \$      | 474.1 | \$      | 463.6 |
| Gross margin            |         | 44.5% |         | 42.7% |
| Operating margin        |         | 13.5% |         | 5.0%  |
| Net income              | \$      | 37.7  | \$      | 12.5  |
| Diluted EPS             | \$      | 0.69  | \$      | 0.23  |
| <b>Non-GAAP Results</b> |         |       |         |       |
| Gross margin            |         | 45.0% |         | 43.8% |
| Operating margin        |         | 18.6% |         | 17.7% |
| Net earnings            | \$      | 59.9  | \$      | 61.3  |
| Diluted EPS             | \$      | 1.09  | \$      | 1.12  |

#### Second Quarter 2019 Financial Results

Revenue was \$474.1 million, an increase of 2% from \$463.6 million in the first quarter of 2019 and a decrease of 17% from \$573.1 million in the second quarter of 2018.

Net income was \$37.7 million, or \$0.69 per diluted share, compared to net income of \$12.5 million, or \$0.23 per diluted share, in the first quarter of 2019, and \$122.9 million, or \$2.22 per diluted share, in the second quarter of 2018.

Second quarter net income included acquisition and integration costs of \$3.2 million associated with the ESI acquisition and \$1.2 million of restructuring and other costs.

Non-GAAP net earnings, which exclude special charges and credits, were \$59.9 million, or \$1.09 per diluted share, compared to \$61.3 million, or \$1.12 per diluted share, in the first quarter of 2019, and \$128.8 million or \$2.33 per diluted share, in the second quarter of 2018.

Sales to Advanced Markets were \$260 million, an increase of 7% compared to the first quarter of 2019, which was primarily attributed to the acquisition of ESI, as the first quarter only included two months of sales. Sales to Semiconductor customers were \$214 million, a decrease of 3% compared to the first quarter of 2019.

#### Additional Financial Information

The Company had \$460 million in cash and short-term investments and \$947 million of term loan debt outstanding as of June 30, 2019, which is net of a \$50 million prepayment made during the second quarter of 2019. MKS also paid a dividend of \$10.9 million or \$0.20 per diluted share during the second quarter of 2019. The Company has available an unused \$100 million asset-based line of credit.

### Third Quarter 2019 Outlook

Based on current business levels, the Company expects that revenue in the third quarter of 2019 could range from \$415 to \$465 million.

At these volumes, GAAP net income could range from \$0.39 to \$0.72 per diluted share and non-GAAP net earnings could range from \$0.69 to \$1.02 per diluted share.

### Conference Call Details

A conference call with management will be held on Wednesday, July 31, 2019 at 8:30 a.m. (Eastern Time). To participate in the conference call, please dial (877) 212-6076 for domestic callers and (707) 287-9331 for international callers, and an operator will connect you. Participants will need to provide the operator with the Conference ID of 5483628, which has been reserved for this call. A live and archived webcast of the call will be available on the Company's website at [www.mksinst.com](http://www.mksinst.com), along with the Company's earnings press release and supplemental financial information.

### About MKS Instruments

MKS Instruments, Inc. is a global provider of instruments, subsystems and process control solutions that measure, monitor, deliver, analyze, power and control critical parameters of advanced manufacturing processes to improve process performance and productivity for our customers. Our products are derived from our core competencies in pressure measurement and control, flow measurement and control, gas and vapor delivery, gas composition analysis, residual gas analysis, leak detection, control technology, ozone generation and delivery, power, reactive gas generation, vacuum technology, lasers, photonics, sub-micron positioning, vibration control, optics and laser-based manufacturing solutions. We also provide services relating to the maintenance and repair of our products, installation services and training. Our primary served markets include semiconductor, industrial technologies, life and health sciences, and research and defense. Additional information can be found at [www.mksinst.com](http://www.mksinst.com).

### Use of Non-GAAP Financial Results

This release includes measures that are not in accordance with U.S. generally accepted accounting principles ("Non-GAAP measures"). Non-GAAP measures exclude amortization of acquired intangible assets, costs associated with completed acquisitions, acquisition integration costs, fees and expenses related to our term loan, amortization of debt issuance costs, restructuring and other costs, windfall tax benefits from stock-based compensation, accrued taxes on subsidiary distributions, the tax effects of the 2017 Tax Cut and Jobs Act, tax cost of the inter-company sale of an asset and the related tax effects of adjustments impacting pre-tax income. These Non-GAAP measures should be viewed in addition to, and not as a substitute for, MKS' reported 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.

### SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the future financial performance, business prospects and growth of MKS, and MKS' expected synergies and cost savings from its recent acquisition of Electro Scientific Industries, Inc ("ESI"). These statements are only predictions based on current assumptions and expectations. 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 net sales to our major customers, the ability of MKS to successfully integrate ESI's operations and employees, unexpected costs, charges or expenses resulting from the ESI acquisition, MKS' ability to realize anticipated synergies and cost savings from the ESI acquisition, the terms of our term loan, competition from larger or more established companies in MKS' markets; MKS' ability to successfully grow ESI's business; potential adverse reactions or changes to business relationships resulting from the ESI acquisition, the challenges, risks and costs involved with integrating the operations of the other 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, 2018 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 press release.

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(In thousands, except per share data)

|  | June 30,<br>2019 | Three Months Ended<br>June 30,<br>2018 | March 31,<br>2019 |
|--|------------------|--|-------------------|
| Net revenues:                              |                  |  |                   |
| Products                                   | \$ 401,326       | \$ 509,999                             | \$ 397,363        |
| Services                                   | 72,784           | 63,141                                 | 66,198            |
| Total net revenues                         | <u>474,110</u>   | <u>573,140</u>                         | <u>463,561</u>    |
| Cost of revenues:                          |                  |  |                   |
| Products                                   | 226,213          | 266,890                                | 229,710           |
| Services                                   | 36,870           | 31,373                                 | 35,733            |
| Total cost of revenues                     | <u>263,083</u>   | <u>298,263</u>                         | <u>265,443</u>    |
| Gross profit                               | 211,027          | 274,877                                | 198,118           |
| Research and development                   | 41,855           | 36,504                                 | 38,933            |
| Selling, general and administrative        | 83,236           | 76,181                                 | 82,455            |
| Fees and expenses related to term loan     | —                | 378                                    | 5,847             |
| Acquisition and integration costs          | 3,240            | (1,168)                                | 30,167            |
| Restructuring and other                    | 1,242            | 790                                    | 1,923             |
| Amortization of intangible assets          | 17,552           | 10,901                                 | 15,727            |
| Income from operations                     | <u>63,902</u>    | <u>151,291</u>                         | <u>23,066</u>     |
| Interest income                            | 1,423            | 1,456                                  | 1,714             |
| Interest expense                           | 12,674           | 3,922                                  | 9,119             |
| Other expense, net                         | 788              | 281                                    | 325               |
| Income from operations before income taxes | <u>51,863</u>    | <u>148,544</u>                         | <u>15,336</u>     |
| Provision for income taxes                 | 14,124           | 25,682                                 | 2,881             |
| Net income                                 | <u>\$ 37,739</u> | <u>\$ 122,862</u>                      | <u>\$ 12,455</u>  |
| Net income per share:                      |                  |  |                   |
| Basic                                      | \$ 0.69          | \$ 2.25                                | \$ 0.23           |
| Diluted                                    | \$ 0.69          | \$ 2.22                                | \$ 0.23           |
| Cash dividends per common share            | \$ 0.20          | \$ 0.20                                | \$ 0.20           |
| Weighted average shares outstanding:       |                  |  |                   |
| Basic                                      | 54,815           | 54,719                                 | 54,147            |
| Diluted                                    | 55,089           | 55,274                                 | 54,848            |

**The following supplemental Non-GAAP earnings information is presented to aid in understanding MKS' operating results:**

|   | June 30,<br>2019 | Three Months Ended<br>June 30,<br>2018 | March 31,<br>2019 |
|---|------------------|--|-------------------|
| Net income                                      | \$ 37,739        | \$ 122,862                             | \$ 12,455         |
| Adjustments:                                    |                  |  |                   |
| Acquisition and integration costs (Note 1)      | 3,240            | (1,168)                                | 30,167            |
| Acquisition inventory step-up (Note 2)          | 2,484            | —                                      | 5,140             |
| Fees and expenses related to term loan (Note 3) | —                | 378                                    | 5,847             |
| Amortization of debt issuance costs (Note 4)    | 1,254            | 660                                    | 599               |
| Restructuring and other (Note 5)                | 1,242            | 790                                    | 1,923             |

|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Amortization of intangible assets                         | 17,552            | 10,901            | 15,727            |
| Windfall tax benefit on stock-based compensation (Note 6) | (790)             | (4,752)           | (1,389)           |
| Tax reform adjustments (Note 7)                           | 2,731             | —                 | —                 |
| Transition tax on accumulated foreign earnings (Note 8)   | —                 | (659)             | —                 |
| Pro-forma tax adjustments                                 | (5,596)           | (200)             | (9,169)           |
| Non-GAAP net earnings (Note 9)                            | <u>\$ 59,856</u>  | <u>\$ 128,812</u> | <u>\$ 61,300</u>  |
| Non-GAAP net earnings per share (Note 9)                  | <u>\$ 1.09</u>    | <u>\$ 2.33</u>    | <u>\$ 1.12</u>    |
| Weighted average shares outstanding                       | 55,089            | 55,274            | 54,848            |
| Income from operations                                    | \$ 63,902         | \$ 151,291        | \$ 23,066         |
| Adjustments:  |                   |                   |                   |
| Acquisition and integration costs (Note 1)                | 3,240             | (1,168)           | 30,167            |
| Acquisition inventory step-up (Note 2)                    | 2,484             | —                 | 5,140             |
| Fees and expenses related to term loan (Note 3)           | —                 | 378               | 5,847             |
| Restructuring and other (Note 5)                          | 1,242             | 790               | 1,923             |
| Amortization of intangible assets                         | 17,552            | 10,901            | 15,727            |
| Non-GAAP income from operations (Note 10)                 | <u>\$ 88,420</u>  | <u>\$ 162,192</u> | <u>\$ 81,870</u>  |
| Non-GAAP operating margin percentage (Note 10)            | <u>18.6%</u>      | <u>28.3%</u>      | <u>17.7%</u>      |
| Gross profit  | \$ 211,027        | \$ 274,877        | \$ 198,118        |
| Acquisition inventory step-up (Note 2)                    | 2,484             | —                 | 5,140             |
| Non-GAAP gross profit (Note 11)                           | <u>\$ 213,511</u> | <u>\$ 274,877</u> | <u>\$ 203,258</u> |
| Non-GAAP gross profit percentage (Note 11)                | <u>45.0%</u>      | <u>48.0%</u>      | <u>43.8%</u>      |
| Interest expense  | \$ 12,674         | \$ 3,922          | \$ 9,119          |
| Amortization of debt issuance costs (Note 4)              | 1,254             | 660               | 599               |
| Non-GAAP interest expense                                 | <u>\$ 11,420</u>  | <u>\$ 3,262</u>   | <u>\$ 8,520</u>   |
| Net income  | \$ 37,739         | \$ 122,862        | \$ 12,455         |
| Interest expense, net                                     | 11,251            | 2,466             | 7,405             |
| Provision for income taxes                                | 14,124            | 25,682            | 2,881             |
| Depreciation  | 9,892             | 8,984             | 9,484             |
| Amortization  | 17,552            | 10,901            | 15,727            |
| EBITDA (Note 12)  | <u>\$ 90,558</u>  | <u>\$ 170,895</u> | <u>\$ 47,952</u>  |
| Stock-based compensation                                  | 5,903             | 6,366             | 9,274             |
| Acquisition and integration costs (Note 1)                | 3,240             | (1,168)           | 30,167            |
| Acquisition inventory step-up (Note 2)                    | 2,484             | —                 | 5,140             |
| Fees and expenses related to term loan (Note 3)           | —                 | 378               | 5,847             |
| Restructuring and other (Note 5)                          | 1,242             | 790               | 1,923             |
| Other adjustments   | —                 | —                 | 3,337             |
| Adjusted EBITDA (Note 13)                                 | <u>\$ 103,427</u> | <u>\$ 177,261</u> | <u>\$ 103,640</u> |

Note 1: Acquisition and integration costs for the three months ended June 30, 2019 and March 31, 2019, related to the acquisition of Electro Scientific Industries, Inc. ("ESI") which closed on February 1, 2019. During the three months ended June 30, 2018, we reversed a portion of costs recognized during previous periods related to the Newport acquisition, which closed during the second quarter of 2016, related to severance agreement provisions that were not met.

Note 2: Costs of revenues during the three months ended June 30, 2019 and 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 March 31, 2019 related to Amendment No. 5 of our Term Loan Credit Agreement. We recorded fees and expenses during the three months ended June 30, 2018 related to the fourth repricing of our Term Loan Credit Agreement.

Note 4: We recorded additional interest expense related to the amortization of debt issuance costs associated with our Term Loan Credit Agreement.

Note 5: We recorded restructuring costs during the three months ended June 30, 2019 and March 31, 2019 which consisted primarily of severance costs related to an organization-wide reduction in workforce, the consolidation of service functions in Asia and the movement of certain products to low costs regions. We also recorded other expense during the three months ended March 31, 2019 related to a contractual obligation we assumed as part of our acquisition of Newport Corporation. Restructuring costs during the three months ended June 30, 2018 were primarily comprised of severance costs related to transferring a portion of our shared services functions to a third party as well as the consolidation of certain shared service functions in Asia.

Note 6: We recorded windfall tax benefits on the vesting of stock-based compensation.

Note 7: We recorded tax adjustments resulting from additional guidance provided by the IRS related to 2017 tax reform.

Note 8: We adjusted the provisional transition tax on accumulated foreign earnings related to the 2017 Tax Cut and Jobs Act during the three months ended June 30, 2018.

Note 9: The Non-GAAP net earnings and Non-GAAP net earnings per share amounts exclude acquisition and integration costs, the amortization of the step-up of inventory to fair value, fees and expenses related to our Term Loan Credit Agreement, amortization of debt issuance costs, restructuring and other costs, amortization of intangible assets, a windfall tax benefit related to stock compensation expense, tax reform adjustments, transition tax on accumulated foreign earnings and the related tax effect of these adjustments to reflect the expected full year effective tax rate in the related period.

Note 10: The Non-GAAP income from operations and Non-GAAP operating margin percentages exclude acquisition and integration costs, the amortization of the step-up of inventory to fair value, fees and expenses related to our Term Loan Credit Agreement, restructuring and other costs and amortization of intangible assets.

Note 11: The Non-GAAP gross profit amounts and Non-GAAP gross profit percentages exclude the amortization of the step-up of inventory to fair value related to the acquisition of ESI.

Note 12: EBITDA excludes net interest, income taxes, depreciation and amortization of intangible assets.

Note 13: Adjusted EBITDA excludes stock-based compensation, acquisition and integration costs, the amortization of the step-up of inventory to fair value, fees and expenses related to an amendment of our Term Loan Credit agreement, restructuring and other costs and other adjustments as defined in our Term Loan Credit Agreement.

**MKS Instruments, Inc.**  
**Unaudited Consolidated Statements of Operations**  
**(In thousands, except per share data)**

|                    | Six Months Ended |              |
|--------------------|------------------|--------------|
|                    | June 30,         |              |
|                    | 2019             | 2018         |
| Net revenues:      |                  |              |
| Products           | \$ 798,689       | \$ 1,006,676 |
| Services           | 138,982          | 120,739      |
| Total net revenues | 937,671          | 1,127,415    |
| Cost of revenues:  |                  |              |

|  |           |            |
|--|-----------|------------|
| Products                                   | 455,923   | 528,211    |
| Services                                   | 72,603    | 61,472     |
| Total cost of revenues                     | 528,526   | 589,683    |
| Gross profit                               | 409,145   | 537,732    |
| Research and development                   | 80,788    | 71,361     |
| Selling, general and administrative        | 165,691   | 159,130    |
| Acquisition and integration costs          | 33,407    | (1,168)    |
| Restructuring and other                    | 3,165     | 3,010      |
| Fees and expenses related to term loan     | 5,847     | 378        |
| Amortization of intangible assets          | 33,279    | 22,091     |
| Income from operations                     | 86,968    | 282,930    |
| Interest income                            | 3,137     | 2,561      |
| Interest expense                           | 21,793    | 9,352      |
| Other expense, net                         | 1,113     | 853        |
| Income from operations before income taxes | 67,199    | 275,286    |
| Provision for income taxes                 | 17,005    | 47,303     |
| Net income                                 | \$ 50,194 | \$ 227,983 |
| Net income per share:                      |           |            |
| Basic                                      | \$ 0.92   | \$ 4.18    |
| Diluted                                    | \$ 0.91   | \$ 4.12    |
| Cash dividends per common share            | \$ 0.40   | \$ 0.38    |
| Weighted average shares outstanding:       |           |            |
| Basic                                      | 54,481    | 54,571     |
| Diluted                                    | 54,966    | 55,280     |

**The following supplemental Non-GAAP earnings information is presented to aid in understanding MKS' operating results:**

|   | Six Months Ended |            |
|---|------------------|------------|
|   | June 30,         |            |
|   | 2019             | 2018       |
| Net income  | \$ 50,194        | \$ 227,983 |
| Adjustments:  |                  |            |
| Acquisition and integration costs (Note 1)                | 33,407           | (1,168)    |
| Acquisition inventory step-up (Note 2)                    | 7,624            | —          |
| Fees and expenses related to term loan (Note 3)           | 5,847            | 378        |
| Amortization of debt issuance costs (Note 4)              | 1,853            | 2,491      |
| Restructuring and other (Note 5)                          | 3,165            | 3,010      |
| Amortization of intangible assets                         | 33,279           | 22,091     |
| Windfall tax benefit on stock-based compensation (Note 6) | (2,179)          | (7,788)    |
| Tax reform adjustments (Note 7)                           | 2,731            | —          |
| Deferred tax adjustment (Note 8)                          | —                | 878        |
| Transition tax on accumulated foreign earnings (Note 9)   | —                | (2,327)    |
| Pro-forma tax adjustments                                 | (14,765)         | (2,447)    |
| Non-GAAP net earnings (Note 10)                           | \$ 121,156       | \$ 243,101 |
| Non-GAAP net earnings per share (Note 10)                 | \$ 2.20          | \$ 4.40    |
| Weighted average shares outstanding                       | 54,966           | 55,280     |
| Income from operations                                    | \$ 86,968        | \$ 282,930 |
| Adjustments:  |                  |            |
| Acquisition and integration costs (Note 1)                | 33,407           | (1,168)    |
| Acquisition inventory step-up (Note 2)                    | 7,624            | —          |
| Fees and expenses related to term loan (Note 3)           | 5,847            | 378        |

|   |                   |                   |
|---|-------------------|-------------------|
| Restructuring and other (Note 5)                | 3,165             | 3,010             |
| Amortization of intangible assets               | 33,279            | 22,091            |
| Non-GAAP income from operations (Note 11)       | <u>\$ 170,290</u> | <u>\$ 307,241</u> |
| Non-GAAP operating margin percentage (Note 11)  | <u>18.2%</u>      | <u>27.3%</u>      |
| Gross profit                                    | <u>\$ 409,145</u> | <u>\$ 537,732</u> |
| Acquisition inventory step-up (Note 2)          | 7,624             | —                 |
| Non-GAAP gross profit (Note 12)                 | <u>\$ 416,769</u> | <u>\$ 537,732</u> |
| Non-GAAP gross profit percentage (Note 12)      | <u>44.4%</u>      | <u>47.7%</u>      |
| Interest expense                                | <u>\$ 21,793</u>  | <u>\$ 9,352</u>   |
| Amortization of debt issuance costs (Note 4)    | 1,853             | 2,491             |
| Non-GAAP interest expense                       | <u>\$ 19,940</u>  | <u>\$ 6,861</u>   |
| Net Income                                      | <u>\$ 50,194</u>  | <u>\$ 227,983</u> |
| Interest expense, net                           | 18,656            | 6,791             |
| Provision for income taxes                      | 17,005            | 47,303            |
| Depreciation                                    | 19,376            | 18,286            |
| Amortization                                    | 33,279            | 22,091            |
| EBITDA (Note 13)                                | <u>\$ 138,510</u> | <u>\$ 322,454</u> |
| Stock-based compensation                        | 15,177            | 16,792            |
| Acquisition and integration costs (Note 1)      | 33,407            | (1,168)           |
| Acquisition inventory step-up (Note 2)          | 7,624             | —                 |
| Fees and expenses related to term loan (Note 3) | 5,847             | 378               |
| Restructuring and other (Note 5)                | 3,165             | 3,010             |
| Other adjustments                               | 3,337             | 772               |
| Adjusted EBITDA (Note 14)                       | <u>\$ 207,067</u> | <u>\$ 342,238</u> |

Note 1: Acquisition and integration costs for the six months ended June 30, 2019, related to the acquisition of Electro Scientific Industries, Inc. ("ESI") which closed on February 1, 2019. During the six months ended June 30, 2018, we reversed a portion of costs recognized during previous periods related to the Newport acquisition, which closed during the second quarter of 2016, related to severance agreement provisions that were not met.

Note 2: Costs of revenues during the six months ended June 30, 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 six months ended March 31, 2019 related to Amendment No. 5 of our Term Loan Credit Agreement. We recorded fees and expenses during the six months ended June 30, 2018 related to the fourth repricing of our Term Loan Credit Agreement.

Note 4: We recorded additional interest expense related to the amortization of debt issuance costs associated with our Term Loan Credit Agreement.

Note 5: We recorded restructuring costs during the six months ended June 30, 2019, which consisted primarily of severance costs related to an organization-wide reduction in workforce, the consolidation of service functions in Asia and the movement of certain products to low cost regions. We also recorded expense during the six months ended June 30, 2019 related to a contractual obligation we assumed as part of our acquisition of Newport Corporation. Restructuring costs during the six months ended June 30, 2018 were primarily comprised of severance costs related to transferring a portion of our shared services functions to a third party as well as the consolidation of certain shared service functions in Asia. We also recorded environmental costs during the six months ended June 30, 2018, related to an Environmental Protection Agency-designated Superfund site, which was acquired as part of our acquisition of Newport Corporation.

Note 6: We recorded windfall tax benefits on the vesting of stock-based compensation.

Note 7: We recorded tax adjustments resulting from additional guidance provided by the IRS related to 2017 tax reform.

Note 8: We recorded a provisional deferred tax adjustment, which also includes the reversal of a tax accrual on a French dividend, related to U.S. tax reform legislation during the fourth quarter of 2017 and updated the provisional transition tax during the six months ended June 30, 2018.

Note 9: We adjusted the transition tax on accumulated foreign earnings related to the 2017 Tax Cut and Jobs Act during the six months ended June 30, 2018.

Note 10: The Non-GAAP net earnings and Non-GAAP net earnings per share amounts exclude acquisition and integration costs, the amortization of the step-up of inventory to fair value, fees and expenses related to the repricing of the Term Loan Credit Agreement, fees and expenses related to an amendment to our Term Loan Credit agreement, amortization of debt issuance costs, restructuring and other costs, amortization of intangible assets, a windfall tax benefit related to stock compensation expense, tax reform adjustments, a deferred tax adjustment, transition tax on accumulated foreign earnings 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 income from operations and Non-GAAP operating margin percentages exclude acquisition and integration costs, fees and expenses related to the repricing of our Term Loan Credit Agreement, fees and expenses related to an amendment to our Term Loan Credit agreement, restructuring and other costs and amortization of intangible assets.

Note 12: The Non-GAAP gross profit amounts and Non-GAAP gross profit percentages exclude the amortization of the step-up of inventory to fair value related to the acquisition of ESI.

Note 13: EBITDA excludes net interest, income taxes, depreciation and amortization of intangible assets.

Note 14: Adjusted EBITDA excludes stock-based compensation, acquisition and integration costs, the amortization of the step-up of inventory to fair value, fees and expenses related to the repricing of our Term Loan Credit Agreement, fees and expenses related to an amendment to our Term Loan Credit Agreement, restructuring and other costs and other adjustments as defined in our Term Loan Credit Agreement.

**MKS Instruments, Inc.**  
**Unaudited Consolidated Balance Sheet**  
(In thousands)

|                                    | June 30,<br>2019    | December 31,<br>2018 |
|------------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                      |                     |                      |
| Cash and cash equivalents          | \$ 366,935          | \$ 644,345           |
| Short-term investments             | 92,985              | 73,826               |
| Trade accounts receivable, net     | 313,530             | 295,454              |
| Inventories                        | 479,497             | 384,689              |
| Other current assets               | 80,303              | 65,790               |
| Assets classified as held for sale | 36,750              | —                    |
| Total current assets               | <u>1,370,000</u>    | <u>1,464,104</u>     |
| Property, plant and equipment, net | 230,649             | 194,367              |
| Right-of-use asset                 | 68,631              | —                    |
| Goodwill                           | 1,058,667           | 586,996              |
| Intangible assets, net             | 599,372             | 319,807              |
| Long-term investments              | 10,401              | 10,290               |
| Other assets                       | 44,228              | 38,682               |
| Total assets                       | <u>\$ 3,381,948</u> | <u>\$ 2,614,246</u>  |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|  |                     |                     |
|--|---------------------|---------------------|
| Short-term debt                            | \$ 10,931           | \$ 3,986            |
| Accounts payable                           | 88,046              | 83,825              |
| Accrued compensation                       | 64,415              | 82,350              |
| Income taxes payable                       | 12,811              | 16,358              |
| Lease liability                            | 20,670              | —                   |
| Deferred revenue and customer advances     | 26,597              | 14,246              |
| Other current liabilities                  | 61,686              | 62,520              |
| Total current liabilities                  | <u>285,156</u>      | <u>263,285</u>      |
| Long-term debt, net                        | 926,879             | 343,842             |
| Non-current deferred taxes                 | 76,042              | 48,223              |
| Non-current accrued compensation           | 62,947              | 55,598              |
| Non-current lease liability                | 51,141              | —                   |
| Other liabilities                          | 34,296              | 30,111              |
| Total liabilities                          | <u>1,436,461</u>    | <u>741,059</u>      |
| Stockholders' equity:                      |                     |                     |
| Common stock                               | 113                 | 113                 |
| Additional paid-in capital                 | 849,585             | 793,932             |
| Retained earnings                          | 1,113,036           | 1,084,797           |
| Accumulated other comprehensive loss       | (17,247)            | (5,655)             |
| Total stockholders' equity                 | <u>1,945,487</u>    | <u>1,873,187</u>    |
| Total liabilities and stockholders' equity | <u>\$ 3,381,948</u> | <u>\$ 2,614,246</u> |

**MKS Instruments, Inc.**  
**Unaudited Consolidated Statements of Cash Flows**  
(In thousands, except per share data)

|  | Three Months Ended |                  |                  |
|--|--------------------|------------------|------------------|
|  | June 30<br>2019    | June 30,<br>2018 | March 31<br>2019 |
| Cash flows from operating activities:  |                    |                  |                  |
| Net income   | \$ 37,739          | \$ 122,862       | \$ 12,455        |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                    |                  |                  |
| Depreciation and amortization  | 27,444             | 19,885           | 25,211           |
| Amortization of inventory step-up adjustment to fair value                         | 2,484              | —                | 5,140            |
| Amortization of debt issuance costs, original issue discount and soft call premium | 1,751              | 868              | 1,202            |
| Stock-based compensation   | 6,929              | 6,366            | 27,838           |
| Provision for excess and obsolete inventory  | 6,990              | 4,959            | 5,063            |
| (Recovery) Provision for doubtful accounts   | (251)              | 261              | (440)            |
| Deferred income taxes  | (180)              | 1,875            | (2,445)          |
| Other  | 851                | 426              | 66               |
| Changes in operating assets and liabilities  | (6,203)            | (47,891)         | (45,040)         |
| Net cash provided by operating activities  | <u>77,554</u>      | <u>109,611</u>   | <u>29,050</u>    |
| Cash flows used in investing activities:   |                    |                  |                  |
| Acquisition of business, net of cash acquired                                      | —                  | —                | (988,599)        |
| Purchases of investments   | (73,707)           | (99,063)         | (44,212)         |

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Sales of investments   | 3,221             | 54,433            | 154,489           |
| Maturities of investments                                    | 21,702            | 41,138            | 18,684            |
| Proceeds from sale of assets                                 | —                 | —                 | 35                |
| Purchases of property, plant and equipment                   | (13,725)          | (12,428)          | (14,529)          |
| Net cash used in investing activities                        | <u>(62,509)</u>   | <u>(15,920)</u>   | <u>(874,132)</u>  |
| Cash flows (used in) provided by financing activities:       |                   |                   |                   |
| Payments of short-term borrowings                            | (1,750)           | (17,788)          | (176)             |
| Net proceeds from short and long-term borrowings             | 2,301             | 25,082            | 638,638           |
| Payments of long-term borrowings                             | (51,625)          | —                 | —                 |
| Dividend payments  | (10,880)          | (10,942)          | (10,843)          |
| Net payments related to employee stock awards                | (2,025)           | (4,131)           | (8,987)           |
| Net cash (used in) provided by financing activities          | <u>(63,979)</u>   | <u>(7,779)</u>    | <u>618,632</u>    |
| Effect of exchange rate changes on cash and cash equivalents | (2,147)           | 631               | 121               |
| (Decrease) increase in cash and cash equivalents             | <u>(51,081)</u>   | <u>86,543</u>     | <u>(226,329)</u>  |
| Cash and cash equivalents at beginning of period             | 418,016           | 340,888           | 644,345           |
| Cash and cash equivalents at end of period                   | <u>\$ 366,935</u> | <u>\$ 427,431</u> | <u>\$ 418,016</u> |

**MKS Instruments, Inc.**  
**Reconciliation of GAAP Income Tax Rate to Non-GAAP Income Tax Rate**  
(In thousands)

|   | Three Months Ended June 30, 2019 |   |                       | Three Months Ended March 31, 2019 |   |                       |
|---|----------------------------------|---|-----------------------|-----------------------------------|---|-----------------------|
|   | Income Before<br>Income Taxes    | Provision (benefit)<br>for Income Taxes | Effective<br>Tax Rate | Income Before<br>Income Taxes     | Provision (benefit)<br>for Income Taxes | Effective<br>Tax Rate |
| GAAP  | \$ 51,863                        | \$ 14,124                               | 27.2%                 | \$ 15,336                         | \$ 2,881                                | 18.8%                 |
| Adjustments:  |                                  |   |                       |                                   |   |                       |
| Acquisition and integration costs (Note 1)                | 3,240                            | —                                       |                       | 30,167                            | —                                       |                       |
| Acquisition inventory step-up (Note 2)                    | 2,484                            | —                                       |                       | 5,140                             | —                                       |                       |
| Fees and expenses related to term loan (Note 3)           | —                                | —                                       |                       | 5,847                             | —                                       |                       |
| Amortization of debt issuance costs (Note 4)              | 1,254                            | —                                       |                       | 599                               | —                                       |                       |
| Restructuring and other (Note 5)                          | 1,242                            | —                                       |                       | 1,923                             | —                                       |                       |
| Amortization of intangible assets                         | 17,552                           | —                                       |                       | 15,727                            | —                                       |                       |
| Windfall tax benefit on stock-based compensation (Note 6) | —                                | 790                                     |                       | —                                 | 1,389                                   |                       |
| Tax reform adjustments (Note 7)                           | —                                | (2,731)                                 |                       | —                                 | —                                       |                       |
| Tax effect of pro-forma adjustments                       | —                                | 5,596                                   |                       | —                                 | 9,169                                   |                       |
| Non-GAAP  | <u>\$ 77,635</u>                 | <u>\$ 17,779</u>                        | 22.9%                 | <u>\$ 74,739</u>                  | <u>\$ 13,439</u>                        | 18.0%                 |

Three Months Ended June 30, 2018  
Income Before    Provision (benefit)    Effective

|   | Income Taxes      | for Income Taxes | Tax Rate |
|---|-------------------|------------------|----------|
| GAAP  | \$ 148,544        | \$ 25,682        | 17.3%    |
| Adjustments:  |                   |                  |          |
| Acquisition and integration costs (Note 1)                | (1,168)           | —                |          |
| Fees and expenses related to term loan (Note 3)           | 378               | —                |          |
| Amortization of debt issuance costs (Note 4)              | 660               | —                |          |
| Restructuring and other (Note 5)                          | 790               | —                |          |
| Amortization of intangible assets                         | 10,901            | —                |          |
| Windfall tax benefit on stock-based compensation (Note 6) | —                 | 4,752            |          |
| Transition tax on accumulated foreign earnings (Note 9)   | —                 | 659              |          |
| Tax effect of pro-forma adjustments                       | —                 | 200              |          |
| Non-GAAP  | <u>\$ 160,105</u> | <u>\$ 31,293</u> | 19.5%    |

|   | Six Months Ended June 30, 2019 |   |                       | Six Months Ended June 30, 2018 |   |                       |
|---|--------------------------------|---|-----------------------|--------------------------------|---|-----------------------|
|   | Income Before<br>Income Taxes  | Provision (benefit)<br>for Income Taxes | Effective<br>Tax Rate | Income Before<br>Income Taxes  | Provision (benefit)<br>for Income Taxes | Effective<br>Tax Rate |
| GAAP  | \$ 67,199                      | \$ 17,005                               | 25.3%                 | \$ 275,286                     | \$ 47,303                               | 17.2%                 |
| Adjustments:  |                                |   |                       |                                |   |                       |
| Acquisition and integration costs (Note 1)                | 33,407                         | —                                       |                       | (1,168)                        | —                                       |                       |
| Acquisition inventory step-up (Note 2)                    | 7,624                          | —                                       |                       | —                              | —                                       |                       |
| Fees and expenses related to term loan (Note 3)           | 5,847                          | —                                       |                       | 378                            | —                                       |                       |
| Amortization of debt issuance costs (Note 4)              | 1,853                          | —                                       |                       | 2,491                          | —                                       |                       |
| Restructuring and other (Note 5)                          | 3,165                          | —                                       |                       | 3,010                          | —                                       |                       |
| Amortization of intangible assets                         | 33,279                         | —                                       |                       | 22,091                         | —                                       |                       |
| Windfall tax benefit on stock-based compensation (Note 6) | —                              | 2,179                                   |                       | —                              | 7,788                                   |                       |
| Tax reform adjustments (Note 7)                           | —                              | (2,731)                                 |                       | —                              | —                                       |                       |
| Deferred tax adjustment (Note 8)                          | —                              | —                                       |                       | —                              | (878)                                   |                       |
| Transition tax on accumulated foreign earnings (Note 9)   | —                              | —                                       |                       | —                              | 2,327                                   |                       |
| Tax effect of pro-forma adjustments                       | —                              | 14,765                                  |                       | —                              | 2,447                                   |                       |
| Non-GAAP  | <u>\$ 152,374</u>              | <u>\$ 31,218</u>                        | 20.5%                 | <u>\$ 302,088</u>              | <u>\$ 58,987</u>                        | 19.5%                 |

Note 1: Acquisition and integration costs for the three months ended June 30, 2019 and March 31, 2019 and the six months ended June 30, 2019, related to the acquisition of Electro Scientific Industries, Inc. ("ESI") which closed on February 1, 2019. During the three and six months ended June 30, 2018, we reversed a portion of costs recognized during previous periods related to the Newport acquisition, which closed during the second quarter of 2016, related to severance agreement provisions that were not met.

Note 2: Costs of revenues during the three months ended June 30, 2019 and March 31, 2019 and the six months ended June 30, 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 March 31, 2019 and six months ended June 30, 2019 related to Amendment No. 5 of our Term Loan Credit Agreement. We recorded fees and expenses during the three and six months ended June 30, 2018 related to the fourth repricing of our Term Loan Credit Agreement.

Note 4: We recorded additional interest expense related to the amortization of debt issuance costs associated with our Term Loan Credit Agreement.

Note 5: We recorded restructuring costs during the three months ended June 30, 2019 and March 31, 2019 and the six months ended June 30, 2019, which consisted primarily of severance costs related to an organization-wide reduction in workforce, the consolidation of service functions in Asia and the movement of certain products to low cost regions. We also recorded expense during the three months ended March 31, 2019 and six months ended June 30, 2019 related to a contractual obligation we assumed as part of our acquisition of Newport Corporation. Restructuring costs during the three and six months ended June 30, 2018 were primarily comprised of severance costs related to transferring a portion of our shared services functions to a third party as well as the consolidation of certain shared service functions in Asia. We recorded environmental costs during the six months ended June 30, 2018, related to an Environmental Protection Agency-designated Superfund site, which was acquired as part of our acquisition of Newport Corporation.

Note 6: We recorded windfall tax benefits on the vesting of stock-based compensation.

Note 7: We recorded tax adjustments resulting from additional guidance provided by the IRS related to 2017 tax reform.

Note 8: We recorded a provisional deferred tax adjustment, which also includes the reversal of a tax accrual on a French dividend, related to U.S. tax reform legislation during the fourth quarter of 2017 and updated the provisional transition tax during the six months ended June 30, 2018.

Note 9: We adjusted the transition tax on accumulated foreign earnings related to the 2017 Tax Cut and Jobs Act during the three and six months ended June 30, 2018.

**MKS Instruments, Inc.**  
**Reconciliation of Q3-19 Guidance - GAAP Net Income to Non-GAAP Net Earnings**  
**(In thousands, except per share data)**

|                                    | Three Months Ended September 30, 2019 |              |               |              |
|------------------------------------|---------------------------------------|--------------|---------------|--------------|
|                                    | Low Guidance                          |              | High Guidance |              |
|                                    | \$ Amount                             | \$ Per Share | \$ Amount     | \$ Per Share |
| GAAP net income                    | \$ 21,400                             | \$ 0.39      | \$ 39,800     | \$ 0.72      |
| Amortization                       | 17,200                                | 0.31         | 17,200        | 0.31         |
| Deferred financing costs           | 800                                   | 0.01         | 800           | 0.01         |
| Integration costs                  | 1,700                                 | 0.03         | 1,700         | 0.03         |
| Restructuring and other costs      | 1,800                                 | 0.03         | 1,800         | 0.03         |
| Tax effect of adjustments (Note 1) | (4,700)                               | (0.08)       | (4,700)       | (0.08)       |

|                          |    |               |    |             |    |               |    |             |
|--------------------------|----|---------------|----|-------------|----|---------------|----|-------------|
| Non-GAAP net earnings    | \$ | <u>38,200</u> | \$ | <u>0.69</u> | \$ | <u>56,600</u> | \$ | <u>1.02</u> |
| Q3 -19 forecasted shares |    |               |    | 55,300      |    |               |    | 55,300      |

Note 1: The Non-GAAP adjustments are tax effected at the applicable statutory rates and the difference between the GAAP and Non-GAAP tax rates.



Source: MKS Instruments, Inc.