



**fabrinet®**



**TRUSTED MANUFACTURING PARTNER OF THE WORLD'S LEADING OEMS**



# **Company Overview**

**FQ2 2017 Update**

This presentation and the accompanying oral presentation contain “forward-looking” statements that are based on our management’s beliefs and assumptions and on information currently available to management. Forward-looking statements include all statements other than statements of historical fact contained in this presentation, including information concerning our business plans and objectives, potential growth opportunities, competitive position, industry environment and potential market opportunities.

Forward-looking statements are subject to known and unknown risks, uncertainties, assumptions and other factors including, but not limited to: less customer demand for our products and services than forecasted; less growth in the optical communications, industrial lasers and sensors markets than we forecast; difficulties expanding into additional markets, such as the semiconductor processing, biotechnology, metrology and materials processing markets; increased competition in the optical manufacturing services markets; difficulties in delivering products and services that compete effectively from a price and performance perspective; our reliance on a small number of customers and suppliers; difficulties in managing our operating costs; difficulties in managing and operating our business across multiple countries (including the U.S., Thailand and the People’s Republic of China); and other important factors as described in reports and documents we file from time to time with the Securities and Exchange Commission (SEC), including the factors described under the section captioned “Risk Factors” in our most recent annual and quarterly reports on Form 10-K and Form 10-Q. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. These factors may cause our actual results, performance or achievements to differ materially and adversely from those anticipated or implied by our forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although our management believes that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances described in the forward-looking statements will be achieved or occur. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to publicly update any forward-looking statements for any reason after the date of this presentation to conform these statements to actual results or to changes in our expectations, except as required by law.

# Investment Highlights

-  Leading Share in the High Growth Optical Communications Market
-  Vertically Integrated Capabilities Focused on Highly Complex Low Volume Products
-  Unique Value Proposition
-  Strong Customer Relationships
-  Differentiated Business Model with Significant Barriers to Entry
-  Demonstrated Track Record of Profitability

# Who We Are

**Global leader in engineering services, advanced packaging & precision manufacturing for optical components, industrial lasers & sensors**

**Broad range of advanced optical & electro-mechanical capabilities across the entire manufacturing process from NPI to full production**

**Long-lasting customer relationships; Customers trust Fabrinet as a sole-source manufacturing partner**

**Seasoned management team with over 100 years of combined manufacturing experience**



- Founded in 2000 by Current CEO & Chairman, Tom Mitchell
- Factories in Thailand, China, New Jersey, California and United Kingdom.
- Total employees: ~10,141
- Facilities: 2.0 MM sq. ft.
- TTM Revenue (December 2016): US \$1.2B

## Core values:

Total customer satisfaction | Positive work environment | Integrity



# Products We Manufacture

## Optical Communications

- Transceivers
- Transponders
- Optical amplifiers
- ROADMs
- Silicon Photonics



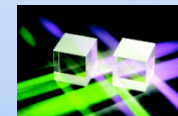
## Industrial Lasers

- Fiber lasers
- Solid-state lasers
- Semiconductor-based lasers
- Gas lasers



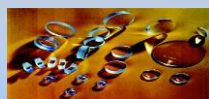
## Auto/Sensors

- Safety & Control sensors
- Pressure sensors
- Temperature sensors
- Gas sensors



## Customized Optics and Glass (CASIX)

- Beam Splitters, Prisms, Laser Crystals, Waveplates, Ferrules



# Low-Cost Manufacturing Footprint

Scalable Optical & Electro-Mechanical Assembly

Customized Optics

Quick-turn NPI services



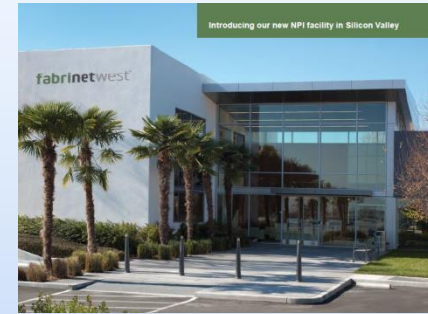
Bangkok, Thailand  
Building 5



Bangkok, Thailand  
Building 6



Fuzhou, China



Santa Clara, USA



Chonburi, Thailand  
Building 8

Facility	Appx. Headcount <sup>(1)</sup>	Sq. ft. <sup>(1)</sup>
Thailand	~8,573	~1,561,000
China <sup>(2)</sup>	~1,181	~248,000
USA & Others <sup>(3)</sup>	~387	~172,000
<b>TOTAL</b>	<b>~10,141</b>	<b>~1,981,000</b>

(1) As of December 30, 2016. Figures may not add due to rounding

(2) Includes wholly-owned subsidiary CASIX, which manufactures customized optics & glass

(3) Includes new owned subsidiary Fabrinet West (a factory in Silicon Valley) and Exception EMS (a UK company from an acquisition in September, 2016, which specialize in quick-turn new product introduction (NPI) services from PCB layout to fast prototyping to initial production & full box build & system integration.



Exception EMS, UK

# Our Growth and Development

## Roots in HDD Manufacturing

- Acquired Seagate Facility in Thailand
- Entry into Optical Communications

## Accelerated Optical Outsourcing

- Acquired Customized Optics & Glass Capabilities
- Entry into Industrial Lasers & Sensors

## Customer & Industry Diversification

- Accelerated Lasers & Sensors Outsourcing
- Identification of & entry into new market adjacencies

## NPI & Facilities Expansion

- Fabrinet West
- Chonburi campus
- Exception EMS

2000

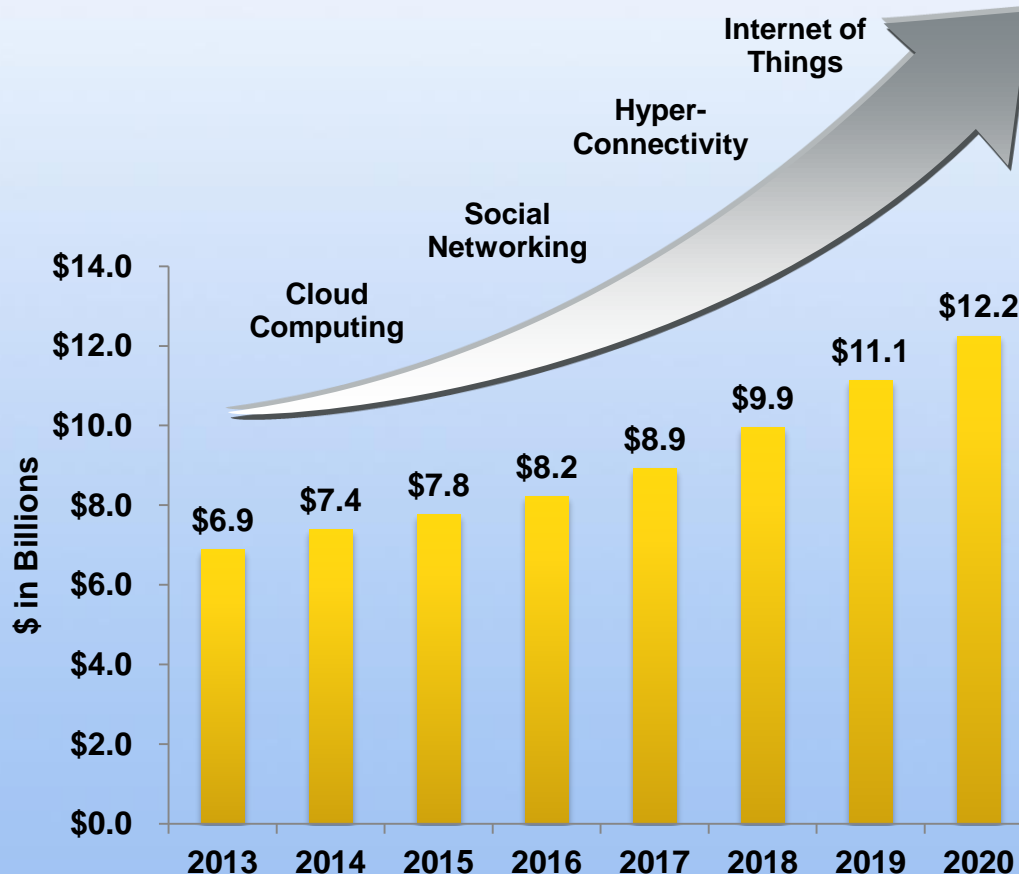
2005

2010

2015-2017

# Market Leading Share in High Growth Optical Communications Sector

Optical Component Market expected to grow at 9% CAGR (2013-2020) to support increasing bandwidth demand

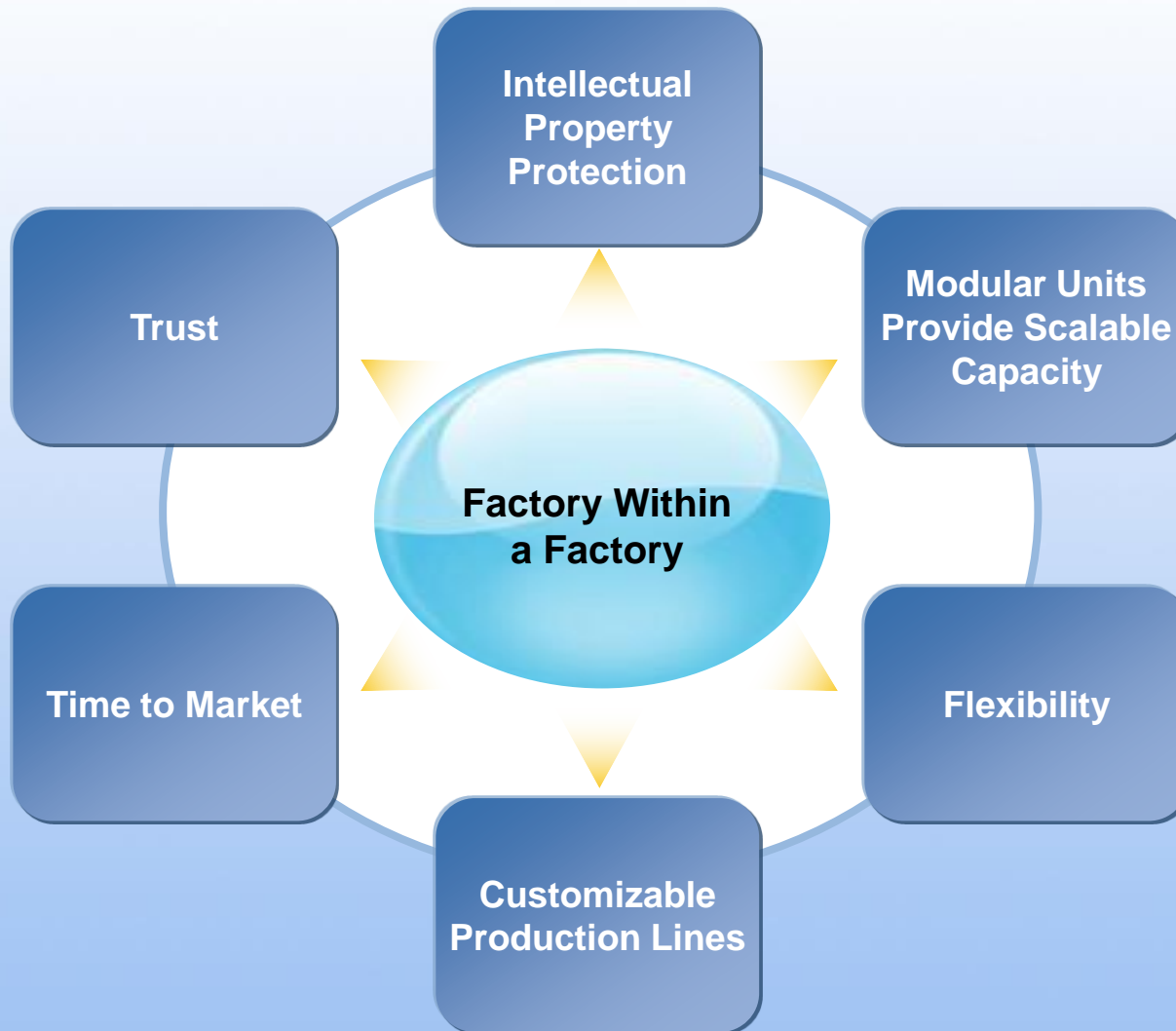


Source: Ovum, 2015, Global Optical Component Merchant Market Forecast

- Increasing demand for bandwidth suggests strong industry fundamentals should continue
- Continued traffic growth in telecom networks driving the demand for 100Gbps, ROADMs & optical amplifiers
- Datacom growth driven by demand for 10, 40 & 100Gbps, & for parallel optics in support of connectivity needs within & between data centers
- Fabrinet Key Technology Advantages
  - Advanced optical packaging
  - Precision optical fiber & electro-mechanical assembly
  - Fiber handling & alignment
  - Optical & reliability testing
  - Crystal growth & optical coating



# Benefits of our Manufacturing Model



**We not only assemble products, but we become a partner with our customer organizations, offering custom solutions & value-added services for all stages of product life cycles**

# Our Unique Value Proposition

## Customer Requirements

**Complex, high-mix / low-volume optical & electro-mechanical manufacturing**

**IP protection**

**Specialized optical supply chain management**

**Quality & cost**



## Fabrinet Solution

- Leading edge optical technologies
- Highly trained workforce
- Process development & management
- Customized manufacturing environment
- 650+ engineers focused on manufacturing quality & process improvement

- Factory within a factory
- Comprehensive security protocols
- Customer workforce exclusiveness

- Proprietary demand management tools
- Volume consolidation & localization
- Vertical integration
- Ability to manage complex high-mix/low-volume

- Proven quality control systems
- Real-time traceability
- Lean manufacturing practices
- Strategic low-cost operations

**fabrinet**

Customers

**Optical Components,  
Industrial Lasers, Sensors, Medical & Other**

**Our customers' customers  
(Original Equipment Manufacturers)**

End-users

Multiple layers  
of process &  
product  
qualification &  
approval

- Makes switching costs high
- Creates a sticky model

Sole-source  
supplier for the  
majority of our  
products

- Focus on Custom high-mix/low-volume manufacturing
- Primarily compete against our customer's manufacturing capabilities

# Opportunities to Accelerate Growth

## Markets We Play in:

**Sensors**

\$60.4Bn

**Optical Components**

\$11.1Bn

**Lasers**

\$9.9Bn

## Growth Strategies:

1

Strong Focus on Total Customer Satisfaction

2

Increase Penetration with Existing Customers

3

Growth within Current Markets

4

Expansion into New Products & New Customers

5

Expansion into New Market Opportunities

Sources: Ovum, Strategies Unlimited, Frost and Sullivan



# Financial Highlights

- ☒ Large & Growing Addressable Markets

---
- ☒ Continued Progress in Revenue Diversification

---
- ☒ Attractive Profit Margins

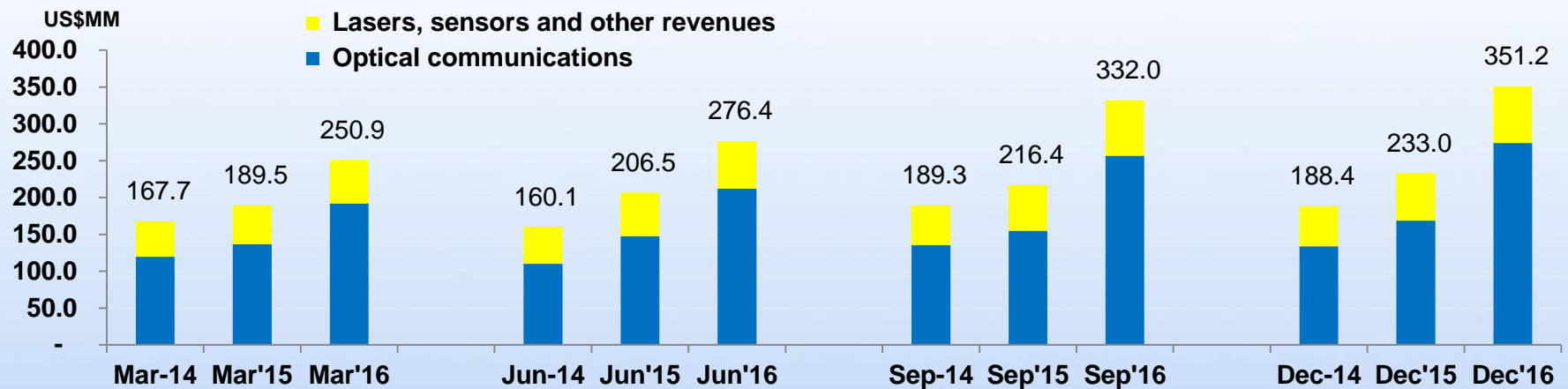
---
- ☒ Strong Balance Sheet

---
- ☒ Track Record of Capital Efficiency

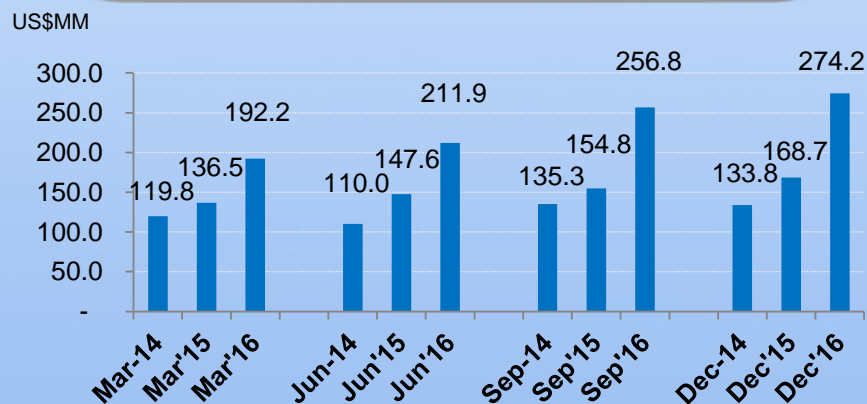
---

# Strong Revenue Growth

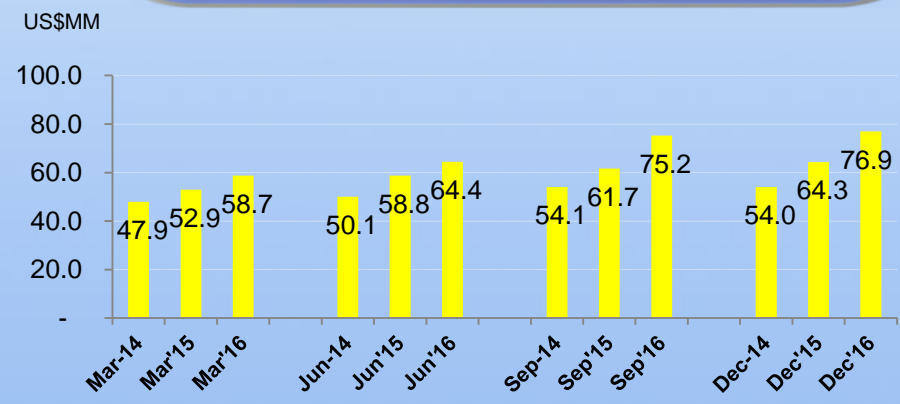
## Consolidated revenues



## Optical communications revenues

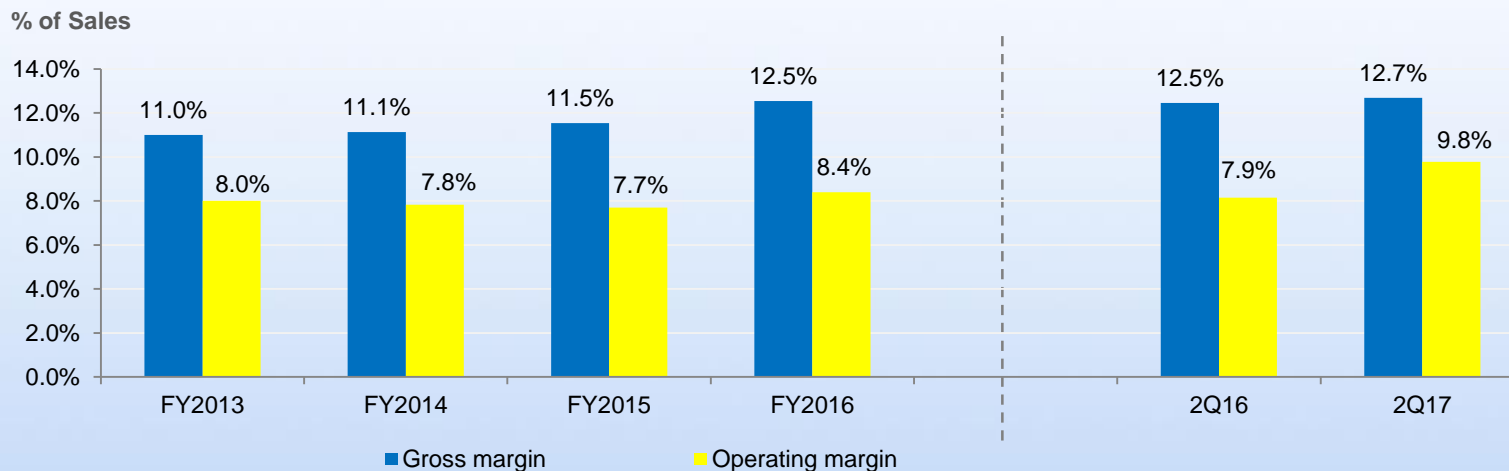


## Lasers, sensors & other revenues

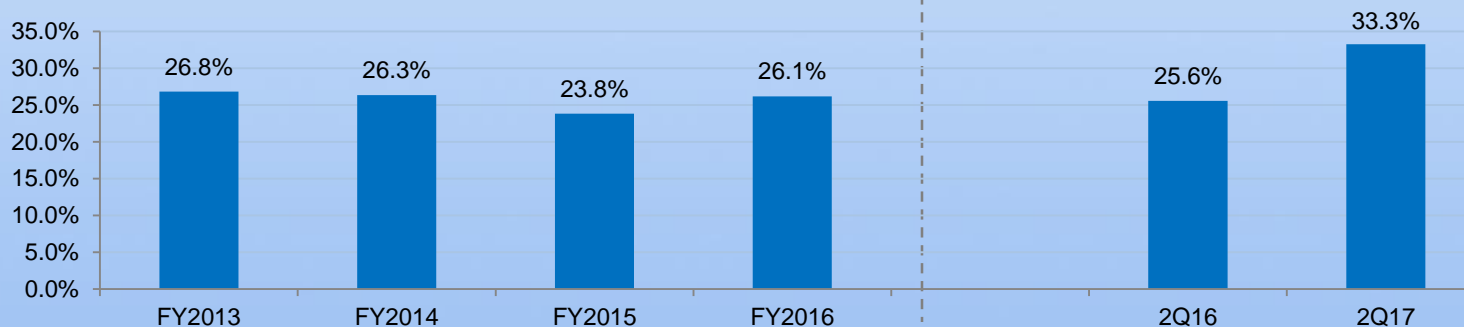


# Consistent Profitability Through the Cycles

## Non-GAAP gross margin and non-GAAP operating margin <sup>(1)</sup>



## ROIC <sup>(2)</sup>



(1) Excludes share based compensation, executive separation cost, amortization of debt issuance costs, restructuring costs, and income / expenses related to floods

(2) Return on Invested Capital = Net operating profit after tax (NOPAT) divided by average invested capital. Invested capital = total debt + shareholder equity + minority interest – cash & equivalents.  
NOPAT share based compensation, executive separation cost, amortization of debt issuance costs, restructuring costs, and income / expenses related to floods

# Recent Financial Performance

Key Financials		
US\$MM, unless otherwise stated	3 months ending	
	30-Dec-16	30-Sep-16
Revenue	351.2	332.0
<i>Q-o-Q growth</i>	5.8%	20.1%
Gross profit (Adjusted)	44.6	40.6
<i>Gross margin</i>	12.7%	12.2%
Operating profit (Adjusted)	34.3	31.4
<i>Operating margin</i>	9.8%	9.4%
Net Income (GAAP)	25.3	22.8
Net Income (Non-GAAP) <sup>(1)</sup>	34.5	29.7
Diluted EPS (GAAP)	0.67	0.61
Diluted EPS (Non-GAAP) <sup>(1)</sup>	0.91	0.80

(1) Adjusted for share based compensation & non-recurring charges (business combination expenses, amortization of debt issuance costs, etc.), net of income tax effects

- Q2 Revenue of \$351.2 MM beats high end of guidance by 5%
- Gross margin increased 50 basis points to 12.7%.  
Target remains 12 – 12.5%
- Non-GAAP EPS of \$0.91 resulted from the scale of revenue and fixed cost leverage from higher manufacturing volume and includes 5c contribution from FX fluctuations



# Balance Sheet Supports Growth

Selected Items	
US\$MM	As of Dec 30, 2016
Cash, cash equivalents <sup>(1)</sup>	259.2
Working capital <sup>(2)</sup>	268.0
Property, plant & equipment, net	214.0
Total debt <sup>(3)</sup>	67.7
Total shareholders' equity	619.7

(1) Cash & cash equivalents include marketable securities and restricted cash

(2) Calculated as Trade accounts receivable + Inventory – Trade accounts payable

(3) Calculated as the sum of current & long-term debt, net of unamortized debt issuance costs

# Summary Highlights

- ☒ Large & Growing Addressable Markets

---
- ☒ Differentiated Business Model with Significant Barriers to Entry

---
- ☒ Sustainable Competitive Advantages

---
- ☒ Strong Customer Relationships; generally sole-source provider to our customers

---
- ☒ Demonstrated Track Record of Profitability

---
- ☒ Experienced Management Team with History of Execution

**fabri**net®



**TRUSTED MANUFACTURING PARTNER OF THE WORLD'S LEADING OEMS**

# Appendix

# Non-GAAP Reconciliation

in thousands of U.S. dollars, except per share data)

	Three Months Ended				Six Months Ended			
	December 30, 2016		December 25, 2015		December 30, 2016		December 25, 2015	
	Net income	Diluted EPS	Net income	Diluted EPS	Net income	Diluted EPS	Net income	Diluted EPS
<b>GAAP measures</b>	<b>25,292</b>	<b>0.67</b>	<b>19,803</b>	<b>0.54</b>	<b>48,058</b>	<b>1.28</b>	<b>21,406</b>	<b>0.59</b>
Items reconciling GAAP net income (loss) & EPS to non-GAAP net income & EPS:								
Related to cost of revenues:								
Share-based compensation expenses	1,514	0.04	540	0.01	2,528	0.07	1,077	0.03
Total related to gross profit	1,514	0.04	540	0.01	2,528	0.07	1,077	0.03
Related to selling, general and administrative expenses:								
Share-based compensation expenses	7,083	0.19	2,570	0.07	11,680	0.31	4,706	0.13
Executive separation cost	-	-	552	0.01	577	0.02	552	0.01
Amortization of intangible assets	229	0.01	-	-	229	0.01	-	-
Business combination expenses	99	0.00	-	-	1,510	0.04	-	-
Total related to selling, general and administrative expenses	7,411	0.20	3,122	0.08	13,996	0.37	5,258	0.14
Related to other incomes and other expenses:								
Expenses/(income) related to flooding	-	-	-	-	-	-	864	0.02
Amortization of debt issuance costs	281	0.01	187	0.01	1,344	0.04	358	0.01
(Gain)/loss on foreign currency	-	-	(5,418)	(0.15)	(1,713)	(0.05)	5,479	0.15
Total related to other incomes and other expenses	281	0.01	(5,231)	(0.14)	(369)	(0.01)	6,701	0.18
Total related to net income & EPS	<b>9,206</b>	<b>0.24</b>	<b>(1,569)</b>	<b>(0.04)</b>	<b>16,155</b>	<b>0.43</b>	<b>13,036</b>	<b>0.35</b>
<b>Non-GAAP measures</b>	<b>34,498</b>	<b>0.91</b>	<b>18,234</b>	<b>0.50</b>	<b>64,213</b>	<b>1.71</b>	<b>34,442</b>	<b>0.94</b>
es used in computing diluted net income per share								
GAAP diluted shares		37,805		36,826		37,567		36,570
Non-GAAP diluted shares		37,805		36,826		37,567		36,570



Type	FQ1'16	FQ2'16	FQ3'16	FQ4'16	FQ1'17	FQ2'17
<b>Optical</b>	<b>72%</b>	<b>72%</b>	<b>77%</b>	<b>77%</b>	<b>77%</b>	<b>78%</b>
Datacom	41%	39%	38%	36%	35%	37%
Telecom	59%	61%	62%	64%	65%	63%
<b>Non-Optical</b>	<b>28%</b>	<b>28%</b>	<b>23%</b>	<b>23%</b>	<b>23%</b>	<b>22%</b>

\* Optical and non-optical revenue mix presented as % of total revenue. Datacom and telecom revenue mix presented as % of optical revenue.