

NANOMETRICS INC
Form 425
February 21, 2006

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and deemed filed pursuant to Rule 14a-12

under the Securities Exchange Act of 1934

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Subject Company: Nanometrics Incorporated

Investor Presentation
February 2006

Who is Nanometrics?

Who is Nanometrics?

A leading provider of integrated and
stand-alone

metrology and process

control technology to the global

semiconductor manufacturing industry

What s Driving the Semiconductor Industry Today?
What s Driving the Semiconductor Industry Today?

Consumer electronics surpassing PCs
Consumer electronics surpassing PCs

Accelerated development timeline
Accelerated development timeline

New chips require 300mm processing
New chips require 300mm processing

SOC, DDR2, Flash

Majority of industry profits driven by:
Majority of industry profits driven by:

Newly-released products

Highest performance devices

New Fabs
New Fabs
in Asia Korea and Japan
in Asia Korea and Japan

Semiconductor Manufacturing in the 300mm Era
Semiconductor Manufacturing in the 300mm Era
As market windows are collapsing
Manufacturing is increasingly expensive,
more automated
taking people out of the cleanroom
altogether.

Increasing Importance of Process Control
Increasing Importance of Process Control
Growing Share of Semiconductor Capital Spending
Growing Share of Semiconductor Capital Spending
Source: Dataquest

Larger Wafers Require More Metrology
Larger Wafers Require More Metrology

-
-

More mask layers
More mask layers

-
-

More process steps
More process steps

-
-

More single-wafer processes
More single-wafer processes

-
-

More importance placed on each wafer (\$\$)
More importance placed on each wafer (\$\$)

-
-

More metrology points on each wafer
More metrology points on each wafer

More metrology
More metrology

tools required
tools required

per line
per line

Trends Driving Integrated Metrology
Trends Driving Integrated Metrology

Accelerating ramp to production
Accelerating ramp to production

Speed up the learning cycle

Improved production economics
Improved production economics

Throughput

Footprint

Transport

Every wafer is valuable
Every wafer is valuable

Catch problems early

Increasing automation and fab-wide advanced
Increasing automation and fab-wide advanced
process control (APC)
process control (APC)

Requires metrology feedback loop

Integrated Improves Productivity
Integrated Improves Productivity

- *
- *
- *
- *

3 mins

Travel Time

30 secs

30 secs

100

WPH

90

WPH

100

60

w/min

6

min

= 10 wafers

Lost Productivity

2 mins

Measurement

Time

When running qualification cycles..

Productivity Loss = 10%

without Integrated Metrology

It's About More than Maximizing Yield

ASPs

Profit captured getting

to 80% yield one

quarter faster

Incremental revenue for

increasing yield from

95% to 99%

Semiconductor Product Life Cycle

Semiconductor Product Life Cycle

Time

Conventional ramp

Ramp accelerated with

Integrated Metrology

USA
34%
Japan
26%
Korea
25%
Taiwan

11%
Other
4%
Integrated
38%
Stand-
Alone
56%
Other
6%
Nanometrics Today
Nanometrics Today

30 years in the business
30 years in the business

Leading provider of transparent thin film metrology
Leading provider of transparent thin film metrology

Market flexible, multiple-metrology solutions for both
Market flexible, multiple-metrology solutions for both
integrated and stand-alone applications
integrated and stand-alone applications

Financially sound and poised for growth
Financially sound and poised for growth

Acquiring Accent Optical Technologies for ~\$80 million *
Acquiring Accent Optical Technologies for ~\$80 million *

Based on 5 million shares at \$14 plus \$10.6M debt

* The transaction is subject to approval of Nanometrics and Accent shareholders and is expected to be completed in 1H 2006.

Constant Innovation, Expanding Product Line
Constant Innovation, Expanding Product Line
Core Products with
Leading Market Share
Atlas/FLX

-

Transparent Film Thickness
9010/BOLTS

-

Dielectric CMP, CVD
New Products and
Expanding Markets
Orion

-

Advanced Overlay Control
Atlas-M

-

Mask

and

Reticle

Metrology

NanoOCD

-

Optical CD Measurement

9010 UDI

-

Defect Detection

Penetration into additional process steps:

Track, Etch, Metal CMP

Who is Accent Optical?
Who is Accent Optical?

Metrology company offering several technologies:
Metrology company offering several technologies:

Overlay metrology

Thin film metrology (film characterization, wafer mapping)

Optical CD

Defect detection

Serving diverse markets:

Serving diverse markets:

Semiconductor photolithography process control

Bare wafers/substrates: SSi, SOI

Wireless/HBLEDs

With strong history and financials

With strong history and financials

25 years in the business; buyout of Bio-Rad

HQ in Bend, Oregon with R&D/Mfg in York, England

200+ employees

Healthy revenue run-rate and strong margins

Accent Acquisition Expected to Strengthen Position
Accent Acquisition Expected to Strengthen Position

Huge customer cross-selling opportunities
Huge customer cross-selling opportunities

Stronger player with greater scale
Stronger player with greater scale

Complementary technologies
Complementary technologies

Adds depth to management team
Adds depth to management team

Financial strength
Financial strength

Integrated metrology opportunity
Integrated metrology opportunity

Nanometrics Addresses Large and Growing Markets

Nanometrics Addresses Large and Growing Markets

\$0

\$200

\$400

\$600

\$800

\$1,000

\$1,200

2003

2005

2009

Non-Metal Thin Film Metrology

Overlay Metrology

Integrated Metrology

Macro Defect Inspection

Mask Metrology

OCD/Profile Measurement

\$650 million

\$800 million

\$340 million

22% CAGR

51% CAGR

Accent acquisition expected to add an additional ~\$100 million to SAM

Source: Dataquest

Expanding Presence in Key Markets
Expanding Presence in Key Markets
Non-Metal TF
Integrated
OCD/Profile
Overlay
Macro Defect
Mask
Tied for #2 with TWAV
KLA #1, Rudolph #4, Accent #5
Leading Market Share
Nova #2
KLA, TEL and Rudolph <\$10M
NANO a newer entrant; only one with integrated
KLA and TWAV have majority of market
Accent shipping tools
NANO Shipping Tools
KLA #1, Accent #2
In Development Stage
KLA #1, August #2
Shipping Tools
New Products for NANO

Segment wedges denote relative market size in 2005

Accent Top Customers
Accent Top Customers
Nanometrics Top Customers
Nanometrics Top Customers
Positioned with Customers at the Forefront of 300mm
Positioned with Customers at the Forefront of 300mm
-
Other major

-
Other major

Nanometrics
Growth Opportunities
Nanometrics
Growth Opportunities

Increase in semiconductor capital spending
Increase in semiconductor capital spending

Greater importance of process control as % of CapEx
Greater importance of process control as % of CapEx

Growing market for NAND/Flash memory
Growing market for NAND/Flash memory

Increased adoption of Integrated Metrology
Increased adoption of Integrated Metrology

Introduction of new products in high-growth markets
Introduction of new products in high-growth markets

Market share gains vs
Market share gains vs
weak competition
weak competition

Growth through acquisition
Growth through acquisition

Financial Overview
Financial Overview
Financial Overview

Creating Operating Leverage
Creating Operating Leverage

Streamlined business in 2005
Streamlined business in 2005

Focus on semiconductors; sold FPD business

Upgraded financial team
Upgraded financial team

CFO, Chief Accounting Officer and Corporate Controller

Increased controls, better forecasting

Re-organized operations and engineering
Re-organized operations and engineering

Reducing costs through better manufacturing practices and
improved material control processes

Leveraging service organization
Leveraging service organization

Keep spending flat, support more tools

\$0
\$10
\$20
\$30
\$40
\$50
\$60
\$70
\$80
\$90
\$100
Quarterly Revenues

Annualized
Scaling the Business
Scaling the Business
2002
2003
2004
2005

Fourth Quarter 2005 Financials

Fourth Quarter 2005 Financials

Revenue

\$ 14.2 M

Gross Margin

46%

Operating Expenses

\$ 9.1 M

Operating Loss

(\$ 2.5 M)

Net Loss

(\$ 2.1 M)

EPS

(\$ 0.16)

Cash and Short-Term Investments \$ 45.4 M

Total Debt

\$

3.0 M

Significant Operating Leverage in the Model

Significant Operating Leverage in the Model

Recent Results

Target Model *

Product Gross Margin

52%

60%

Service Gross Margin

(12%)

20%

Blended Gross Margin

43%

55%

SG&A

32%

21%

R&D

18%

14%

Operating Margin

(7%)

20%

Re-organize Engineering

Leverage Service Group

* Excludes expenses from patent litigation, amortization of intangibles and equity-based compensation.

Conclusion: Nanometrics is in a Strong Position
Conclusion: Nanometrics is in a Strong Position

Right market segment
Right market segment

Well positioned with customers that are spending
Well positioned with customers that are spending
money on 300mm
money on 300mm

Right complement of products
Right complement of products
integrated and
integrated and
stand-alone metrology
stand-alone metrology

Opportunity for significant operating leverage
Opportunity for significant operating leverage

Consolidator of the metrology market

Consolidator of the metrology market

More than driving yield

More than driving yield

Accelerating the production ramp.

Accelerating the production ramp.

Additional Information and Where to Find It
Additional Information and Where to Find It
In connection with the planned merger (the Merger) between Nanometrics, Inc.
(Nanometrics)
and
Accent
Optical
Technologies,
Inc.
(Accent)
pursuant
to
the
Agreement
and
Plan
of
Merger

and
Reorganization
dated
January
25,
2006

(the
Merger
Agreement),

by
and
between
Nanometrics,
Alloy
Merger
Corporation
(a
wholly
owned
subsidiary
of
Nanometrics)

and
Accent,

Nanometrics and Accent will file a joint proxy statement/prospectus. Nanometrics intends to include in such proxy statement/prospectus a resolution for shareholder approval of the issuance of Nanometrics common stock in consideration for all the outstanding shares of Accent capital stock and the rights to acquire

Accent
capital
stock

(the
Share
Issuance),

and
certain
other
matters
contemplated

by
the

Merger Agreement. Accent intends to include in such proxy statement/prospectus a resolution for stockholder approval of the Merger Agreement and the Merger and certain other matters contemplated by the Merger Agreement. The joint proxy statement/prospectus will be mailed to the shareholders of Accent and Nanometrics. **INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE PROPOSED MERGER WHEN IT BECOMES AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION ABOUT THE TRANSACTION.** The joint proxy statement/prospectus will be filed with the Securities and Exchange Commission

(SEC)

by
Nanometrics
and
Accent.
Investors
and
security
holders
may
obtain
a
free
copy

of the joint proxy statement/prospectus (when it is available) and other documents filed by Nanometrics with the SEC at the SEC's web site at www.sec.gov. The joint proxy statement/prospectus and these other documents may also be obtained for free from Nanometrics by directing a request to Nanometrics, Inc., 1550 Buckeye Drive, Milpitas, California 95035, Attention: Investor Relations, Telephone: (408) 435-9600 or by sending an email request to investors@nanometrics.com.

Additional Information and Where to Find It

Additional Information and Where to Find It

Nanometrics and its executive officers and directors may be deemed to be participants in the

solicitation

of

proxies

from

Nanometrics

and

Accent s

shareholders

with

respect

to

the

transactions contemplated by the Merger Agreement. Information regarding such officers and directors

is

included

in

Nanometrics

Proxy

Statement

for

its

2005

Annual

Meeting

of

Shareholders

filed

with

the

SEC

on

August

4,

2005.

This

document
is
available
free
of
charge
at
the
SEC's
web
site
at
www.sec.gov
and
from
Nanometrics
by
directing
a
request
to
Nanometrics
Incorporated,
1550
Buckeye Drive, Milpitas, California 95035, Attention: Investor Relations, Telephone: (408) 435-9600
or by sending an email request to investors@nanometrics.com.
Accent
and
its
executive
officers
and
directors
may
be
deemed
to
be
participants
in
the
solicitation
of
proxies
from
Accent's
and
Nanometrics
shareholders
with

respect
to
the
transactions
contemplated
by
the
Merger
Agreement.
Information
regarding
such
Accent
directors
and
executive
officers
and
their
interests
in
the
Merger
will
be
included
in
the
joint
proxy
statement/prospectus.
This
communication
shall
not
constitute
an
offer
to
sell
or
the
solicitation
of
an
offer
to
buy
any
securities,

nor
shall
there
be
any
sale
of
securities
in
any
jurisdiction
in
which
such
offer,
solicitation
or
sale
would
be
unlawful
prior
to
registration
or
qualification
under
the
securities
laws
of
any
such
jurisdiction.
No
offering
of
securities
shall
be
made
except
by
means
of
a
prospectus
meeting
the
requirements

of
Section
10
of
the
Securities
Act
of
1933,
as
amended.

Forward Looking Statements

Forward Looking Statements

This communication contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, such as statements regarding the expected cost savings, impact of the Merger on operating results of the combined company, market position of the combined company and product portfolio of the combined company. These statements are

not

guarantees

of

future

performance,

involve

certain

risks,

uncertainties

and

assumptions

that

are

difficult to predict, and are based upon assumptions as to future events that may not prove accurate.

Therefore, actual outcomes and results may differ materially from what is expressed herein. In any forward-looking statement in which Nanometrics expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement or expectation or belief will result or be achieved or accomplished. The following factors, among others, could cause actual results to differ materially from those described in the forward-looking statements: the risk that the Nanometrics and Accent businesses will

will not be integrated successfully; Nanometrics ability to achieve the cost savings and

not

be

integrated

successfully;

Nanometrics

ability

to

achieve

the

cost

savings

and

cash
earnings
expected, costs related to the Merger; failure of the Nanometrics shareholders to approve the Share Issuance, failure of the parties to satisfy various closing conditions, the inability of Nanometrics to achieve the market position anticipated and other economic, business, competitive and/or regulatory factors affecting
Nanometrics
and
Accent s
businesses
generally,
including
those
set
forth
in
Nanometrics
filings
with the SEC, including its Annual Report on Form 10-K for its most recent fiscal year, especially in the Management Discussion and Analysis section, its most recent Quarterly Reports on Form 10-Q and its Current Reports on Form 8-K. All forward-looking statements included in this communication are based on information available to Nanometrics on the date hereof. Nanometrics undertakes no obligation (and expressly disclaims any such obligation) to update forward-looking statements made in this communication to reflect events or circumstances after the date of this communication or to update reasons why actual results could differ from those anticipated in such forward-looking statements.