

REVIEW

January – September 2014



ORBOTECH LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
AT SEPTEMBER 30, 2014

	September 30 2014	December 31 2013
	U. S. dollars	in thousands
<u>Assets</u>		
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	128,519	161,155
Short-term bank deposits	14,000	38,650
Marketable securities		5,265
Accounts receivable:		
Trade	238,428	198,203
Other	39,792	31,546
Deferred income taxes	8,071	8,094
Inventories	158,576	93,938
T o t a l current assets	587,386	536,851
<u>INVESTMENTS AND NON-CURRENT ASSETS:</u>		
Marketable securities	5,895	13,106
Funds in respect of employee rights upon retirement	10,320	11,024
Deferred income taxes	12,724	15,130
Equity method investee and other receivable	9,694	9,911
Deferred financing costs	7,778	
	46,411	49,171
<u>PROPERTY, PLANT AND EQUIPMENT, net</u>	54,378	27,715
<u>GOODWILL</u>	186,532	12,444
<u>OTHER INTANGIBLE ASSETS, net</u>	145,931	10,401
	1,020,638	636,582
<u>Liabilities and equity</u>		
<u>CURRENT LIABILITIES:</u>		
Short-term bank loan	6,000	
Current maturities of long-term loan	2,517	
Accounts payable and accruals:		
Trade	73,115	43,663
Other	69,528	55,482
Deferred income	33,703	24,854
T o t a l current liabilities	184,863	123,999
<u>LONG-TERM LIABILITIES:</u>		
Long-term loan	294,601	
Liability for employee rights upon retirement	23,598	25,845
Deferred income taxes	19,706	2,406
Other tax liabilities	14,577	17,178
T o t a l long-term liabilities	352,482	45,429
Acquisition of non controlling interest		
T o t a l liabilities	537,345	169,428
<u>EQUITY:</u>		
Share capital	2,153	2,124
Additional paid-in capital	290,978	281,159
Retained earnings	290,828	268,570
Accumulated other comprehensive income (loss)	(510)	409
	583,449	552,262
Less treasury shares, at cost	(99,539)	(84,946)
T o t a l Orbotech Ltd. shareholders' equity	483,910	467,316
Non-controlling interest	(617)	(162)
T o t a l equity	483,293	467,154
T o t a l liabilities and equity	1,020,638	636,582

ORBOTECH LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE AND THREE MONTHS PERIODS ENDED SEPTEMBER 30, 2014

	9 months ended		3 months ended	
	September 30		September 30	
	2014	2013	2014	2013
	U.S. dollars in thousands (except per share data)			
<u>REVENUES</u>	385,255	317,760	167,277	113,435
<u>COST OF REVENUES</u>	216,939	180,507	93,290	62,893
<u>GROSS PROFIT</u>	168,316	137,253	73,987	50,542
<u>RESEARCH AND DEVELOPMENT COSTS - net</u>	60,606	50,973	23,035	17,640
<u>SELLING, GENERAL AND ADMINISTRATIVE</u>	63,683	53,776	23,515	18,992
<u>EQUITY IN EARNINGS OF FRONTLINE</u>	(4,741)	(3,969)	(1,183)	(1,622)
<u>AMORTIZATION OF INTANGIBLE ASSETS</u>	10,430	3,030	8,410	1,010
<u>TOTAL OPERATING INCOME</u>	38,338	33,443	20,210	14,522
<u>SPTS ACQUISITION COSTS</u>	6,821		6,821	
<u>FINANCIAL EXPENSES (INCOME) - net</u>	3,814	1,052	3,880	504
<u>INCOME FROM OPERATIONS BEFORE TAXES ON INCOME</u>	27,703	32,391	9,509	14,018
<u>TAXES ON INCOME</u>	5,079	5,434	2,088	2,299
	22,624	26,957	7,421	11,719
<u>SHARE IN LOSSES OF ASSOCIATED COMPANY</u>	315	183	102	69
<u>NET INCOME</u>	22,309	26,774	7,319	11,650
<u>NET INCOME (LOSS) ATTRIBUTABLE TO</u>				
<u>THE NON-CONTROLLING INTEREST</u>	51	(612)	(60)	(225)
<u>NET INCOME ATTRIBUTABLE TO ORBOTECH LTD.</u>	22,258	27,386	7,379	11,875
<u>EARNINGS PER SHARE:</u>				
<u>INCOME FROM OPERATIONS:</u>				
BASIC	\$0.53	\$0.64	\$0.18	\$0.28
DILUTED	\$0.52	\$0.63	\$0.17	\$0.28
<u>WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION</u>				
<u>OF EARNINGS PER SHARE - IN THOUSANDS:</u>				
BASIC	41,678	42,819	41,541	42,248
DILUTED	42,776	43,450	42,735	43,113

ORBOTECH LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE AND THREE MONTHS PERIODS ENDED SEPTEMBER 30, 2014

	9 months ended		3 months ended	
	September 30		September 30	
	2014	2013	2014	2013
	U.S. dollars in thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	22,309	26,774	7,319	11,650
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	17,717	9,715	10,875	3,581
Impairment of Intangible assets				
Compensation relating to equity awards granted to employees and others - net	2,370	2,311	817	674
Increase (decrease) in liability for employee rights upon retirement	(2,247)	560	(983)	1,194
Long term loan discount amortization	118		118	
Deferred financing costs amortization	304		304	
Deferred income taxes	2,214	(1,729)	2,309	(418)
Amortization of premium and accretion of discount on marketable Securities, net	572	312	68	94
Equity in earnings of Frontline, net of dividend received	(104)	731	354	(423)
Other	1,320	405	879	69
Loss from sales of marketable securities	339		339	
Decrease (increase) in accounts receivable:				
Trade	(7,797)	(19,790)	(14,826)	1,013
Other	(2,559)	(3,019)	(83)	(1,060)
Increase (decrease) in accounts payable and accruals:				
Trade	12,182	4,941	13,122	(1,431)
Deferred income and other	(3,212)	11,980	5,569	9,022
Decrease (increase) in inventories	(15,530)	811	(7,848)	(1,311)
Net cash provided by operating activities	27,996	34,002	18,333	22,654
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(8,746)	(10,206)	(2,814)	(3,701)
Withdraw (placement) of bank deposits	24,650	(39,999)	12,576	10,500
Purchase of marketable securities	(15,086)	(516)	(844)	(189)
Redemption of marketable securities	26,586		17,748	
Acquisition of SPTS net of cash acquired	(375,061)		(375,061)	
Investment in equity method investee	(250)	(2,250)	0	(2,050)
Proceeds from disposal of property, plant and equipment	15			
Decrease (increase) in funds in respect of employee rights upon retirement	(67)	(186)	5	(63)
Net cash provided by (used in) investing activities	(347,959)	(53,157)	(348,390)	4,497
CASH FLOWS FROM FINANCING ACTIVITIES:				
Long term loan, net of \$8 millions financing costs	288,918		288,918	
Repayment of long-term bank loan		(56,000)		(8,000)
Short term bank loan	6,000		6,000	
Employee stock options exercised	7,002	2,138	1,256	1,228
Acquisition of treasury shares	(14,593)	(20,830)	(1,600)	(9,137)
Net cash provided by (used in) financing activities	287,327	(74,692)	294,574	(15,909)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(32,636)	(93,847)	(35,483)	11,242
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	161,155	256,663	164,002	151,574
CASH AND CASH EQUIVALENTS AT END OF PERIOD	128,519	162,816	128,519	162,816

ORBOTECH LTD.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS
FOR THE NINE AND THREE MONTH PERIODS ENDED SEPTEMBER 30, 2014

	9 months ended		3 months ended	
	September 30		September 30	
	2014	2013	2014	2013
	U.S. dollars in thousands (except per share data)			
Operating income on GAAP basis	38,338	33,443	20,210	14,522
Equity based compensation expenses	2,370	2,311	817	674
Amortization of intangible assets	10,430	3,030	8,410	1,010
Non-GAAP operating income	<u>51,138</u>	<u>38,784</u>	<u>29,437</u>	<u>16,206</u>
<u>Net income attributable to Orbotech Ltd. on GAAP basis</u>	22,258	27,386	7,379	11,875
Equity based compensation expenses	2,370	2,311	817	674
Amortization of intangible assets	10,430	3,030	8,410	1,010
Tax adjustments re non-GAAP adjustments	(888)		(888)	
SPTS Acquisition costs	6,821		6,821	
Share in losses of associated company	315	183	102	69
Non-GAAP net income from operations	<u>41,306</u>	<u>32,910</u>	<u>22,641</u>	<u>13,628</u>
Non-GAAP earnings per diluted share	<u>\$0.97</u>	<u>\$0.76</u>	<u>\$0.53</u>	<u>\$0.32</u>
Shares used in earnings per diluted share calculation-in thousand	42,776	43,450	42,735	43,113

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA
FOR THE NINE AND THREE MONTH PERIODS ENDED SEPTEMBER 30, 2014

	9 months ended		3 months ended	
	September 30		September 30	
	2014	2013	2014	2013
	U.S. dollars in thousands (except per share data)			
Net income attributable to Orbotech Ltd. on GAAP basis	22,258	27,386	7,379	11,875
Minority interest and interest losses	51	(612)	(60)	(225)
Tax expenses	5,079	5,434	2,088	2,299
Finance expenses	3,814	1,052	3,880	504
Depreciation & amortization	17,717	9,715	10,875	3,581
Minority interest and interest losses	(51)	612	60	225
Share in losses of associated company	315	183	102	69
Stock based compensation	2,370	2,311	817	674
SPTS acquisition costs	6,821		6,821	
ADJUSTED EBITDA	\$58,374	\$46,081	\$31,962	\$19,002

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



<u>BALANCE SHEET AND CASH FLOW</u>	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2014
Assets	611.0	619.7	624.8	636.6		627.8	631.7	1,020.6	
Debt	24.0	16.0	8.0	-		-	-	2.5	
Equity	451.1	453.5	457.6	467.2		473.3	475.8	483.3	
Net working capital	403.6	407.9	409.1	412.3		416.6	427.8	402.5	
Capital expenditures	3.4	3.1	3.7	2.8	13.0	3.6	2.4	2.8	8.7
Depreciation	1.8	2.3	2.6	2.5	9.2	2.5	2.4	2.5	7.3
Current ratio	4.5	4.4	4.4	4.3		4.7	4.7	3.2	
Equity / Assets	73.8%	73.2%	73.2%	73.4%		75.4%	75.3%	47.4%	
Book value / share (US\$)	10.4	10.7	10.9	11.2		11.3	11.5	11.6	
Days sales outstanding	174	175	162	164		154	154	144	

<u>INCOME STATEMENT</u>	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2014
Revenues	95.5	108.8	113.4	122.2	440.0	104.8	113.2	167.3	385.3
GAAP Operating income (Loss)	6.7	12.2	14.5	14.1	47.5	8.1	10.0	20.2	38.3
GAAP Net income (Loss)	5.0	10.5	11.9	12.6	40.0	6.3	8.6	7.3	22.2
Non GAAP Operating income (Loss)	8.5	14.1	16.2	16.0	54.8	9.9	11.8	29.4	51.2
Non GAAP Net income (Loss)	6.8	12.4	13.6	14.6	47.5	8.2	10.5	22.6	41.3
EBITDA \$	10.5	16.5	19.0	18.7	64.7	12.3	14.0	32.0	58.2
EBITDA/Revenues	11.0%	15.2%	16.7%	15.3%	14.7%	11.7%	12.4%	19.1%	15.1%
GAAP Earnings (Losses) per share diluted	0.11	0.24	0.28	0.30	0.92	0.15	0.20	0.17	0.52
Non GAAP Earnings per share diluted	0.16	0.29	0.32	0.34	1.10	0.19	0.25	0.53	0.97
Average shares outstanding GAAP (K)	43,739	43,503	43,113	42,692	43,253	42,835.0	42,830.0	42,735.0	42,776
Average shares outstanding Non GAAP (K)	43,739	43,503	43,113	42,692	43,253	42,835.0	42,830.0	42,735.0	42,776

<u>MARGIN ANALYSIS</u>	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2014
GROSS MARGIN-\$M	40.1	46.6	50.5	54.3	191.5	45.7	48.7	74.0	168.4
Gross margin (excluding X-items)	42%	42.8%	44.6%	44.4%	43.5%	43.6%	43.0%	44.2%	43.7%
Operating margin (excluding X-items)	7.0%	11.2%	12.8%	11.5%	10.8%	7.7%	8.9%	12.1%	10.0%
Net margin (excluding X-items)	5.2%	9.6%	10.5%	10.3%	9.1%	6.0%	7.6%	4.4%	5.8%
Net margin (reported)	5.2%	9.6%	10.5%	10.3%	9.1%	6.0%	7.6%	4.4%	5.8%
R & D / revenues (excluding X-items)	17.1%	15.6%	15.6%	15.2%	15.8%	17.6%	16.9%	13.8%	15.7%
S,G&A/revenues (includ. goodwill amort.)	18.1%	16.1%	16.7%	18.1%	17.3%	18.7%	18.2%	14.1%	16.5%
Effective tax rate (excluding X-items)	19.2%	16.0%	16.4%	10.7%	14.9%	17.4%	15.7%	22.0%	18.3%

No. of employees	1,626	1,630	1,661	1,674	1,693	1,713	2,216
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ORBOTECH LTD.
REVENUES BY PRODUCT LINES (\$ MILLIONS)



	<u>Q1</u> <u>2013</u>	<u>Q2</u> <u>2013</u>	<u>Q3</u> <u>2013</u>	<u>Q4</u> <u>2013</u>	<u>FY</u> <u>2013</u>	<u>Q1</u> <u>2014</u>	<u>Q2</u> <u>2014</u>	<u>Q3</u> <u>2014</u>	<u>YTD</u> <u>2014</u>
SALES									
<i>PCB-Bare board</i>	47.5	51.1	45.5	45.3	189.4	41.5	48.5	41.4	131.4
<i>as % of total sales</i>	76%	70%	61%	53%	64%	61%	67%	35%	51%
<i>FPD</i>	13.2	20.2	26.5	37.2	97.1	23.1	18.4	26.7	68.2
<i>as % of total sales</i>	21%	28%	36%	45%	33%	34%	24%	22%	26%
<i>SPTS</i>								45.6	45.6
<i>as % of total sales</i>								39%	17%
<i>Character Recognition</i>	1.8	1.7	2.3	1.7	7.5	1.4	1.2	1.6	4.2
<i>as % of total sales</i>	3%	2%	3%	2%	3%	2%	2%	1%	2%
<i>Solar</i>	-	-	-	-	-	1.8	5.2	4.2	11.2
<i>as % of total sales</i>	0%	0%	0%	0%	0%	3%	7%	3%	4%
TOTAL	<u>62.5</u>	<u>73.0</u>	<u>74.3</u>	<u>84.2</u>	<u>294.0</u>	<u>67.8</u>	<u>73.3</u>	<u>119.5</u>	<u>260.6</u>
SERVICE									
<i>PCB-Bare board</i>	23.5	25.2	29.0	28.2	105.9	27.1	28.7	30.3	86.1
<i>as % of total sales</i>	70%	70%	73%	74%	73%	73%	71%	64%	69%
<i>FPD</i>	8.1	9.2	8.7	8.5	34.5	8.4	9.7	8.2	26.3
<i>as % of total sales</i>	25%	26%	23%	23%	23%	23%	25%	17%	22%
<i>SPTS</i>								7.7	7.7
<i>as % of total sales</i>								16%	6%
<i>Character Recognition</i>	1.5	1.4	1.4	1.3	5.6	1.5	1.4	1.4	4.3
<i>as % of total sales</i>	5%	4%	4%	4%	4%	4%	4%	3%	3%
<i>Solar</i>	-	-	-	-	-	-	0.1	0.2	0.3
<i>as % of total sales</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL	<u>33.1</u>	<u>35.8</u>	<u>39.1</u>	<u>38.0</u>	<u>146.0</u>	<u>37.0</u>	<u>39.9</u>	<u>47.8</u>	<u>124.7</u>
TOTAL REVENUES									
<i>PCB-Bare board</i>	71.0	76.3	74.5	73.5	295.3	68.6	77.2	71.7	217.5
<i>as % of total sales</i>	75%	70%	66%	59%	67%	65%	69%	43%	57%
<i>FPD</i>	21.3	29.4	35.2	45.7	131.6	31.5	28.1	34.9	94.5
<i>as % of total sales</i>	22%	27%	31%	38%	30%	30%	24%	21%	25%
<i>SPTS</i>								53.3	53.3
<i>as % of total sales</i>								31%	13%
<i>Character Recognition</i>	3.3	3.1	3.7	3.0	13.1	2.9	2.6	3.0	8.5
<i>as % of total sales</i>	3%	3%	3%	3%	3%	3%	2%	2%	2%
<i>Solar</i>	-	-	-	-	-	1.8	5.3	4.4	11.5
<i>as % of total sales</i>	0%	0%	0%	0%	0%	2%	5%	3%	3%
TOTAL	<u>95.6</u>	<u>108.8</u>	<u>113.4</u>	<u>122.2</u>	<u>440.0</u>	<u>104.8</u>	<u>113.2</u>	<u>167.3</u>	<u>385.3</u>

ORBOTECH LTD.

REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	YTD 2014
SALES									
North America	5.5	6.2	5.0	7.1	23.8	4.5	3.8	16.3	24.6
as % of total sales	9%	8%	7%	8%	8%	7%	5%	14%	9%
Europe	2.8	1.5	2.4	1.3	8.0	1.9	2.7	21.3	25.9
as % of total sales	4%	2%	3%	2%	3%	3%	4%	18%	10%
PAC	28.3	46.5	45.7	55.9	176.4	32.9	50.0	53.5	136.4
as % of total sales	45%	64%	62%	66%	60%	49%	68%	45%	52%
OAE	24.9	18.8	21.2	19.9	84.8	28.4	16.8	27.9	73.1
as % of total sales	40%	26%	28%	24%	29%	42%	23%	23%	29%
Others	1.0	-	-	-	1.0	0.1	-	0.5	0.6
as % of total sales	2%	0%	0%	0%	0%	0%	0%	0%	0%
Total	62.5	73.0	74.3	84.2	294.0	67.8	73.3	119.5	260.6
SERVICE									
North America	4.8	4.7	4.8	4.9	19.2	4.9	5.1	5.3	15.3
as % of total services	14%	13%	13%	13%	13%	13%	13%	11%	12%
Europe	2.5	2.5	2.7	2.9	10.6	2.6	2.7	10.4	15.7
as % of total services	8%	7%	7%	8%	7%	7%	7%	21%	13%
PAC	16.3	17.9	21.5	20.1	75.8	19.9	21.1	21.7	62.7
as % of total services	49%	50%	55%	53%	52%	55%	53%	46%	51%
OAE	8.0	10.7	9.9	10.0	38.6	9.5	10.9	10.2	30.6
as % of total services	25%	30%	25%	26%	27%	25%	27%	22%	25%
Others	1.5	-	0.2	0.1	1.8	0.1	0.1	0.2	0.4
as % of total services	4%	0%	0%	0%	1%	0%	0%	0%	0%
Total	33.1	35.8	39.1	38.0	146.0	37.0	39.9	47.8	124.7
TOTAL REVENUES									
North America	10.3	10.9	9.8	12.0	43.0	9.4	8.9	21.6	39.9
as % of total revenues	11%	10%	9%	10%	9%	9%	8%	13%	10%
Europe	5.3	4.0	5.1	4.2	18.6	4.5	5.4	31.7	41.6
as % of total revenues	6%	4%	4%	3%	4%	4%	5%	19%	11%
PAC	44.6	64.4	67.2	76.0	252.2	52.8	71.1	75.2	199.1
as % of total revenues	47%	59%	59%	62%	57%	50%	63%	45%	52%
OAE	32.9	29.5	31.1	29.9	123.4	37.9	27.7	38.1	103.7
as % of total revenues	34%	27%	28%	25%	29%	36%	24%	23%	27%
Others	2.5	-	0.2	0.1	2.8	0.2	0.1	0.7	1.0
as % of total revenues	2%	0%	0%	0%	1%	0%	0%	0%	0%
Total	95.6	108.8	113.4	122.2	440.0	104.8	113.2	167.3	385.3