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II-VI Incorporated  
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Press Release

## II-VI Incorporated Reports Fiscal 2017 Third Quarter Earnings; Established Record Bookings and Revenue; Sees Strength in All Segments

- Bookings and Revenues both increased 19% year over year
- EPS increased over 46% year over year
- Solid order coverage for Q4FY17 across all three segments

PITTSBURGH, May 2, 2017 (GLOBE NEWSWIRE) -- II-VI Incorporated (Nasdaq: IIVI) ("II-VI" or the "Company") today reported results for its third fiscal quarter ended March 31, 2017.

Dr. Vincent D. Mattera, Jr., President and Chief Executive Officer of II-VI said "Against an industry-wide backdrop of concern about a slow-down in the optical communications market, our third fiscal quarter unfolded largely as expected, and was in line with the high-end range of our guidance. We maintained a great sense of urgency in the service of our customers, and delivered 18% organic sales growth (19% total growth) and 200 basis point improvement in gross margin. Each of our businesses contributed, including those that collectively serve the communications market in which we recorded all-time high revenues and backlog during the quarter. I believe that our diversified product and technology portfolio along with the capital allocation strategy we have employed over the past several years and a world class global team drove our solid performance. I also believe that we can sustain our overall performance during our fourth fiscal quarter given the strong backlog and record order coverage across all three segments, as we continue to work to position the Company to deliver outstanding value to our customers and shareholders."

The Company's revenue reflects the benefits of its investments in R&D over the last several years. While the Company continues to invest in research and development in all businesses, the single largest concentrated investment in research and development was in the II-VI Laser Solutions segment. This concentrated investment will serve to capture a meaningful market share in end markets with expected growth in the billions of dollars over the next several years. R&D investments in this segment were \$8.5M and \$25.7M, for the three and nine months ended March 31, 2017, respectively. These investments impacted diluted earnings per share by \$0.10 and \$0.30, for the three and nine months ended March 31, 2017, respectively.

**Table 1**  
\$ Millions, except per share amounts, basis points and %  
(Unaudited)

	Three Months Ended					Nine Months Ended		
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016	Increase (Decrease)		Mar 31, 2017	Mar 31, 2016	Increase
				Sequential	YOY			
<b>Bookings</b> <sup>(1)</sup>	\$ 280.8	\$ 274.3	\$ 235.5	2%	19%	\$ 799.4	\$ 630.4	27%
<b>Revenues</b>	\$ 245.0	\$ 231.8	\$ 205.1	6%	19%	\$ 698.3	\$ 585.8	19%
<b>Net earnings</b>	\$ 22.4	\$ 23.9	\$ 14.9	(6%)	50%	\$ 62.6	\$ 51.1	23%
<b>Diluted earnings per share</b>	\$ 0.35	\$ 0.37	\$ 0.24	(5%)	46%	\$ 0.97	\$ 0.81	20%
<b>Other Selected Financial Metrics</b>								
Gross margin	39.9%	40.7%	37.9%	(80 bps)	200 bps	40.0%	37.6%	240 bps
Operating margin	11.8%	11.7%	9.5%	10 bps	230 bps	11.4%	10.7%	70 bps
EBITDA margin <sup>(2)</sup>	18.8%	20.8%	16.0%	(200 bps)	280 bps	19.2%	18.0%	120 bps
Return on sales	9.2%	10.3%	7.3%	(110 bps)	190 bps	9.0%	8.7%	30 bps

(1) Bookings are orders the Company expects to convert to revenues within the next twelve months.

(2) EBITDA margin is defined as earnings before interest, income taxes, depreciation and amortization divided by total revenues.

### Outlook

The outlook for the fourth fiscal quarter ending June 30, 2017 is revenue of \$245 million to \$252 million and diluted earnings per share of \$0.33 to \$0.37. Our EPS guidance for the fourth quarter includes an increase of about \$0.05 diluted earnings per share for additional depreciation expense related to our increase in capital expenditures. These amounts are calculated using prevailing exchange rates. The results for the quarter ended June 30, 2016 were revenues of \$241.5 million and diluted earnings per share of \$0.23 which included acquisition transaction expenses and other one-time transactions. As discussed in more detail below, actual results may differ from these forecasts due to various factors including, but not limited to, changes in product demand, competition and general economic conditions.

### Segment Information

Operating income is defined as earnings before income taxes, interest expense and other expense or income, net.

**Table 2**  
**Segment Bookings, Revenues, Operating Income and Margins**  
**\$ Millions, except %**  
**(Unaudited)**

	<u>Three Months Ended</u>			<u>Nine Months Ended</u>	
	<u>Mar 31, 2017</u>	<u>Dec 31, 2016</u>	<u>Mar 31, 2016</u>	<u>Mar 31, 2017</u>	<u>Mar 31, 2016</u>
<b>Bookings:</b>					
II-VI Laser Solutions	106.0	85.0	81.8	271.6	217.3
II-VI Photonics	109.5	136.1	103.0	350.2	265.7
II-VI Performance Products	65.3	53.2	50.7	177.6	147.4
Total bookings	<u>\$ 280.8</u>	<u>\$ 274.3</u>	<u>\$ 235.5</u>	<u>\$ 799.4</u>	<u>\$ 630.4</u>
<b>Revenues:</b>					
II-VI Laser Solutions	\$ 83.6	\$ 81.5	\$ 73.8	\$ 244.4	\$ 215.6
II-VI Photonics	109.1	100.9	80.6	305.8	226.8
II-VI Performance Products	52.3	49.4	50.7	148.1	143.4
Total revenues	<u>\$ 245.0</u>	<u>\$ 231.8</u>	<u>\$ 205.1</u>	<u>\$ 698.3</u>	<u>\$ 585.8</u>
<b>Operating Income:</b>					
II-VI Laser Solutions	\$ 8.3	\$ 7.6	\$ 5.4	\$ 22.6	\$ 28.8
II-VI Photonics	15.9	15.9	9.6	45.7	23.3
II-VI Performance Products	4.8	3.6	4.4	11.5	10.8
Total operating income	<u>\$ 29.0</u>	<u>\$ 27.1</u>	<u>\$ 19.4</u>	<u>\$ 79.8</u>	<u>\$ 62.9</u>
<b>Operating Margin:</b>					
II-VI Laser Solutions	9.9%	9.3%	7.3%	9.2%	13.4%
II-VI Photonics	14.6%	15.8%	11.9%	14.9%	10.3%
II-VI Performance Products	9.2%	7.3%	8.7%	7.8%	7.5%
Total operating margin	11.8%	11.7%	9.5%	11.4%	10.7%

Table 3 is a reconciliation of Operating Income reported in this press release to reported Net Earnings.

**Table 3**  
**\$ Millions**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Operating income	\$ 29.0	\$ 27.1	\$ 19.4	\$ 79.8	\$ 62.9
Interest expense	1.9	1.4	0.8	4.5	2.0
Other expense (income), net	(2.1)	(6.1)	1.3	(9.6)	(0.8)
Income taxes	6.8	7.9	2.4	22.3	10.6
Net Earnings	<u>\$ 22.4</u>	<u>\$ 23.9</u>	<u>\$ 14.9</u>	<u>\$ 62.6</u>	<u>\$ 51.1</u>

Table 4 is a reconciliation of Operating Income reported in this press release to reported EBITDA.

**Table 4**  
**\$ Millions**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Operating income	\$ 29.0	\$ 27.1	\$ 19.4	\$ 79.8	\$ 62.9
Depreciation and amortization	14.9	14.9	14.7	44.7	41.8
Other income (expense), net	2.1	6.1	(1.3)	9.6	0.8
EBITDA <sup>(3)</sup>	<u>\$ 46.0</u>	<u>\$ 48.1</u>	<u>\$ 32.8</u>	<u>\$ 134.1</u>	<u>\$ 105.5</u>

Table 5 is a reconciliation of EBITDA reported in this press release to reported Net Earnings.

**Table 5**  
**\$ Millions**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
EBITDA	\$ 46.0	48.1	32.8	134.1	105.5
<i>EBITDA margin <sup>(2)</sup></i>	<i>18.8%</i>	<i>20.8%</i>	<i>16.0%</i>	<i>19.2%</i>	<i>18.0%</i>
Interest expense	1.9	1.4	0.8	4.5	2.0
Depreciation and amortization	14.9	14.9	14.7	44.7	41.8
Income taxes	6.8	7.9	2.4	22.3	10.6
Net Earnings	<u>\$ 22.4</u>	<u>\$ 23.9</u>	<u>\$ 14.9</u>	<u>\$ 62.6</u>	<u>\$ 51.1</u>

(3) EBITDA is defined as earnings before interest, income taxes, depreciation and amortization.

Table 6 is a table of other selected financial information.

**Table 6**  
**\$ Millions, except share information**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Share-based compensation expense	\$ 4.5	\$ 3.9	\$ 2.5	\$ 12.5	\$ 10.1
Cash paid for shares repurchased through the Company's share repurchase program	\$ -	\$ -	\$ -	\$ -	\$ 6.3
Shares repurchased through the Company's share repurchase program	-	-	-	-	380,538

### **Webcast Information**

The Company will host a conference call at 9:00 a.m. Eastern Time on Tuesday, May 2, 2017 to discuss these results. The conference call will be broadcast live over the internet and can be accessed by all interested parties from the Company's website at [www.ii-vi.com](http://www.ii-vi.com) as well as at <http://tinyurl.com/k77xte2>. A replay of the webcast will be available for two weeks following the call.

### **Use of Non-GAAP Financial Measures**

The Company has disclosed financial measurements in this press release that present financial information considered to be non-GAAP financial measures. These measurements are not a substitute for GAAP measurements, although the Company's management uses these measurements as an aid in monitoring the Company's on-going financial performance. EBITDA is an adjusted non-GAAP financial measurement that is considered by management to be useful in measuring the profitability between companies within the industry by reflecting operating results of the Company excluding non-operating factors. There are limitations associated with the use of non-GAAP financial measures, including that such measures may not be entirely comparable to similarly titled measures used by other companies, due to potential differences among calculation methodologies. Thus, there can be no assurance that items excluded from the non-GAAP financial measures will not occur in the future, or that there could be cash costs associated with items excluded from the non-GAAP financial measures. The Company compensates for these limitations by using these non-GAAP financial measures as supplements to GAAP financial measures and by providing the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures. Investors should consider adjusted measures in addition to, and not as a substitute for, or superior to, financial performance measures prepared in accordance with GAAP.

### **About II-VI Incorporated**

II-VI Incorporated, a global leader in engineered materials and optoelectronic components and devices, is a vertically integrated manufacturing company that develops innovative products for diversified applications in the industrial, optical communications, military, life sciences, semiconductor equipment, and consumer markets. Headquartered in Saxonburg, Pennsylvania, with research and development, manufacturing, sales, service, and distribution facilities worldwide, the Company produces a wide variety of application-specific photonic and electronic materials and components, and deploys them in various forms including integrated with advanced software to enable our customers.

### **Forward-looking Statements**

This press release contains forward-looking statements relating to future events and expectations that are based on certain assumptions and contingencies. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and relate to the Company's performance on a going-forward basis. The forward-looking statements in this press release involve risks and uncertainties, which could cause actual results, performance or trends to differ materially from those expressed in the forward-looking statements herein or in previous disclosures. The Company believes that all forward-looking statements made by it in this release have a reasonable basis, but there can be no assurance that management's expectations, beliefs or projections as expressed in the forward-looking statements will actually occur or prove to be correct. In addition to general industry and global economic conditions, factors that could cause actual results to differ materially from those discussed in the forward-looking statements in this press release include, but are not limited to: (i) the failure of any one or more of the assumptions stated above to prove to be correct; (ii) the risks relating to forward-looking statements and other "Risk Factors" discussed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016; (iii) the purchasing patterns of customers and end-users; (iv) the timely release of new products, and acceptance of such new products by the market; (v) the introduction of new products by competitors and other competitive responses; (vi) the Company's ability to assimilate recently acquired businesses, and risks, costs and uncertainties associated with such acquisitions; and/or (vii) the Company's ability to devise and execute strategies to respond to market conditions. The Company disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events or developments, or otherwise.

**II-VI Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Earnings (Unaudited)**  
 (\$000 except per share data)

	March 31, 2017	Three Months Ended December 31, 2016	March 31, 2016
<b>Revenues</b>			
Net sales:			
Domestic	\$ 80,940	\$ 74,216	\$ 74,884
International	164,047	157,606	130,221
<b>Total Revenues</b>	<b>244,987</b>	<b>231,822</b>	<b>205,105</b>
<b>Costs, Expenses &amp; Other Expense (Income)</b>			
Cost of goods sold	147,277	137,559	127,436
Internal research and development	25,380	23,632	14,946
Selling, general and administrative	43,291	43,495	43,333
Interest expense	1,936	1,365	769
Other expense (income), net	(2,164)	(6,045)	1,257
<b>Total Costs, Expenses, &amp; Other Expense (Income)</b>	<b>215,720</b>	<b>200,006</b>	<b>187,741</b>
<b>Earnings Before Income Taxes</b>	<b>29,267</b>	<b>31,816</b>	<b>17,364</b>
<b>Income Taxes</b>	<b>6,837</b>	<b>7,913</b>	<b>2,426</b>
<b>Net Earnings</b>	<b>\$ 22,430</b>	<b>\$ 23,903</b>	<b>\$ 14,938</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.35</b>	<b>\$ 0.37</b>	<b>\$ 0.24</b>
<b>Basic Earnings Per Share</b>	<b>\$ 0.36</b>	<b>\$ 0.38</b>	<b>\$ 0.24</b>
<b>Average Shares Outstanding - Diluted</b>	<b>65,010</b>	<b>64,407</b>	<b>63,053</b>
<b>Average Shares Outstanding - Basic</b>	<b>62,807</b>	<b>62,390</b>	<b>61,369</b>

**II-VI Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Earnings (Unaudited)**  
 (\$000 except per share data)

	Nine Months Ended	
	March 31, 2017	March 31, 2016
<b>Revenues</b>		
Net sales:		
Domestic	\$ 224,474	\$ 219,812
International	473,855	365,934
<b>Total Revenues</b>	<u>698,329</u>	<u>585,746</u>
<b>Costs, Expenses &amp; Other Expense (Income)</b>		
Cost of goods sold	418,754	365,544
Internal research and development	70,844	40,252
Selling, general and administrative	128,865	117,051
Interest expense	4,547	2,015
Other expense (income), net	<u>(9,611)</u>	<u>(794)</u>
<b>Total Costs, Expenses, &amp; Other Expense (Income)</b>	613,399	524,068
<b>Earnings Before Income Taxes</b>	84,930	61,678
<b>Income Taxes</b>	22,303	10,535
<b>Net Earnings</b>	<u>\$ 62,627</u>	<u>\$ 51,143</u>
<b>Diluted Earnings Per Share</b>	\$ 0.97	\$ 0.81
<b>Basic Earnings Per Share</b>	\$ 1.00	\$ 0.83
<b>Average Shares Outstanding - Diluted</b>	64,333	62,818
<b>Average Shares Outstanding - Basic</b>	62,403	61,252

**II-VI Incorporated and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
**(\$000)**

	<u>March 31,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 247,581	\$ 218,445
Accounts receivable	173,564	164,817
Inventories	191,802	175,133
Prepaid and refundable income taxes	5,389	6,535
Prepaid and other current assets	20,485	18,033
<b>Total Current Assets</b>	<b>638,821</b>	<b>582,963</b>
Property, plant & equipment, net	335,752	242,857
Goodwill	232,513	233,755
Other intangible assets, net	114,840	124,590
Investment	12,007	11,354
Deferred income taxes	5,940	7,848
Other assets	7,775	8,614
<b>Total Assets</b>	<b>\$ 1,347,648</b>	<b>\$ 1,211,981</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 20,000	\$ 20,000
Accounts payable	66,909	53,796
Accruals and other current liabilities	79,133	97,446
<b>Total Current Liabilities</b>	<b>166,042</b>	<b>171,242</b>
Long-term debt	258,101	215,307
Capital lease obligation	23,689	-
Deferred income taxes	12,990	11,103
Other liabilities	33,930	31,991
<b>Total Liabilities</b>	<b>494,752</b>	<b>429,643</b>
<b>Total Shareholders' Equity</b>	<b>852,896</b>	<b>782,338</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,347,648</b>	<b>\$ 1,211,981</b>



**II-VI Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**(\$000)**

	Nine Months Ended March 31,	
	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net cash provided by operating activities	\$ 78,372	\$ 81,236
<b>Cash Flows from Investing Activities</b>		
Additions to property, plant & equipment	(99,135)	(32,743)
Purchases of businesses	(580)	(118,657)
Other investing activities	1,707	92
<b>Net cash used in investing activities</b>	<b>(98,008)</b>	<b>(151,308)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from borrowings	64,000	125,200
Payments on borrowings	(20,000)	(38,500)
Proceeds from exercises of stock options	14,625	7,444
Payments in satisfaction of employees' minimum tax obligations	(3,407)	(1,983)
Debt issuance costs	(1,384)	-
Purchases of treasury stock	-	(6,284)
Other financing activities	-	96
<b>Net cash provided by financing activities</b>	<b>53,834</b>	<b>85,973</b>
Effect of exchange rate changes on cash and cash equivalents	(5,062)	(2,162)
Net increase in cash and cash equivalents	29,136	13,739
Cash and Cash Equivalents at Beginning of Period	218,445	173,634
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 247,581</b>	<b>\$ 187,373</b>

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