

REVIEW

April-June 2018



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

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$341,098	\$315,803
Marketable securities	1,288	
Short-term bank deposits	9,195	4,115
Accounts receivable - trade	375,914	362,839
Prepaid expenses and other current assets	61,711	56,448
Inventories	204,856	182,152
T o t a l current assets	994,062	921,357
INVESTMENTS AND NON-CURRENT ASSETS:		
Marketable securities	6,649	7,888
Funds in respect of employee rights upon retirement	10,251	10,622
Deferred income taxes	38,256	43,157
Equity method investee and other receivables	6,641	5,556
	61,797	67,223
PROPERTY, PLANT AND EQUIPMENT, net	74,921	69,612
OTHER INTANGIBLE ASSETS, net	55,485	68,226
GOODWILL	177,486	177,486
T o t a l assets	\$1,363,751	\$1,303,904
 LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$16,364	\$16,364
Accounts payable and accruals:		
Trade	84,096	96,166
Other	111,944	123,510
Deferred income	69,758	37,445
T o t a l current liabilities	282,162	273,485
LONG-TERM LIABILITIES:		
Long-term loan, net	39,984	56,117
Liability for employee rights upon retirement	25,617	24,997
Deferred income taxes	11,729	14,536
Other tax liabilities	21,135	22,901
T o t a l long-term liabilities	98,465	118,551
T o t a l liabilities	380,627	392,036
EQUITY:		
Share capital	2,412	2,404
Additional paid-in capital	441,600	433,922
Retained earnings	638,930	572,544
Accumulated other comprehensive income	(1,801)	252
	1,081,141	1,009,122
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l Orbotech Ltd. equity	981,602	909,583
Non-controlling interest	1,522	2,285
T o t a l equity	983,124	911,868
T o t a l liabilities and equity	\$1,363,751	\$1,303,904

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Six months ended June 30,		Three months ended June 30,	
	2018	2017	2018	2017
Revenues	\$518,066	\$398,312	\$267,515	\$210,663
Cost of revenues	274,235	212,572	141,593	112,048
Gross profit	<u>243,831</u>	<u>185,740</u>	<u>125,922</u>	<u>98,615</u>
Operating expenses:				
Research and development, net	68,336	58,741	34,741	30,066
Selling, general and administrative	81,233	66,456	40,167	32,503
Equity in earnings of P.C.B. Solutions L.P ("Frontline")	(2,912)	(2,355)	(1,383)	(1,305)
Amortization of intangible assets	12,741	12,264	6,370	6,371
Transaction cost pending merger with KLA	3,762		1,281	
Total operating expenses	<u>163,160</u>	<u>135,106</u>	<u>81,176</u>	<u>67,635</u>
Operating income	80,671	50,634	44,746	30,980
Financial expenses - net	<u>1,790</u>	<u>3,573</u>	<u>3,435</u>	<u>1,567</u>
Income before taxes on income	78,881	47,061	41,311	29,413
Taxes on income	<u>13,257</u>	<u>7,687</u>	<u>5,586</u>	<u>4,819</u>
Net income	65,624	39,374	35,725	24,594
Net loss attributable to non-controlling interests	<u>(762)</u>	<u>(576)</u>	<u>(394)</u>	<u>(436)</u>
Net income attributable to Orbotech Ltd.	<u>\$66,386</u>	<u>\$39,950</u>	<u>\$36,119</u>	<u>\$25,030</u>
Basic earnings per share	<u>\$1.38</u>	<u>\$0.83</u>	<u>\$0.74</u>	<u>\$0.52</u>
Diluted earnings per share	<u>\$1.35</u>	<u>\$0.82</u>	<u>\$0.73</u>	<u>\$0.51</u>
Weighted average number of shares (in thousands) used in computation of:				
Basic earnings per share	48,098	47,909	48,537	47,907
Diluted earnings per share	48,998	48,806	49,443	48,868

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	
	2018	2017	2018	2017
Reported operating income on GAAP basis	80,671	50,634	44,746	30,980
Equity-based compensation expenses	6,193	4,502	3,161	2,284
Amortization of intangible assets	12,741	12,264	6,370	6,371
Transaction cost pending merger with KLA	3,762		1,281	
Non-GAAP operating income	<u>\$103,367</u>	<u>\$67,400</u>	<u>\$55,558</u>	<u>\$39,635</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$66,386	\$39,950	\$36,119	\$25,030
Equity-based compensation expenses	6,193	4,502	3,161	2,284
Amortization of intangible assets	12,741	12,264	6,370	6,371
Tax effect of non-GAAP adjustments	(2,301)	(1,496)	(1,242)	(748)
Transaction cost pending merger with KLA	3,762		1,281	
Non-GAAP net income	<u>\$86,781</u>	<u>\$55,220</u>	<u>\$45,689</u>	<u>\$32,937</u>
GAAP earnings per diluted share	<u>\$1.35</u>	<u>\$0.82</u>	<u>\$0.73</u>	<u>\$0.51</u>
Non-GAAP earnings per diluted share	<u>\$1.77</u>	<u>\$1.13</u>	<u>\$0.92</u>	<u>\$0.67</u>
Shares used in earnings per diluted share computation - in thousands	48,998	48,806	49,443	48,868

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA
U.S. dollars in thousands
(Unaudited)

	Six months ended June 30,		Three months ended June 30,	
	2018	2017	2018	2017
Net income attributable to Orbotech Ltd. on GAAP basis	\$66,386	\$39,950	\$36,119	\$25,030
Net loss attributable to non-controlling interests	(762)	(576)	(394)	(436)
Taxes on income	13,257	7,687	5,586	4,819
Financial expenses - net	1,790	3,573	3,435	1,567
Depreciation and amortization	23,406	21,648	11,777	10,997
Equity-based compensation expenses	6,193	4,502	3,161	2,284
Transaction cost pending merger with KLA	3,762		1,281	
ADJUSTED EBITDA	<u>\$114,032</u>	<u>\$76,784</u>	<u>\$60,965</u>	<u>\$44,261</u>

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$65,624	\$39,374	\$35,725	\$24,594
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	23,406	21,648	11,777	10,997
Compensation relating to equity awards granted to employees and others - net	6,193	4,502	3,161	2,284
Increase (decrease) in liability for employee rights upon retirement, net	1,143	157	(156)	287
Deferred financing costs amortization	231		116	(132)
Deferred income taxes	12,412	(5,461)	610	(5,783)
Amortization of premium and accretion of discount on marketable Securities, net	77	1	39	334
Equity in earnings of Frontline, net of dividend received	(1,117)	(383)	(536)	(409)
Other	(58)	417	(58)	327
Decrease (increase) in accounts receivable:				
Trade	(13,075)	(34,893)	22,220	(7,452)
Other	(5,206)	(2,927)	(1,190)	(8,396)
Increase (decrease) in accounts payable and accruals:				
Trade	(12,070)	12,358	(7,830)	13,504
Deferred income	32,313	2,433	29,098	1,217
Other	(26,800)	(1,487)	(5,689)	5,425
Increase in inventories	(23,321)	(17,904)	(7,089)	(9,722)
Net cash provided by operating activities	<u>59,752</u>	<u>17,835</u>	<u>80,198</u>	<u>27,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(14,115)	(11,914)	(8,231)	(6,935)
Proceeds from sale of property, plan and equipment	(45)		(50)	
Investment in bank deposits	(5,022)	(2,653)	(4,994)	(2,641)
Purchase of marketable securities	(250)	(1,994)	(250)	(702)
Redemption of marketable securities		804		
Deposits of funds in respect of employee rights upon retirement	(152)	(1,122)	(75)	(65)
Net cash used in investing activities	<u>(19,584)</u>	<u>(16,879)</u>	<u>(13,600)</u>	<u>(10,343)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of bank loan	(16,364)	(16,364)	(16,364)	(16,364)
Employee share options exercised	1,491	1,237	808	570
Net cash used in financing activities	<u>(14,873)</u>	<u>(15,127)</u>	<u>(15,556)</u>	<u>(15,794)</u>
Net (Decrease) increase in cash, cash equivalents and restricted cash	25,295	(14,171)	51,042	938
Cash, cash equivalents and restricted cash at beginning of period	<u>315,803</u>	<u>228,779</u>	<u>290,056</u>	<u>213,670</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	<u>\$341,098</u>	<u>\$214,608</u>	<u>\$341,098</u>	<u>\$214,608</u>

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018
BALANCE SHEET AND CASH FLOW													
Assets		1,031.3	1,039.5	1,075.4	1,102.9		1,116.6	1,147.2	1,205.4	1,303.9		1,327.0	1,363.8
Debt		207.8	108.0	108.2	88.4		88.5	72.3	72.4	72.5		72.6	56.3
Equity		587.2	696.1	724.1	752.8		778.4	809.1	850.6	911.9		945.3	983.1
Net working capital		452.3	460.6	494.8	503.9		530.8	545.4	591.4	647.9		685.7	711.9
Capital expenditures	19.3	- 5.8	- 6.4	- 5.3	- 6.2	- 23.6	- 5.0	- 6.9	- 7.9	- 4.6	- 24.4	- 5.9	- 8.2
Depreciation	15.1	4.0	4.3	4.0	5.1	17.3	4.8	4.6	4.7	5.0	19.1	5.3	5.4
Current ratio		3.2	3.2	3.3	3.2		3.4	3.3	3.4	3.4		3.6	3.5
Equity / Assets		56.9%	67.0%	67.3%	68.3%		69.7%	70.5%	70.6%	69.9%		71.2%	72.1%
Book value / share (US\$)		13.6	14.7	15.2	15.7		16.2	16.9	17.7	18.8		19.5	16.8
Days sales outstanding		139	139	150	148		161	161	164	147		151	134
INCOME STATEMENT													
	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YTD 2017	Q1 2018	Q2 2018
Revenues	752.5	190.4	196.0	205.0	215.0	806.4	187.6	210.7	245.7	256.9	900.9	250.6	267.5
GAAP Operating income	94.7	23.4	26.7	30.8	36.1	116.9	19.7	31.0	44.0	42.8	137.5	35.9	44.7
GAAP Net income	56.8	15.7	13.3	24.7	25.6	79.4	14.9	25.0	36.6	55.9	132.4	30.3	36.1
Non GAAP Operating income	128.1	31.3	34.8	44.8	44.8	150.8	27.8	39.6	52.9	50.6	170.9	47.8	55.6
Non GAAP Net income	90.7	23.2	27.0	33.0	33.7	116.9	22.3	32.9	44.7	42.5	142.4	41.1	45.7
Adjusted EBITDA \$	143.2	35.3	39.1	43.8	49.9	168.1	32.5	44.3	57.6	55.6	190.0	53.1	61.0
Adjusted EBITDA margin	19.0%	18.5%	20.0%	21.4%	23.2%	20.8%	17.3%	21.0%	23.5%	21.6%	21.1%	21.2%	22.8%
GAAP Earnings per share diluted	1.31	0.36	0.30	0.51	0.53	1.71	0.31	0.51	0.75	1.14	2.7	0.61	0.73
Non GAAP Earnings per share diluted	2.09	0.53	0.60	0.68	0.70	2.52	0.46	0.67	0.91	0.87	2.9	0.83	0.92
Average shares outstanding GAAP (K)	43,322	44,062	44,992	48,385	48,513	46,461	48,768	48,868	48,903	49,034	48,850	49,331	49,443
Average shares outstanding Non GAAP (K)	43,322	44,062	44,992	48,385	48,513	46,461	48,768	48,868	48,903	49,034	48,850	49,331	49,443
MARGIN ANALYSIS													
	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YTD 2017	Q1 2018	Q2 2018
GROSS MARGIN-\$M	339.8	85.6	89.9	96.2	100.7	372.4	87.1	98.6	118.0	121.6	425.3	117.9	125.9
Gross margin (excluding X-items)	45.2%	45.0%	45.9%	46.9%	46.8%	46.2%	46.4%	46.8%	48.0%	47.3%	47.2%	47.1%	47.1%
Non-GAAP Operating margin (excluding X-items)	17.0%	16.5%	17.8%	19.4%	20.8%	18.7%	14.8%	18.8%	21.5%	19.7%	19.0%	19.1%	20.8%
Non-GAAP Net margin (excluding X-items)	12.1%	12.2%	13.8%	16.1%	15.7%	14.5%	11.9%	15.6%	18.2%	16.5%	15.8%	16.4%	17.1%
Non-GAAP Net margin (reported)	7.5%	8.2%	6.8%	16.1%	15.7%	14.5%	11.9%	15.6%	18.2%	16.5%	15.8%	16.4%	17.1%
R & D / revenues (excluding X-items)	14.7%	14.0%	13.3%	13.3%	12.6%	13.3%	15.3%	14.3%	13.0%	13.5%	13.9%	13.4%	13.0%
S,G&A/revenues (excluding goodwill amort.)	16.7%	15.8%	16.0%	15.2%	14.9%	15.4%	18.1%	15.4%	14.9%	15.7%	15.9%	16.4%	15.0%
Effective tax rate (excluding X-items)	16.3%	15.2%	16.5%	16.5%	15.5%	17.0%	16.3%	16.4%	15.4%	-31.2%	0.8%	20.4%	13.5%
No. of employees		2,329	2,365	2,406	2,407		2,464	2,503	2,578	2,567		2,682	2,720

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



	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018
SALES										
PCB	38.0	48.6	170.4	49.8	51.1	52.6	55.0	208.5	53.3	62.2
as % of total sales	26%	31%	29%	37%	33%	28%	28%	31%	27%	31%
FPD	49.4	60.2	185.1	43.0	58.6	64.5	60.7	226.9	69.1	69.1
as % of total sales	34%	39%	32%	31%	38%	35%	31%	34%	36%	34%
SDD	57.4	48.3	221.8	41.5	44.1	65.9	77.8	229.3	67.2	68.1
as % of total sales	39%	30%	38%	30%	28%	35%	40%	34%	35%	34%
Character Recognition	1.9	2.2	7.9	2.2	1.6	3.5	2.4	9.7	1.3	1.5
as % of total sales	1%	1%	1%	2%	1%	2%	1%	1%	1%	1%
Solar	0.2	-	3.1	0.2	-	-	-	0.2	1.1	0.2
as % of total sales	0%	0%	1%	0%	0%	0%	0%	0%	1%	0%
Total	147.0	159.5	588.4	136.7	155.4	186.5	195.9	674.5	192.0	201.1
SERVICE										
PCB	31.0	28.6	116.5	27.6	31.4	33.1	35.4	127.6	33.8	37.5
as % of total service	53%	52%	54%	55%	57%	54%	60%	56%	58%	57%
FPD	10.4	11.3	40.8	10.4	11.0	11.5	11.4	44.3	11.5	12.4
as % of total service	18%	20%	19%	20%	20%	19%	18%	20%	19%	19%
SDD	14.2	13.6	51.7	11.0	10.8	12.7	12.5	47.0	11.4	14.4
as % of total service	24%	24%	22%	21%	20%	22%	20%	20%	19%	22%
Character Recognition	1.6	1.6	6.3	1.5	1.6	1.5	1.5	6.0	1.5	1.5
as % of total service	3%	3%	3%	3%	3%	3%	2%	3%	3%	2%
Solar	0.9	0.4	2.7	0.4	0.5	0.4	0.2	1.5	0.4	0.6
as % of total service	2%	1%	1%	1%	1%	1%	0%	1%	1%	1%
Total	58.0	55.6	218.0	50.9	55.3	59.2	61.0	226.4	58.6	66.4
TOTAL REVENUES										
PCB	69.0	77.2	286.9	77.5	82.5	85.7	90.4	336.1	87.1	99.7
as % of total revenues	34%	36%	35%	42%	39%	35%	35%	37%	35%	38%
FPD	59.8	71.6	225.9	53.4	69.6	76.0	72.1	271.2	80.6	81.5
as % of total revenues	29%	33%	28%	28%	33%	31%	28%	30%	32%	30%
SDD	71.6	61.9	273.5	52.5	54.9	78.6	90.3	276.3	78.6	82.5
as % of total revenues	35%	29%	34%	28%	26%	32%	35%	31%	31%	31%
Character Recognition	3.5	3.8	14.3	3.7	3.2	5.0	3.9	15.7	2.8	3.0
as % of total revenues	2%	2%	2%	2%	2%	2%	2%	2%	1%	1%
Solar	1.1	0.4	5.9	0.5	0.5	0.4	0.2	1.7	1.5	0.8
as % of total revenues	1%	0%	1%	0%	0%	0%	0%	0%	1%	0%
Total	205.0	215.0	806.4	187.6	210.7	245.7	256.9	900.9	250.6	267.5

ORBOTECH LTD.
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018
SALES										
North America	29.5	13.8	70.8	18.3	9.4	17.3	16.3	61.3	18.5	17.3
as % of total sales	20%	9%	12%	13%	6%	10%	8%	9%	10%	9%
Europe	5.0	13.7	49.1	16.6	19.3	17.9	17.8	71.6	14.4	22.5
as % of total sales	3%	8%	9%	12%	12%	10%	9%	11%	7%	11%
PAC	83.6	93.7	348.2	68.7	98.1	106.3	130.5	403.6	103.5	116.4
as % of total sales	57%	59%	59%	51%	63%	57%	67%	60%	54%	58%
OAE	28.8	38.0	117.8	32.6	28.6	45.0	30.4	88.4	55.4	44.8
as % of total sales	20%	24%	20%	24%	18%	24%	16%	13%	29%	22%
Others	-	0.2	2.6	0.5	0.0	0.0	0.9	49.6	0.2	0.2
as % of total sales	0%	0%	0%	0%	0%	0%	0%	7%	0%	0%
Total	147.0	159.5	588.4	136.7	155.4	186.5	195.9	674.5	192.0	201.1
SERVICE										
North America	9.4	10.6	37.6	9.0	8.9	8.2	9.0	35.1	8.1	11.6
as % of total services	16%	19%	17%	19%	16%	14%	15%	16%	14%	18%
Europe	6.8	6.3	26.2	5.5	6.8	8.6	7.7	28.6	7.0	6.9
as % of total services	12%	11%	12%	11%	12%	15%	13%	13%	12%	10%
PAC	29.1	27.8	106.2	24.2	27.3	28.2	30.2	109.9	29.6	33.3
as % of total services	50%	50%	49%	48%	49%	48%	50%	49%	51%	51%
OAE	12.6	10.5	47.0	11.9	12.1	13.9	13.9	37.8	13.6	14.2
as % of total services	22%	19%	22%	22%	22%	23%	23%	17%	23%	21%
Others	0.2	0.3	1.0	0.3	0.2	0.2	0.2	14.9	0.3	0.3
as % of total services	0%	1%	0%	0%	0%	0%	0%	7%	0%	0%
Total	58.0	55.6	218.0	50.9	55.3	59.2	61.0	226.4	58.6	66.4
TOTAL REVENUES										
North America	38.9	24.5	108.5	27.3	18.3	25.5	25.3	96.4	26.6	28.9
as % of total revenues	19%	12%	13%	15%	9%	10%	10%	11%	11%	11%
Europe	11.8	20.0	75.3	22.1	26.1	26.5	25.5	100.2	21.4	29.4
as % of total revenues	6%	9%	10%	12%	12%	11%	10%	11%	8%	10%
PAC	112.7	121.5	454.5	92.9	125.4	134.5	160.7	513.5	133.1	149.7
as % of total revenues	55%	57%	56%	49%	60%	55%	63%	57%	53%	56%
OAE	41.4	48.5	164.5	44.5	40.7	58.9	44.3	188.4	69.1	59.0
as % of total revenues	20%	23%	20%	24%	19%	24%	17%	21%	28%	22%
Others	0.2	0.5	3.6	0.8	0.2	0.2	1.1	2.3	0.5	0.5
as % of total revenues	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	205.0	215.0	806.4	187.6	210.7	245.7	256.9	900.9	250.6	267.5