

# REVIEW

April-June 2017



**ORBOTECH LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
U. S. dollars in thousands  
(Unaudited)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 214,608	\$ 216,292
Restricted cash		12,487
Marketable securities	204	
Short-term bank deposits	3,442	789
Accounts receivable - trade	361,237	326,343
Prepaid expenses and other current assets	48,316	47,258
Inventories	152,142	132,435
T o t a l current assets	<u>779,949</u>	<u>735,604</u>
<b>INVESTMENTS AND NON-CURRENT ASSETS:</b>		
Marketable securities	8,064	7,012
Funds in respect of employee rights upon retirement	10,121	8,375
Deferred income taxes	21,740	19,840
Equity method investee and other receivables	5,191	9,113
	<u>45,116</u>	<u>44,340</u>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<u>65,092</u>	<u>62,375</u>
<b>OTHER INTANGIBLE ASSETS, net</b>	<u>80,263</u>	<u>84,210</u>
<b>GOODWILL</b>	<u>176,804</u>	<u>176,374</u>
T o t a l assets	<u>\$ 1,147,224</u>	<u>\$ 1,102,903</u>
 <b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term loan	\$ 16,364	\$ 16,364
Accounts payable and accruals:		
Trade	84,494	72,085
Other	102,719	114,692
Deferred income	31,009	28,576
T o t a l current liabilities	<u>234,586</u>	<u>231,717</u>
<b>LONG-TERM LIABILITIES:</b>		
Long-term loan, net	55,886	72,002
Liability with respect to Applied Microstructure, Inc. ("AMST")	1,471	1,471
Liability for employee rights upon retirement	23,753	22,973
Deferred income taxes	13,169	14,392
Other tax liabilities	9,226	7,567
T o t a l long-term liabilities	<u>103,505</u>	<u>118,405</u>
T o t a l liabilities	<u>338,091</u>	<u>350,122</u>
<b>EQUITY:</b>		
Share capital	2,386	2,381
Additional paid-in capital	425,919	420,185
Retained earnings	480,109	440,159
Accumulated other comprehensive loss	(2,732)	(9,221)
	<u>905,682</u>	<u>853,504</u>
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l Orbotech Ltd. equity	<u>806,143</u>	<u>753,965</u>
Non-controlling interest	2,990	(1,184)
T o t a l equity	<u>809,133</u>	<u>752,781</u>
T o t a l liabilities and equity	<u>\$ 1,147,224</u>	<u>\$ 1,102,903</u>

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues	\$398,312	\$386,407	\$210,663	\$195,980
Cost of revenues	212,572	210,895	112,048	106,071
Gross profit	185,740	175,512	98,615	89,909
Operating expenses:				
Research and development, net	58,741	52,704	30,066	26,135
Selling, general and administrative	66,456	61,289	32,503	31,266
Equity in earnings of Frontline	(2,355)	(1,677)	(1,305)	(1,041)
Amortization of intangible assets	12,264	13,135	6,371	6,840
Total operating expenses	135,106	125,451	67,635	63,200
Operating income	50,634	50,061	30,980	26,709
Financial expenses - net	3,573	14,147	1,567	9,483
Income before taxes on income	47,061	35,914	29,413	17,226
Taxes on income	7,687	6,714	4,819	3,869
Share in losses of equity method investee	—	300	—	150
Net income	39,374	28,900	24,594	13,207
Net loss attributable to non-controlling interests	(576)	(194)	(436)	(133)
Net income attributable to Orbotech Ltd.	\$39,950	\$29,094	\$25,030	\$13,340
Basic earnings per share	\$0.83	\$0.67	\$0.52	\$0.30
Diluted earnings per share	\$0.82	\$0.65	\$0.51	\$0.30
Weighted average number (in thousands) of shares used in computation of:				
Basic earnings per share	47,909	43,603	47,907	44,019
Diluted earnings per share	48,806	44,527	48,868	44,992

**ORBOTECH LTD.**  
**RECONCILIATION OF GAAP TO NON-GAAP RESULTS**  
U.S. dollars in thousands (except per share data)  
(Unaudited)

	Six months ended		Three months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Reported operating income on GAAP basis	\$50,634	\$50,061	\$30,980	\$26,709
Equity-based compensation expenses	4,502	2,958	2,284	1,278
Amortization of intangible assets	12,264	13,135	6,371	6,840
Non-GAAP operating income	<u>\$67,400</u>	<u>\$66,154</u>	<u>\$39,635</u>	<u>\$34,827</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$39,950	\$29,094	\$25,030	\$13,340
Equity-based compensation expenses	4,502	2,958	2,284	1,278
Amortization of intangible assets	12,264	13,135	6,371	6,840
Tax effect of non-GAAP adjustments	(1,496)	(1,523)	(748)	(794)
Share in losses of equity method investee		300		150
Charges associated with the retirement of the 2014 Credit Agreement		6,228		6,228
Non-GAAP net income	<u>\$55,220</u>	<u>\$50,192</u>	<u>\$32,937</u>	<u>\$27,042</u>
GAAP earnings per diluted share	<u>\$0.82</u>	<u>\$0.65</u>	<u>\$0.51</u>	<u>\$0.30</u>
Non-GAAP earnings per diluted share	<u>\$1.13</u>	<u>\$1.13</u>	<u>\$0.67</u>	<u>\$0.60</u>
Shares used in earnings per diluted share computation- in thousands	48,806	44,527	48,868	44,992

**ORBOTECH LTD.**  
**RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA**

U.S. dollars in thousands  
(Unaudited)

	Six months ended		Three months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income attributable to Orbotech Ltd. on GAAP basis	\$39,950	\$29,094	\$25,030	\$13,340
Minority interest and equity losses	(576)	106	(436)	17
Taxes on income	7,687	6,714	4,819	3,869
Financial expenses - net	3,573	14,147	1,567	9,483
Depreciation and amortization	21,648	21,398	10,997	11,147
Equity-based compensation expenses	4,502	2,958	2,284	1,278
<b>ADJUSTED EBITDA</b>	<b>\$76,784</b>	<b>\$74,417</b>	<b>\$44,261</b>	<b>\$39,134</b>

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

	Six months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	\$ 39,374	\$ 28,900	\$ 24,594	\$ 13,207
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	21,648	21,398	10,997	11,147
Compensation relating to equity awards granted to employees and others - net	4,502	2,958	2,284	1,278
Increase in liability for employee rights upon retirement, net	157	879	287	632
Long-term loans discount amortization		1,866		1,566
Deferred financing costs amortization		5,460	(132)	4,662
Deferred income taxes	(5,461)	(1,678)	(5,783)	(464)
Amortization of premium and accretion of discount on marketable Securities, net	1	94	334	28
Equity in earnings of Frontline, net of dividend received	(383)	839	(409)	650
Other	417	388	327	238
Increase in accounts receivable:				
Trade	(34,893)	(7,224)	(7,452)	(2,899)
Other	(2,927)	(3,703)	(8,396)	(986)
Increase (decrease) in accounts payable and accruals:				
Trade	12,358	(3,672)	13,504	(5,310)
Deferred income	2,433	(1,544)	1,217	(2,394)
Other	(1,487)	(6,396)	5,425	(652)
Decrease (increase) in inventories	(17,904)	(1,115)	(9,722)	1,015
<b>Net cash provided by operating activities</b>	<b>17,835</b>	<b>37,450</b>	<b>27,075</b>	<b>21,718</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment	(11,914)	(12,115)	(6,935)	(6,358)
Consideration received for the sale of the Thermal product business		12,000		12,000
Withdraw of (investment in) bank deposits	(2,653)	6,488	(2,641)	(19)
Purchase of marketable securities	(1,994)	(2,244)	(702)	(976)
Redemption of marketable securities	804	2,337		1,180
Investment in equity method investee		(1,000)		
Decrease (increase) in funds in respect of employee rights upon retirement	(1,122)	126	(65)	66
<b>Net cash provided by (used in) investing activities*</b>	<b>(16,879)</b>	<b>5,592</b>	<b>(10,343)</b>	<b>5,893</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Repayment of long-term loan		(239,635)		(214,028)
Repayment of bank loan	(16,364)		(16,364)	
Bank loan, net of \$2 million financing costs		108,031		108,031
Issuance of shares, net		99,962		99,962
Employee share options exercised	1,237	3,464	570	1,389
<b>Net cash used in financing activities</b>	<b>(15,127)</b>	<b>(28,178)</b>	<b>(15,794)</b>	<b>(4,646)</b>
Net increase (decrease) in cash, cash equivalents and restricted cash*	(14,171)	14,864	938	22,965
Cash, cash equivalents and restricted cash at beginning of period*	228,779	175,719	213,670	167,618
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD*</b>	<b>\$ 214,608</b>	<b>\$ 190,583</b>	<b>\$ 214,608</b>	<b>\$ 190,583</b>

\* Reclassified

**ORBOTECH LTD.**  
**FINANCIAL SUMMARY (\$ MILLIONS)**



	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017
<b>BALANCE SHEET AND CASH FLOW</b>													
Assets		1,037.9	1,020.7	1,043.2	1,041.9		1,031.3	1,039.5	1,075.4	1,102.9		1,116.6	1,147.2
Debt		295.9	276.1	268.1	232.3		207.8	108.0	108.2	88.4		88.5	72.3
Equity		511.6	532.5	549.2	567.8		587.2	696.1	724.1	752.8		778.4	809.1
Net working capital		447.6	463.7	487.0	455.8		452.3	460.6	494.8	503.9		530.8	545.4
Capital expenditures	12.5	3.2	3.9	4.2	8.0	19.3	5.8	6.4	5.3	6.2	23.6	5.0	6.9
Depreciation	11.1	3.7	3.7	3.7	3.9	15.1	4.0	4.3	4.0	5.1	17.3	4.8	4.6
Current ratio		3.5	3.8	3.8	3.2		3.2	3.2	3.3	3.2		3.4	3.3
Equity / Assets		49.3%	52.2%	52.6%	54.5%		56.9%	67.0%	67.3%	68.3%		69.7%	70.5%
Book value / share (US\$)		12.2	12.5	12.9	13.2		13.6	14.7	15.2	15.7		16.2	16.9
Days sales outstanding		138	119	134	138		139	139	150	148		161	161
<b>INCOME STATEMENT</b>													
	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017
Revenues	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4	187.6	210.7
GAAP Operating income	55.0	20.3	25.5	25.0	23.8	94.7	23.4	26.7	30.8	36.1	116.9	19.7	31.0
GAAP Net income	35.2	11.9	13.0	15.9	16.0	56.8	15.7	13.3	24.7	25.6	79.4	14.9	25.0
Non GAAP Operating income	77.4	30.1	32.9	33.4	31.7	128.1	31.3	34.8	39.8	44.8	150.8	27.8	39.6
Non GAAP Net income	63.2	20.8	22.9	23.7	23.4	90.7	23.2	27.0	33.0	33.7	116.9	22.3	32.9
Adjusted EBITDA \$	88.3	33.8	36.6	37.1	35.6	143.2	35.3	39.1	43.8	49.9	168.1	32.5	44.3
Adjusted EBITDA margin	15.2%	18.3%	19.4%	19.5%	18.9%	19.0%	18.5%	20.0%	21.4%	23.2%	20.8%	17.3%	21.0%
GAAP Earnings per share diluted	0.83	0.28	0.30	0.37	0.37	1.31	0.36	0.30	0.51	0.53	1.71	0.31	0.51
Non GAAP Earnings per share diluted	1.48	0.48	0.53	0.55	0.54	2.09	0.53	0.60	0.68	0.70	2.52	0.46	0.67
Average shares outstanding GAAP (K)	42,757.0	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385	48,513	46,461	48,768	48,868
Average shares outstanding Non GAAP (K)	42,757.0	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385	48,513	46,461	48,768	48,868
<b>MARGIN ANALYSIS</b>													
	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017
GROSS MARGIN-\$M	253.2	83.1	85.8	86.3	84.6	339.8	85.6	89.9	96.2	100.7	372.4	87.1	98.6
Gross margin (excluding X-items)	43.5%	45.0%	45.4%	45.3%	45.0%	45.2%	45.0%	45.9%	46.9%	46.8%	46.2%	46.4%	46.8%
Operating margin (excluding X-items)	9.4%	16.3%	17.4%	17.5%	16.9%	17.0%	16.5%	17.8%	19.4%	20.8%	18.7%	14.8%	18.8%
Net margin (excluding X-items)	6.0%	11.2%	12.1%	12.4%	12.4%	12.1%	12.2%	13.8%	16.1%	15.7%	14.5%	11.9%	15.6%
Net margin (reported)	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	8.2%	6.8%	16.1%	15.7%	14.5%	11.9%	15.6%
R & D / revenues (excluding X-items)	15.2%	13.9%	13.2%	14.7%	14.7%	13.6%	14.0%	13.3%	13.3%	12.6%	13.3%	15.3%	14.3%
S,G&A/revenues (excluding goodwill amort.)	16.5%	15.7%	15.9%	18.6%	18.6%	15.9%	15.8%	16.0%	15.2%	14.9%	15.4%	18.1%	15.4%
Effective tax rate (excluding X-items)	8.7%	12.7%	33.5%	16.8%	16.8%	18.7%	15.2%	16.5%	16.5%	15.5%	17.0%	16.3%	16.4%
No. of employees		2,252	2,263	2,241	2,256		2,329	2,365	2,406	2,407		2,464	2,503

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



	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017
<b>SALES</b>											
PCB	37.0	34.5	38.3	141.1	39.9	43.8	38.0	48.6	170.4	49.8	51.1
as % of total sales	27%	25%	29%	26%	29%	30%	26%	31%	29%	37%	33%
FPD	44.4	38.6	35.9	166.2	35.6	39.8	49.4	60.2	185.1	43.0	58.7
as % of total sales	33%	28%	27%	31%	25%	29%	34%	39%	32%	31%	38%
SDD	45.7	58.4	57.5	208.2	62.5	53.6	57.4	48.3	221.8	41.5	44.1
as % of total sales	34%	43%	43%	39%	44%	38%	39%	30%	38%	30%	28%
Character Recognition	2.1	1.4	2.7	7.9	1.6	2.2	1.9	2.2	7.9	2.2	1.5
as % of total sales	2%	1%	2%	1%	1%	2%	1%	1%	1%	2%	1%
Solar	5.4	4.1	-	13.9	1.3	1.6	0.2	-	3.1	0.2	-
as % of total sales	4%	3%	0%	3%	1%	1%	0%	0%	1%	0%	0%
<b>Total</b>	<b>134.6</b>	<b>137.0</b>	<b>134.4</b>	<b>537.3</b>	<b>140.9</b>	<b>141.0</b>	<b>147.0</b>	<b>159.5</b>	<b>588.4</b>	<b>136.7</b>	<b>155.4</b>
<b>SERVICE</b>											
PCB	28.4	29.7	29.5	114.3	28.1	28.8	31.0	28.6	116.5	27.6	31.4
as % of total service	52%	56%	55%	53%	57%	52%	53%	52%	54%	55%	57%
FPD	9.2	9.9	9.5	38.7	9.0	10.1	10.4	11.3	40.8	10.4	11.0
as % of total service	17%	19%	18%	18%	18%	18%	18%	20%	19%	20%	20%
SDD	14.9	11.8	12.6	54.1	10.0	13.9	14.2	13.6	51.7	11.0	10.8
as % of total service	27%	22%	23%	25%	20%	26%	24%	24%	22%	21%	20%
Character Recognition	1.6	1.6	1.6	6.4	1.6	1.6	1.6	1.6	6.3	1.5	1.6
as % of total service	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Solar	0.3	0.5	0.5	1.6	0.8	0.6	0.9	0.4	2.7	0.4	0.5
as % of total service	1%	1%	1%	1%	2%	1%	2%	1%	1%	1%	1%
<b>Total</b>	<b>54.4</b>	<b>53.5</b>	<b>53.8</b>	<b>215.2</b>	<b>49.5</b>	<b>55.0</b>	<b>58.0</b>	<b>55.6</b>	<b>218.0</b>	<b>50.9</b>	<b>55.3</b>
<b>TOTAL REVENUES</b>											
PCB	65.4	64.2	67.9	255.5	68.0	72.6	69.0	77.2	286.9	77.5	82.5
as % of total revenues	35%	34%	36%	34%	36%	36%	34%	36%	35%	42%	39%
FPD	53.6	48.5	45.5	205.0	44.7	49.9	59.8	71.6	225.9	53.4	69.7
as % of total revenues	28%	25%	24%	27%	24%	26%	29%	33%	28%	28%	33%
SDD	60.6	70.2	70.1	262.3	72.5	67.5	71.6	61.9	273.5	52.5	54.9
as % of total revenues	32%	37%	37%	35%	37%	35%	35%	29%	34%	28%	26%
Character Recognition	3.7	3.0	4.3	14.3	3.2	3.8	3.5	3.8	14.3	3.7	3.1
as % of total revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Solar	5.7	4.6	0.5	15.5	2.1	2.2	1.1	0.4	5.9	0.5	0.5
as % of total revenues	3%	2%	0%	2%	1%	1%	1%	0%	1%	0%	0%
<b>Total</b>	<b>189.0</b>	<b>190.5</b>	<b>188.2</b>	<b>752.5</b>	<b>190.4</b>	<b>196.0</b>	<b>205.0</b>	<b>215.0</b>	<b>806.4</b>	<b>187.6</b>	<b>210.7</b>



ORBOTECH LTD.  
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017
<b>SALES</b>											
North America	13.2	12.3	12.3	61.1	14.8	12.6	29.5	13.8	70.8	18.3	9.4
as % of total sales	10%	9%	9%	11%	10%	9%	20%	9%	12%	13%	6%
Europe	21.2	19.6	18.5	78.0	6.2	24.2	5.0	13.7	49.1	16.6	19.3
as % of total sales	16%	14%	14%	15%	4%	17%	3%	8%	9%	12%	12%
PAC	77.3	80.5	76.8	295.8	91.9	79.0	83.6	93.7	348.2	68.7	98.1
as % of total sales	57%	59%	57%	55%	66%	56%	57%	59%	59%	51%	63%
OAE	22.9	24.0	26.8	101.5	28.0	22.9	28.8	38.0	117.8	32.6	21.4
as % of total sales	17%	18%	20%	19%	20%	16%	20%	24%	20%	24%	14%
Others	-	0.6	0.1	1.0	-	2.3	-	0.2	2.6	0.5	7.2
as % of total sales	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%	5%
<b>Total</b>	<b>134.6</b>	<b>137.0</b>	<b>134.4</b>	<b>537.3</b>	<b>140.9</b>	<b>141.0</b>	<b>147.0</b>	<b>159.5</b>	<b>588.4</b>	<b>136.7</b>	<b>155.4</b>
<b>SERVICE</b>											
North America	9.0	8.7	10.2	37.3	8.9	8.8	9.4	10.6	37.6	9.0	8.9
as % of total services	16%	16%	19%	17%	18%	16%	16%	19%	17%	19%	16%
Europe	8.8	6.7	6.3	30.1	6.2	6.9	6.8	6.3	26.2	5.5	6.8
as % of total services	16%	13%	12%	14%	13%	13%	12%	11%	12%	11%	12%
PAC	23.9	25.9	25.2	97.6	22.2	27.2	29.1	27.8	106.2	24.2	27.3
as % of total services	44%	48%	47%	45%	45%	50%	50%	50%	49%	48%	49%
OAE	12.6	12.1	11.9	49.5	12.0	11.8	12.6	10.5	47.0	11.9	9.3
as % of total services	24%	0.2	0.2	23%	24%	21%	22%	19%	22%	22%	17%
Others	0.1	0.1	0.2	0.7	0.2	0.3	0.2	0.3	1.0	0.3	3.0
as % of total services	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	5%
<b>Total</b>	<b>54.4</b>	<b>53.5</b>	<b>53.8</b>	<b>215.2</b>	<b>49.5</b>	<b>55.0</b>	<b>58.0</b>	<b>55.6</b>	<b>218.0</b>	<b>50.9</b>	<b>55.3</b>
<b>TOTAL REVENUES</b>											
North America	22.2	21.0	22.4	98.3	23.7	21.4	38.9	24.5	108.5	27.3	18.3
as % of total revenues	12%	11%	12%	13%	12%	11%	19%	12%	13%	15%	9%
Europe	30.0	26.3	24.8	108.1	12.4	31.1	11.8	20.0	75.3	22.1	26.1
as % of total revenues	16%	14%	13%	14%	7%	16%	6%	9%	10%	12%	12%
PAC	101.2	106.4	102.0	393.4	114.1	106.2	112.7	121.5	454.5	92.9	125.4
as % of total revenues	54%	56%	54%	52%	60%	54%	55%	57%	56%	49%	60%
OAE	35.5	36.1	38.7	151.0	40.0	34.7	41.4	48.5	164.5	44.5	30.7
as % of total revenues	19%	19%	21%	20%	21%	18%	20%	23%	20%	24%	15%
Others	0.1	0.7	0.3	1.7	0.2	2.6	0.2	0.5	3.6	0.8	10.2
as % of total revenues	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	5%
<b>Total</b>	<b>189.0</b>	<b>190.5</b>	<b>188.2</b>	<b>752.5</b>	<b>190.4</b>	<b>196.0</b>	<b>205.0</b>	<b>215.0</b>	<b>806.4</b>	<b>187.6</b>	<b>210.7</b>