

Photon Control Reports Fourth Quarter and Full Year 2017 Financial Results

Vancouver, BC, March 15, 2018 - Photon Control Inc. ("Photon Control" or the "Company") (TSX-V: PHO), a leading developer and supplier of optical measurement technologies to the global semiconductor industry, has reported its financial results for the three months and year ended December 31, 2017.

Fourth Quarter and Full Year 2017 Highlights

- Revenue of \$11.0 million and \$43.8 million for the quarter and year, respectively, representing increases of 22% and 36% versus the prior comparable periods;
- Adjusted EBITDA of \$2.9 million or 26% of revenues and \$14.3 million or 33% of revenues for the quarter and year, respectively, increased 35% and 36% versus the prior year comparable periods. A table showing adjustments made to EBITDA is included in this press release;
- Net income of \$2.7 million and \$5.7 million for the quarter and year, respectively, represent a 96% increase and 13% decline versus the prior comparable periods. The decline in net income for the year relates to previously disclosed non-recurring charges;
- Basic earnings per share of \$0.02 and \$0.05 for the quarter and year, respectively, represent a 100% increase and 17% decline versus the prior comparable periods. The decline in earnings per share for the year relates to previously disclosed non-recurring charges; and,
- Order backlog grew to a record \$18.3 million as at December 31, 2017, increases of 45% and 108% from September 30, 2017 and December 31, 2016 respectively.

"We are pleased to deliver record revenue and Adjusted EBITDA for the year," said Scott Edmonds, Chief Executive Officer. "Our fourth quarter and second half results were slightly above our forecasted levels, reflecting the robust semiconductor industry, increased customer confidence in Photon Control, and early results from investments made in engineering and sales and marketing."

Fourth Quarter and Full Year 2017 Financial Results

Total revenue for the fourth quarter of 2017 increased 22% from \$9.0 million to \$11.0 million, with full year 2017 revenue increasing 36% from \$32.2 million to \$43.8 million year over year. The increase in revenue was primarily due to strong overall market conditions in the semiconductor industry and our customers' increased confidence in our Company.

Fourth quarter 2017 gross profit increased 16% to \$5.0 million versus the prior year quarter, and 2017 full year gross profit increased 44% to \$23.3 million versus the prior year period. Gross margin was 45% for the three months and 53% for the year ended December 31, 2017 compared to 48% and 50% in the prior year periods, respectively.

Gross margin decreased to 45% for the quarter compared to 48% in the prior comparable period due to non-cash amortization charges on intangible assets arising from the acquisition of Photon R&D. This new, non-cash charge, which has been calculated from the acquisition date of April 14, 2017 to December 31, 2017, has been fully absorbed in the fourth quarter as the Company finalized the accounting for the transaction in the quarter. The non-cash charge was partially offset by the benefits of higher overall revenues and a previously reported change in accounting for the royalties paid to the former Photon R&D; such royalties are now accounted for as a business acquisition cost rather than cost of sales as had been the case in years prior to 2017. Had the non-cash amortization charge been reflected in each respective period, gross margin would have been 48%, 51% and 52% in the second, third and fourth quarters of 2017, respectively.

Gross margin improved to 53% for the year ended December 31, 2017 compared to 50% in 2016, as a result of higher overall revenues and the net benefit of the change in accounting for the royalties paid to the



former Photon R&D which exceeded the aforementioned amortization charges on intangible assets for the year.

Operating expenses of \$3.6 million and \$15.5 million for the three months and year ended December 31, 2017, respectively, include one-time charges of \$0.3 million for the fourth quarter of 2017 and \$4.7 million for the full year. One-time charges of \$0.3 million in the fourth quarter of 2017 relate to the final costs of the Company's relocation to its new manufacturing facility and are in line with previously forecasted amounts. The \$4.7 million of charges for the full year include \$0.9 million for the facility move, \$2.8 million for changes to the Board of Directors, CEO and leadership team, including certain litigation costs, and \$1.0 million for costs related to the acquisition of certain assets of Photon R&D and settlement of all disputes with the former Photon R&D and its principals. Net of these one-time items, operating expenses were \$2.9 million and \$9.2 million for the fourth quarter and full year of 2017, respectively, compared to \$2.0 million and \$5.2 million in the same year-ago periods. The increase in expenses reflects investments made to enhance the Company's ability to service its existing revenues and to drive future growth opportunities.

Net income before tax for the quarter was \$3.9 million compared to \$2.4 million for the prior comparable period, while for the full year of 2017, net income before tax was \$8.2 million versus \$9.4 million for the same year-ago period.

The table below reconciles the net income to adjusted earnings before interest, taxes, depreciation and amortization, foreign exchange and non-recurring items ("Adjusted EBITDA"):

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net income for the period	\$ 2,653	\$ 1,351	\$ 5,692	\$ 6,516
Add (deduct)				
Finance income	(35)	(24)	(176)	(137)
Accretion expense on contingent consideration	639	-	639	-
Income tax	1,255	1,056	2,557	2,869
Depreciation of property and equipment	268	52	758	163
Amortization of intangible assets	1,154	14	1,182	55
Foreign exchange (gain) loss	(145)	(398)	2,037	186
Relocation costs	313	-	884	-
Corporate Changes	-	-	2,953	384
Photon R&D settlement	(3,200)	95	(2,249)	485
Adjusted EBITDA for the period	\$ 2,902	\$ 2,146	\$ 14,277	\$ 10,521

Net income and total comprehensive income was \$2.7 million or \$0.02 per share and \$5.7 million or \$0.05 per share for the three months and year ended December 31, 2017, respectively, compared to \$1.4 million or \$0.01 per share and \$6.5 million or \$0.06 per share in the prior year comparable periods.

As at December 31, 2017, cash on hand was above forecast at \$34.3 million versus \$27.0 million at September 30, 2017 and \$32.5 million at December 31, 2016. The increase during the three months ended December 31, 2017 was attributable to the Company's strong operating performance and early collections from a large customer. The Company noted that its cash balance increased following the significant one-time investments made in the first half of 2017, including the fit-out of the new manufacturing facility and the acquisition of Photon Control R&D Ltd.



Order backlog (defined as the value of sales orders scheduled to be shipped in the next 12-months) increased to \$18.3 million at December 31, 2017, increases of 45% and 108% from \$12.6 million and \$8.8 million reported at September 30, 2017 and December 31, 2016 respectively. The increase in order backlog reflects the continued demand growth occurring in the semiconductor industry, increased confidence in the Company and early results from investments made in engineering and sales and marketing.

Business Outlook for the First Quarter of 2018

“We are forecasting Q1 2018 revenue to be in the range of \$12 to \$14 million,” said Scott Edmonds, Chief Executive Officer, continuing, “We further expect that our revenue growth for the year will outperform the consensus estimates of low double-digit growth for the semiconductor WFE market and that our 2018 EBITDA margins will be similar to or higher than the amounts reported in 2017.”

Stock Option Grants to Employees and Consultants

The Company announced that it has granted to certain employees and consultants an aggregate of 250,000 stock options in the ordinary course business. The exercise price of the options granted will be set at the closing price per share on March 14, 2018. The stock options are subject to the terms of the Company’s Stock Option Plan and any applicable regulatory approvals.

Conference Call

Photon Control will hold a conference call today (Thursday, March 15, 2018) at 11:00 a.m. Eastern time (8:00 a.m. Pacific time) to discuss these results. The call will be hosted by Scott Edmonds, Chief Executive Officer and Daniel Lee, Chief Financial Officer, followed by a question and answer period.

Please call the conference telephone number approximately 10 minutes prior to the commencement of the call. The conference call will be broadcast simultaneously and available for replay [here](#).

Toll-Free Number: 1-877-407-9716

International Number: 1-201-493-6779

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

This news release should be read in conjunction with the Company’s consolidated financial statements and related notes for the year ended December 31, 2017, and management’s discussion and analysis for the three months and year ended December 31, 2017, copies of which can be found at www.sedar.com.

About Photon Control Inc.

Photon Control Inc. designs, manufactures and distributes a wide range of optical sensors and systems to measure temperature and position. These products are used by the world’s largest Wafer Fabrication Equipment (“WFE”) manufacturers and end users in the semiconductor and related industries. Photon Control Inc.’s high quality products provide industry leading accuracy, speed and quality in the most extreme conditions and are backed by a team of experts providing a variety of on-site and remote services including custom design, installation, training and support. Headquartered in an ISO 9001:2015 manufacturing facility in Vancouver, BC, Photon Control Inc. is listed on the TSX Venture Exchange, trading under the symbol “PHO.” Additional information about the company can be found at www.photon-control.com/investors.html.

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Forward-Looking Statements

This news release contains “forward-looking statements” within the meaning of applicable Canadian securities legislation. These statements generally can be identified by use of forward looking words such as “may”, “will”, “expect”, “estimate”, “anticipate”, “intend”, “consider”, “believe” or “continue” or the negative thereof or similar variations. Such forward-looking statements concern the business and anticipated financial performance of the Company and include, without limitation, the Company’s expectations with respect to the overall order activity for the balance of the year and the Company’s ability to build on its financial and operational foundation in the future.

These forward-looking statements are based on certain factors and assumptions, including, without limitation: the Company’s ability to successfully complete new purchase orders along the timelines expected; continued and future demand for the Company’s products; continued sales to the Company’s major customers; the continued financial health of the semiconductor industry; and the Company’s ability to continue and further enhance revenue diversification and open new market opportunities.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation: additional measures and controls may not be implemented as expected or along the timelines anticipated; uncertainties relating to the market for the Company’s products and maintaining a stable level of orders; fluctuations in revenue as a result of volatility in the markets and product mix; risks relating to the Company’s present reliance on its major customers for the majority of its sales; risks relating to the Company’s reliance on the financial health of the semiconductor industry; risks relating to the development of competing technologies and the possibility of increased competition; the effect of slow growth in the United States, the Company’s principal market, as well as other economies and other economic trends and conditions in the markets that the Company and its customers serve; risks associated with technical difficulties or delays in product introductions, improvements, implementation; uncertainties in product pricing or other initiatives of the Company and its competitors; uncertainties in factors that may result in a reduction in capital expenditures and/or delayed buying decisions affecting demand for the Company’s products; risks relating to currency fluctuations, particularly between the Canadian and United States dollars; and risks in pursuing additional development projects to support existing customers or pursue other business opportunities.

The foregoing assumptions, risks and uncertainties are not exhaustive of the items that may affect our forward-looking statements. Should underlying assumptions prove to be incorrect or one or more of these risks and uncertainties materialize, actual results may vary materially from those described in the forward-looking statements. The Company’s forward-looking statements are based on beliefs, expectations and opinions of management on the date the statements are made.

For the reasons set forth above, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements included herein if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.

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