

REVIEW

January-March 2018



ORBOTECH LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

U. S. dollars in thousands
(Unaudited)

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 290,056	\$ 315,803
Short-term bank deposits	4,143	4,115
Accounts receivable - trade	398,134	362,839
Prepaid expenses and other current assets	60,488	56,448
Inventories	<u>198,384</u>	<u>182,152</u>
T o t a l current assets	<u>951,205</u>	<u>921,357</u>
INVESTMENTS AND NON-CURRENT ASSETS:		
Marketable securities	7,734	7,888
Funds in respect of employee rights upon retirement	10,570	10,622
Deferred income taxes	40,911	43,157
Equity method investee and other receivables	<u>6,196</u>	<u>5,556</u>
	<u>65,411</u>	<u>67,223</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>71,010</u>	<u>69,612</u>
OTHER INTANGIBLE ASSETS, net	<u>61,855</u>	<u>68,226</u>
GOODWILL	<u>177,486</u>	<u>177,486</u>
T o t a l assets	<u>\$ 1,326,967</u>	<u>\$ 1,303,904</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$ 16,364	\$ 16,364
Accounts payable and accruals:		
Trade	91,926	96,166
Other	116,539	123,510
Deferred income	<u>40,660</u>	<u>37,445</u>
T o t a l current liabilities	<u>265,489</u>	<u>273,485</u>
LONG-TERM LIABILITIES:		
Long-term loan, net	56,232	56,117
Liability for employee rights upon retirement	26,167	24,997
Deferred income taxes	12,960	14,536
Other tax liabilities	<u>20,823</u>	<u>22,901</u>
T o t a l long-term liabilities	<u>116,182</u>	<u>118,551</u>
T o t a l liabilities	<u>381,671</u>	<u>392,036</u>
EQUITY:		
Share capital	2,409	2,404
Additional paid-in capital	437,632	433,922
Retained earnings	602,812	572,544
Accumulated other comprehensive income	<u>66</u>	<u>252</u>
	1,042,919	1,009,122
Less treasury shares, at cost	<u>(99,539)</u>	<u>(99,539)</u>
T o t a l Orbotech Ltd. equity	<u>943,380</u>	<u>909,583</u>
Non-controlling interest	<u>1,916</u>	<u>2,285</u>
T o t a l equity	<u>945,296</u>	<u>911,868</u>
T o t a l liabilities and equity	<u>\$ 1,326,967</u>	<u>\$ 1,303,904</u>

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except per share data)

(Unaudited)

	Three months ended March 31,		Year ended December 31,
	2018	2017	2017
Revenues	\$250,551	\$187,649	\$900,856
Cost of revenues	<u>132,642</u>	<u>100,524</u>	<u>475,538</u>
Gross profit	<u>117,909</u>	<u>87,125</u>	<u>425,318</u>
Operating expenses:			
Research and development, net	33,595	28,675	125,434
Selling, general and administrative	41,066	33,953	143,363
Gain from the release of AMST earn out payment obligation			(1,471)
Equity in earnings of P.C.B. Solutions L.P ("Frontline")	(1,529)	(1,050)	(4,524)
Amortization of intangible assets	6,371	5,893	25,006
Transaction cost pending merger with KLA	2,481		
Total operating expenses	<u>81,984</u>	<u>67,471</u>	<u>287,808</u>
Operating income	35,925	19,654	137,510
Financial expenses (income) - net	<u>(1,645)</u>	<u>2,006</u>	<u>5,535</u>
Income before taxes on income	37,570	17,648	131,975
Taxes on income	<u>7,671</u>	<u>2,868</u>	<u>1,088</u>
Net income	29,899	14,780	130,887
Net loss attributable to non-controlling interests	<u>(368)</u>	<u>(140)</u>	<u>(1,498)</u>
Net income attributable to Orbotech Ltd.	<u><u>\$30,267</u></u>	<u><u>\$14,920</u></u>	<u><u>\$132,385</u></u>
Basic earnings per share	<u><u>\$0.62</u></u>	<u><u>\$0.31</u></u>	<u><u>\$2.76</u></u>
Diluted earnings per share	<u><u>\$0.61</u></u>	<u><u>\$0.31</u></u>	<u><u>\$2.71</u></u>
Weighted average number of shares (in thousands) used in computation of:			
Basic earnings per share	48,437	47,839	47,989
Diluted earnings per share	49,331	48,768	48,850

ORBOTECH LTD.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS

U.S. dollars in thousands (except per share data)

(Unaudited)

	Three months ended		Year ended
	March 31,		December 31,
	2018	2017	2017
Reported operating income on GAAP basis	35,925	19,654	137,510
Equity-based compensation expenses	3,032	2,218	9,876
Amortization of intangible assets	6,371	5,893	25,006
Transaction cost pending merger with KLA	2,481		
Gain from the release of AMST earn out payment obligation			(1,471)
Non-GAAP operating income	<u>\$47,809</u>	<u>\$27,765</u>	<u>\$172,392</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis ⁽¹⁾	\$30,267	\$14,920	\$132,385
Equity-based compensation expenses	3,032	2,218	9,876
Amortization of intangible assets	6,371	5,893	25,006
Tax effect of non-GAAP adjustments	(1,059)	(748)	(4,656)
Tax benefit			(18,778)
Transaction cost pending merger with KLA	2,481		
Gain from the release of AMST earn out payment obligation			(1,471)
Non-GAAP net income	<u>\$41,092</u>	<u>\$22,283</u>	<u>\$142,362</u>
GAAP earnings per diluted share	<u>\$0.61</u>	<u>\$0.31</u>	<u>\$2.71</u>
Non-GAAP earnings per diluted share	<u>\$0.83</u>	<u>\$0.46</u>	<u>\$2.91</u>
Shares used in earnings per diluted share computation - in thousands	49,331	48,768	48,850

⁽¹⁾ Reflects the net benefit of approximately \$16 million consisting of the impact of increase in deferred tax assets during the last quarter of 2017, mainly for the valuation allowance releases and decrease in deferred tax liabilities offset by an increase in our tax provisions.

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA

U.S. dollars in thousands
(Unaudited)

	Three months ended March 31,		Year ended December 31,
	2018	2017	2017
Net income attributable to Orbotech Ltd. on GAAP basis	\$30,267	\$14,920	\$132,385
Minority interest and equity losses	(368)	(140)	(1,498)
Taxes on income	7,671	2,868	1,088
Financial expenses - net	(1,645)	2,006	5,535
Depreciation and amortization	11,629	10,651	44,543
Equity-based compensation expenses	3,032	2,218	9,876
Transaction cost pending merger with KLA	2,481		
Gain from the release of AMST earn out payment obligation			(1,471)
ADJUSTED EBITDA	\$53,067	\$32,523	\$190,458

ORBOTECH LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands
(Unaudited)

	Three months ended		Year ended
	March 31,		December 31,
	2018	2017	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 29,899	\$ 14,780	\$ 130,887
Adjustment to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	11,629	10,651	44,543
Compensation relating to equity awards granted to employees and others - net	3,032	2,218	9,876
Increase (decrease) in liability for employee rights upon retirement, net	1,299	(130)	1,028
Deferred financing costs amortization	115	132	479
Deferred income taxes	11,802	322	(29,241)
Amortization of premium and accretion of discount on marketable Securities, net	38	(333)	167
Equity in earnings of Frontline, net of dividend received	(581)	26	(727)
Other		90	127
Gain from the release of AMST earn out payment obligation			(1,471)
Gain from step up acquisition of a subsidiary			(478)
Decrease (increase) in accounts receivable:			
Trade	(35,295)	(27,441)	(36,496)
Other	(4,016)	5,469	(10,568)
Increase (decrease) in accounts payable and accruals:			
Trade	(4,240)	(1,146)	24,030
Deferred income	3,215	1,216	8,869
Other	(21,111)	(6,912)	36,845
Increase in inventories	(16,232)	(8,182)	(47,914)
Net cash (Used in) provided by operating activities	(20,446)	(9,240)	129,956
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(5,884)	(4,979)	(24,445)
Purchase of intellectual property			(700)
Proceeds from sale of property, plan and equipment	5		157
investment in bank deposits	(28)	(12)	(3,326)
Purchase of marketable securities		(2,292)	(1,994)
Redemption of marketable securities		1,804	1,004
Acquisition of subsidiary consolidated for the first time			102
Deposits of funds in respect of employee rights upon retirement	(77)	(1,057)	(1,250)
Net cash used in investing activities	(5,984)	(6,536)	(30,452)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of bank loan			(16,364)
Employee share options exercised	683	667	3,884
Net cash provided by (used in) financing activities	683	667	(12,480)
Net (Decrease) increase in cash, cash equivalents and restricted cash	(25,747)	(15,109)	87,024
Cash, cash equivalents and restricted cash at beginning of period	315,803	228,779	228,779
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 290,056	\$ 213,670	\$ 315,803

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018
BALANCE SHEET AND CASH FLOW										
Assets	1,039.5	1,075.4	1,102.9		1,116.6	1,147.2	1,205.4	1,303.9		1,327.0
Debt	108.0	108.2	88.4		88.5	72.3	72.4	72.5		72.6
Equity	696.1	724.1	752.8		778.4	809.1	850.6	911.9		945.3
Net working capital	460.6	494.8	503.9		530.8	545.4	591.4	647.9		685.7
Capital expenditures	- 6.4	- 5.3	- 6.2	- 23.6	- 5.0	- 6.9	- 7.9	- 4.6	- 24.4	- 5.9
Depreciation	4.3	4.0	5.1	17.3	4.8	4.6	4.7	5.0	19.1	5.3
Current ratio	3.2	3.3	3.2		3.4	3.3	3.4	3.4		3.6
Equity / Assets	67.0%	67.3%	68.3%		69.7%	70.5%	70.6%	69.9%		71.2%
Book value / share (US\$)	14.7	15.2	15.7		16.2	16.9	17.7	18.8		19.5
Days sales outstanding	139	150	148		161	161	164	147		151
INCOME STATEMENT										
	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YTD 2017	Q1 2018
Revenues	196.0	205.0	215.0	806.4	187.6	210.7	245.7	256.9	900.9	250.6
GAAP Operating income	26.7	30.8	36.1	116.9	19.7	31.0	44.0	42.8	137.5	35.9
GAAP Net income	13.3	24.7	25.6	79.4	14.9	25.0	36.6	55.9	132.4	30.3
Non GAAP Operating income	34.8	39.8	44.8	150.8	27.8	39.6	52.9	50.6	170.9	47.8
Non GAAP Net income	27.0	33.0	33.7	116.9	22.3	32.9	44.7	42.5	142.4	41.1
Adjusted EBITDA \$	39.1	43.8	49.9	168.1	32.5	44.3	57.6	55.6	190.0	53.1
Adjusted EBITDA margin	20.0%	21.4%	23.2%	20.8%	17.3%	21.0%	23.5%	21.6%	21.1%	21.2%
GAAP Earnings per share diluted	0.30	0.51	0.53	1.71	0.31	0.51	0.75	1.14	2.71	0.61
Non GAAP Earnings per share diluted	0.60	0.68	0.70	2.52	0.46	0.67	0.91	0.87	2.91	0.83
Average shares outstanding GAAP (K)	44,992	48,385	48,513	46,461	48,768	48,868	48,903	49,034	48,850	49,331
Average shares outstanding Non GAAP (K)	44,992	48,385	48,513	46,461	48,768	48,868	48,903	49,034	48,850	49,331
MARGIN ANALYSIS										
	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YTD 2017	Q1 2018
GROSS MARGIN-\$M	89.9	96.2	100.7	372.4	87.1	98.6	118.0	121.6	425.3	117.9
Gross margin (excluding X-items)	45.9%	46.9%	46.8%	46.2%	46.4%	46.8%	48.0%	47.3%	47.2%	47.1%
Non-GAAP Operating margin (excluding X-items)	17.8%	19.4%	20.8%	18.7%	14.8%	18.8%	21.5%	19.7%	19.0%	19.1%
Non-GAAP Net margin (excluding X-items)	13.8%	16.1%	15.7%	14.5%	11.9%	15.6%	18.2%	16.5%	15.8%	16.4%
Non-GAAP Net margin (reported)	6.8%	16.1%	15.7%	14.5%	11.9%	15.6%	18.2%	16.5%	15.8%	16.4%
R & D / revenues (excluding X-items)	13.3%	13.3%	12.6%	13.3%	15.3%	14.3%	13.0%	13.5%	13.9%	13.4%
S,G&A/revenues (excluding goodwill amort.)	16.0%	15.2%	14.9%	15.4%	18.1%	15.4%	14.9%	15.7%	15.9%	16.4%
Effective tax rate (excluding X-items)	16.5%	16.5%	15.5%	17.0%	16.3%	16.4%	15.4%	-31.2%	0.8%	20.4%
No. of employees	2,365	2,406	2,407		2,464	2,503	2,578	2,567		2,682

**ORBOTECH LTD.
REVENUES BY PRODUCT LINE (\$ MILLIONS)**



	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018
SALES										
PCB	43.8	38.0	48.6	170.4	49.8	51.1	52.6	55.0	208.5	53.3
as % of total sales	30%	26%	31%	29%	37%	33%	28%	28%	31%	27%
FPD	39.8	49.4	60.2	185.1	43.0	58.6	64.5	60.7	226.9	69.1
as % of total sales	29%	34%	39%	32%	31%	38%	35%	31%	34%	36%
SDD	53.6	57.4	48.3	221.8	41.5	44.1	65.9	77.8	229.3	67.2
as % of total sales	38%	39%	30%	38%	30%	28%	35%	40%	34%	35%
Character Recognition	2.2	1.9	2.2	7.9	2.2	1.6	3.5	2.4	9.7	1.3
as % of total sales	2%	1%	1%	1%	2%	1%	2%	1%	1%	1%
Solar	1.6	0.2	-	3.1	0.2	-	-	-	0.2	1.1
as % of total sales	1%	0%	0%	1%	0%	0%	0%	0%	0%	1%
Total	141.0	147.0	159.5	588.4	136.7	155.4	186.5	195.9	674.5	192.0
SERVICE										
PCB	28.8	31.0	28.6	116.5	27.6	31.4	33.1	35.4	127.6	33.8
as % of total service	52%	53%	52%	54%	55%	57%	54%	60%	56%	58%
FPD	10.1	10.4	11.3	40.8	10.4	11.0	11.5	11.4	44.3	11.5
as % of total service	18%	18%	20%	19%	20%	20%	19%	18%	20%	19%
SDD	13.9	14.2	13.6	51.7	11.0	10.8	12.7	12.5	47.0	11.4
as % of total service	26%	24%	24%	22%	21%	20%	22%	20%	20%	19%
Character Recognition	1.6	1.6	1.6	6.3	1.5	1.6	1.5	1.5	6.0	1.5
as % of total service	3%	3%	3%	3%	3%	3%	3%	2%	3%	3%
Solar	0.6	0.9	0.4	2.7	0.4	0.5	0.4	0.2	1.5	0.4
as % of total service	1%	2%	1%	1%	1%	1%	1%	0%	1%	1%
Total	55.0	58.0	55.6	218.0	50.9	55.3	59.2	61.0	226.4	58.6
TOTAL REVENUES										
PCB	72.6	69.0	77.2	286.9	77.5	82.5	85.7	90.4	336.1	87.1
as % of total revenues	36%	34%	36%	35%	42%	39%	35%	35%	37%	35%
FPD	49.9	59.8	71.6	225.9	53.4	69.6	76.0	72.1	271.2	80.6
as % of total revenues	26%	29%	33%	28%	28%	33%	31%	28%	30%	32%
SDD	67.5	71.6	61.9	273.5	52.5	54.9	78.6	90.3	276.3	78.6
as % of total revenues	35%	35%	29%	34%	28%	26%	32%	35%	31%	31%
Character Recognition	3.8	3.5	3.8	14.3	3.7	3.2	5.0	3.9	15.7	2.8
as % of total revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	1%
Solar	2.2	1.1	0.4	5.9	0.5	0.5	0.4	0.2	1.7	1.5
as % of total revenues	1%	1%	0%	1%	0%	0%	0%	0%	0%	1%
Total	196.0	205.0	215.0	806.4	187.6	210.7	245.7	256.9	900.9	250.6

ORBOTECH LTD.
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018
SALES										
North America	12.6	29.5	13.8	70.8	18.3	9.4	17.3	16.3	61.3	18.5
as % of total sales	9%	20%	9%	12%	13%	6%	10%	8%	9%	10%
Europe	24.2	5.0	13.7	49.1	16.6	19.3	17.9	17.8	71.6	14.4
as % of total sales	17%	3%	8%	9%	12%	12%	10%	9%	11%	7%
PAC	79.0	83.6	93.7	348.2	68.7	98.1	106.3	130.5	403.6	103.5
as % of total sales	56%	57%	59%	59%	51%	63%	57%	67%	60%	54%
OAE	22.9	28.8	38.0	117.8	32.6	28.6	45.0	30.4	88.4	55.4
as % of total sales	16%	20%	24%	20%	24%	18%	24%	16%	13%	29%
Others	2.3	-	0.2	2.6	0.5	0.0	0.0	0.9	49.6	0.2
as % of total sales	2%	0%	0%	0%	0%	0%	0%	0%	7%	0%
Total	141.0	147.0	159.5	588.4	136.7	155.4	186.5	195.9	674.5	192.0
SERVICE										
North America	8.8	9.4	10.6	37.6	9.0	8.9	8.2	9.0	35.1	8.1
as % of total services	16%	16%	19%	17%	19%	16%	14%	15%	16%	14%
Europe	6.9	6.8	6.3	26.2	5.5	6.8	8.6	7.7	28.6	7.0
as % of total services	13%	12%	11%	12%	11%	12%	15%	13%	13%	12%
PAC	27.2	29.1	27.8	106.2	24.2	27.3	28.2	30.2	109.9	29.6
as % of total services	50%	50%	50%	49%	48%	49%	48%	50%	49%	51%
OAE	11.8	12.6	10.5	47.0	11.9	12.1	13.9	13.9	37.8	13.6
as % of total services	21%	22%	19%	22%	22%	22%	23%	23%	17%	23%
Others	0.3	0.2	0.3	1.0	0.3	0.2	0.2	0.2	14.9	0.3
as % of total services	0%	0%	1%	0%	0%	0%	0%	0%	7%	0%
Total	55.0	58.0	55.6	218.0	50.9	55.3	59.2	61.0	226.4	58.6
TOTAL REVENUES										
North America	21.4	38.9	24.5	108.5	27.3	18.3	25.5	25.3	96.4	26.6
as % of total revenues	11%	19%	12%	13%	15%	9%	10%	10%	11%	11%
Europe	31.1	11.8	20.0	75.3	22.1	26.1	26.5	25.5	100.2	21.4
as % of total revenues	16%	6%	9%	10%	12%	12%	11%	10%	11%	8%
PAC	106.2	112.7	121.5	454.5	92.9	125.4	134.5	160.7	513.5	133.1
as % of total revenues	54%	55%	57%	56%	49%	60%	55%	63%	57%	53%
OAE	34.7	41.4	48.5	164.5	44.5	40.7	58.9	44.3	188.4	69.1
as % of total revenues	18%	20%	23%	20%	24%	19%	24%	17%	21%	28%
Others	2.6	0.2	0.5	3.6	0.8	0.2	0.2	1.1	2.3	0.5
as % of total revenues	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	196.0	205.0	215.0	806.4	187.6	210.7	245.7	256.9	900.9	250.6