

Photon Control Reports Third Quarter 2018 Financial Results

Vancouver, BC, November 8, 2018 – Photon Control Inc. (“Photon Control” or the “Company”) (TSX: PHO), a leading developer and supplier of optical measurement technologies to the global semiconductor industry, has reported its financial results for the three and nine months ended September 30, 2018.

Highlights:

- Revenue was \$10.1 million and \$38.5 million for the three and nine months ended September 30, 2018, representing a decrease of 16% and increase of 17% compared to the same year-ago periods, respectively;
- Earnings before interest, taxes, depreciation, amortization and foreign exchange (“EBITDA”) of \$3.0 million or 30% of revenue for the quarter and \$12.8 million or 33% of revenue for the nine months ended September 30, 2018;
- Total comprehensive income of \$1.3 million and basic earnings per share of \$0.01 for the quarter, and \$8.0 million and \$0.07 per share for the nine months ended September 30, 2018;
- Order backlog of \$14.4 million at September 30, 2018; and,
- Record cash on hand of \$42.7 million at September 30, 2018.

“Our revenue reflects the sell through of finished goods and work-in-progress inventories by our customers, in response to the softening of demand for capital equipment in the overall semiconductor industry,” said Scott Edmonds, Chief Executive Officer. “We generated EBITDA of 30% and increased our cash balance to \$42.7 million despite the soft revenue. We are encouraged by the continued growth in our new product funnel and in the projects our customers have given us for extending our technology in their existing platforms and designing us into their next generation platforms. As a result, we remain extremely positive about the long-term prospects for our industry and our sub-segment.”

Third Quarter and Year-To-Date 2018 Financial Results

Total revenue for the third quarter of 2018 decreased 16% from \$12.0 million to \$10.1 million, and for the nine months ended September 30, 2018, revenue increased 17% from \$32.8 million to \$38.5 million. The results for the quarter reflect the sell through of inventories held by customers following softer demand for semiconductor capital equipment. The results for the year-to-date are attributable to the Company capturing an increased share of customers’ demand for fiber optic systems combined with stronger overall market conditions in 2018 compared to 2017.

Third quarter 2018 gross profit decreased 21% to \$5.2 million versus the prior year quarter, and 2018 year-to-date gross profit increased 16% to \$21.4 million versus the prior year period. Gross margin decreased to 52% for the quarter compared to 55% for the prior comparative period due to the impact of lower overall revenues. Gross margin was 56% for the year-to-date and was consistent to the prior comparative period.

Operating expenses for the three and nine months ended September 30, 2018 were \$3.0 million and \$10.0 million compared to \$2.9 million and \$11.9 million in 2017. When normalized for non-recurring charges of \$0.2 million and \$4.4 million in the 2017 comparable quarter and year-to-date periods, operating expenses increased by \$0.4 million and \$2.3 million for the quarter and year-to-date due to an increased workforce and development costs incurred to support the Company’s growth strategy.

Total comprehensive income for the quarter was \$1.3 million or \$0.01 per share compared to \$1.7 million or \$0.02 per share for the comparable period of 2017, while for the first nine months of 2018, total comprehensive income was \$8.0 million or \$0.07 per share versus \$3.0 million or \$0.03 per share for the comparable period of 2017.

EBITDA for the three and nine months ended September 30, 2018 was \$3.0 million or 30% of revenue and \$12.8 million or 33% of revenue, compared to \$4.1 million or 34% of revenue and \$11.5 million or 35% of revenue in the same year-ago periods. The Company defines EBITDA as earnings before finance income, accretion expense, income tax, depreciation, amortization and foreign exchange. For the comparative periods, EBITDA was adjusted to remove the effect of non-recurring items.

As at September 30, 2018, cash on hand was \$42.7 million, an increase of \$8.4 million from \$34.3 million at December 31, 2017. The increase was attributable to the Company's strong operating results.

Order backlog (defined as the value of sales orders scheduled to be shipped in the next 6 months) was \$14.4 million at September 30, 2018, a decrease from \$19.5 million at June 30, 2018 and \$18.3 million at December 31, 2017. The decrease in order backlog since June 30, 2018 reflects the record shipments in the first half of 2018, combined with the current slow-down in capital spending from semiconductor manufacturers. Although not reflected in the order backlog, the Company also has a strong pipeline of new products under development which contribute to revenue during the prototype and pre-production stages and are expected to add significant revenue as customers introduce these wins into production in 2019 and beyond.

Normal Course Issuer Bid

During the three months ended September 30, 2018, the Company re-purchased and cancelled 675,600 common shares for a total cost of \$1.4 million, in accordance with the current Normal Course Issuer Bid ("NCIB"). Since September 30, 2018, the Company re-purchased a further \$1.6 million of its common shares totaling \$3.0 million of cash committed towards the NCIB.

Tax Review Update

On August 2, 2018, the Company reported that it had discovered a potential liability related to taxes owed to a foreign jurisdiction. The amount of the liability was reported as being in the range of \$1.4 million to \$2.0 million plus penalties, if any. The Company has made progress on this matter and maintains its estimate within the previously stated range. The Company is continuing to work with its advisors and predecessor auditors to conclude on this matter, at which time the Company will be able to reflect any resulting adjustments in its current and historical financial statements as may be necessary.

Business Outlook

"We expect Q4 2018 revenue to be in the range of \$8 to \$9 million," continued Mr. Edmonds. "Our expectation of a sequential decrease in quarterly revenue in the fourth quarter is the result of a slow-down in capital spending by our wafer fabrication equipment customers after a very strong first half of this year. Despite this slow-down, we expect year-over-year revenue growth in the range of 6% to 8%, which exceeds the overall industry growth for the semiconductor sub-system segment. We expect to maintain our EBITDA and net income margins for the year at levels similar to those reported in the prior year."

Conference Call

Photon Control will hold a conference call today (Thursday, November 8, 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

Financial Statements and Management's Discussion and Analysis

This news release should be read in conjunction with the Company's condensed interim consolidated financial statements and related notes, and management's discussion and analysis for the three and nine months ended September 30, 2018, 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 manufacturers and end users in the semiconductor and solid-state 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, trading under the symbol "PHO." Additional information about the company can be found at www.photoncontrol.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, growth in the dollar value of the wafer fabrication equipment market, revenue from new products, growth in the etch market 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.