

REVIEW

July - September 2016



ORBOTECH LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

U. S. dollars in thousands
(Unaudited)

	<u>September 30</u> <u>2016</u>	<u>December 31</u> <u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 197,320	\$ 162,102
Restricted cash	9,445	13,617
Marketable securities		409
Short-term bank deposits	3,836	9,550
Accounts receivable:		
Trade	319,507	284,192
Other	43,176	55,906
Inventories	137,821	133,250
T o t a l current assets	<u>711,105</u>	<u>659,026</u>
INVESTMENTS AND NON-CURRENT ASSETS:		
Marketable securities	7,187	5,637
Funds in respect of employee rights upon retirement	8,484	8,130
Deferred income taxes	20,494	20,147
Equity method investee and other receivables	9,547	10,144
	<u>45,712</u>	<u>44,058</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>59,560</u>	<u>58,982</u>
OTHER INTANGIBLE ASSETS, net	<u>88,885</u>	<u>109,635</u>
GOODWILL	<u>170,177</u>	<u>170,177</u>
T o t a l assets	<u>\$ 1,075,439</u>	<u>\$ 1,041,878</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$ 20,000	\$ 13,937
Accounts payable and accruals:		
Trade	62,303	65,037
Other	106,463	94,930
Deferred income	27,492	29,282
T o t a l current liabilities	<u>216,258</u>	<u>203,186</u>
LONG-TERM LIABILITIES:		
Long-term loan, net	88,156	218,372
Liability for employee rights upon retirement	23,614	21,535
Deferred income taxes	14,557	16,984
Other tax liabilities	8,800	14,045
T o t a l long-term liabilities	<u>135,127</u>	<u>270,936</u>
T o t a l liabilities	<u>351,385</u>	<u>474,122</u>
EQUITY:		
Share capital	2,369	2,209
Additional paid-in capital	415,833	306,612
Retained earnings	414,528	360,721
Accumulated other comprehensive loss	(8,103)	(1,506)
	<u>824,627</u>	<u>668,036</u>
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l Orbotech Ltd. shareholders' equity	<u>725,088</u>	<u>568,497</u>
Non-controlling interest	(1,034)	(741)
T o t a l equity	<u>724,054</u>	<u>567,756</u>
T o t a l liabilities and equity	<u>\$ 1,075,439</u>	<u>\$ 1,041,878</u>

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	9 months ended		3 months ended	
	September 30		September 30	
	2016	2015	2016	2015
Revenues	\$591,360	\$564,282	\$204,953	\$190,503
Cost of revenues	319,634	309,096	108,739	104,158
Gross profit	271,726	255,186	96,214	86,345
Operating expenses:				
Research and development, net	80,049	76,258	27,345	25,439
Selling, general and administrative	92,357	89,121	31,068	30,094
Equity in earnings of Frontline	(2,311)	(3,976)	(634)	(1,754)
Amortization of intangible assets	20,750	23,547	7,615	7,519
Gain from the sale of the Thermal product business		(628)		
Total operating expenses	190,845	184,322	65,394	61,298
Operating income	80,881	70,864	30,820	25,047
Financial expenses - net	15,318	18,406	1,171	6,138
Income before taxes on income	65,563	52,458	29,649	18,909
Taxes on income	11,599	11,137	4,885	2,769
Share in losses of equity method investee	450	415	150	200
Net income	53,514	40,906	24,614	15,940
Net gain (loss) attributable to the non-controlling interests	(293)	182	(99)	21
Net income attributable to Orbotech Ltd.	\$53,807	\$40,724	\$24,713	\$15,919
Basic earnings per share	\$1.20	\$0.96	\$0.52	\$0.37
Diluted earnings per share	\$1.17	\$0.94	\$0.51	\$0.37
Weighted average number of shares (in thousands) used in computation of:				
Basic earnings per share	44,867	42,266	47,397	42,557
Diluted earnings per share	45,813	43,237	48,385	43,491

ORBOTECH LTD.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS

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

	9 months ended September 30		3 months ended September 30	
	2016	2015	2016	2015
Reported operating income on GAAP basis	\$80,881	\$70,864	\$30,820	\$25,047
Equity-based compensation expenses	4,319	2,597	1,361	848
Amortization of intangible assets	20,750	23,547	7,615	7,519
Gain from the sale of the Thermal product business		(628)		
Non-GAAP operating income	<u>\$105,950</u>	<u>\$96,380</u>	<u>\$39,796</u>	<u>\$33,414</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$53,807	\$40,724	\$24,713	\$15,919
Equity-based compensation expenses	4,319	2,597	1,361	848
Amortization of intangible assets	20,750	23,547	7,615	7,519
Gain from the sale of the Thermal product business		(628)		
Tax adjustments re non-GAAP adjustments	(2,410)	729	(887)	(782)
Share in losses of equity method investee	450	415	150	200
Charges associated with the retirement of the 2014 Credit Agreement	6,228			
Non-GAAP net income	<u>\$83,144</u>	<u>\$67,384</u>	<u>\$32,952</u>	<u>\$23,704</u>
GAAP earnings per diluted share	<u>\$1.17</u>	<u>\$0.94</u>	<u>\$0.51</u>	<u>\$0.37</u>
Non-GAAP earnings per diluted share	<u>\$1.81</u>	<u>\$1.56</u>	<u>\$0.68</u>	<u>\$0.55</u>
Shares used in earnings per diluted share calculation-in thousands	45,813	43,237	48,385	43,491

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA

U.S. dollars in thousands
(Unaudited)

	9 months ended September 30		3 months ended September 30	
	2016	2015	2016	2015
Net income attributable to Orbotech Ltd. on GAAP basis	\$53,807	\$40,724	\$24,713	\$15,919
Minority interest and equity losses	157	597	51	221
Taxes on income	11,599	11,137	4,885	2,769
Financial expenses	15,318	18,406	1,171	6,138
Depreciation and amortization	32,997	34,739	11,599	11,221
Gain from the sale of the Thermal product business		(628)		
Equity-based compensation expenses	4,319	2,597	1,361	848
ADJUSTED EBITDA	\$118,197	\$107,572	\$43,780	\$37,116

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

	9 months ended		3 months ended	
	September 30	September 30	September 30	September 30
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 53,514	\$ 40,906	\$ 24,614	\$ 15,940
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	32,997	34,739	11,599	11,221
Compensation relating to equity awards granted to employees and others - net	4,319	2,597	1,361	848
Increase in liability for employee rights upon retirement, net	1,531	155	652	362
Long-term loans discount amortization	1,866	572		175
Deferred financing costs amortization	5,585	1,531	125	493
Deferred income taxes	(2,774)	448	(1,096)	(355)
Amortization of premium and accretion of discount on marketable Securities, net	112	131	18	32
Equity in earnings of Frontline, net of dividend received	1,105	190	266	(412)
Other	631	704	243	90
Gain from the sale of the Thermal product business		(628)		
Decrease (increase) in accounts receivable:				
Trade	(35,315)	(31,787)	(28,091)	(37,345)
Other	608	(4,099)	4,311	(4,668)
Increase (decrease) in accounts payable and accruals:				
Trade	(2,734)	(5,829)	938	7,058
Deferred income	(1,790)	(8,289)	(246)	(730)
Other	4,202	6,080	10,598	8,073
Decrease (increase) in inventories	(4,571)	17,310	(3,456)	7,036
Net cash provided by operating activities	59,286	54,731	21,836	7,818
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(17,387)	(11,356)	(5,272)	(4,237)
Consideration received for the sale of the Thermal product business	12,000	10,000		
Withdraw of (investment in) bank deposits	5,714	5,966	(774)	4,501
Purchase of marketable securities	(4,836)	(154)	(2,592)	
Redemption of marketable securities	3,617		1,280	
Investment in equity method investee	(1,000)	(1,500)		
Proceeds from disposal of property, plant and equipment				
Decrease (increase) in restricted cash	4,172	(75)	3,371	2,904
Increase in funds in respect of employee rights upon retirement	194	445	68	52
Net cash provided by (used in) investing activities	2,474	3,326	(3,919)	3,220
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term loan	(239,635)	(28,932)		(8,182)
Bank loan, net of \$2 millions financing costs	108,031			
Issuance of shares, net	99,962			
Employee stock options exercised	5,100	7,585	1,636	1,424
Net cash provided by (used in) financing activities	(26,542)	(21,347)	1,636	(6,758)
Net increase in cash and cash equivalents	35,218	36,710	19,553	4,280
Cash and cash equivalents at beginning of period	162,102	136,367	177,767	168,797
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 197,320	\$ 173,077	\$ 197,320	\$ 173,077

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016
BALANCE SHEET AND CASH FLOW												
Assets	631.7	1,020.6	1,034.0		1,037.9	1,020.7	1,043.2	1,041.9		1,031.3	1,039.5	1,075.4
Debt	-	297.1	296.5		295.9	276.1	268.1	232.3		207.8	108.0	108.2
Equity	475.8	483.3	496.9		511.6	532.5	549.2	567.8		587.2	696.1	724.1
Net working capital	427.8	402.5	402.5		447.6	463.7	487.0	455.8		452.3	460.6	494.8
Capital expenditures	2.4	2.8	3.8	12.5	3.2	3.9	4.2	8.0	19.3	(5.8)	(6.4)	(5.3)
Depreciation	2.4	2.5	3.8	11.1	3.7	3.7	3.7	3.9	15.1	4.0	4.3	4.0
Current ratio	4.7	3.2	3.3		3.5	3.8	3.8	3.2		3.2	3.2	3.3
Equity / Assets	75.3%	47.4%	48.1%		49.3%	52.2%	52.6%	54.5%		56.9%	67.0%	67.3%
Book value / share (US\$)	11.5	11.6	11.9		12.2	12.5	12.9	13.2		13.6	14.7	15.2
Days sales outstanding	154	144	160		138	119	134	138		139	139	150
INCOME STATEMENT												
	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016
Revenues	113.2	167.3	197.5	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0
GAAP Operating income	10.0	20.2	16.6	55.0	20.3	25.5	25.0	23.8	94.7	23.4	26.7	30.8
GAAP Net income	8.6	7.3	13.0	35.2	11.9	13.0	15.9	16.0	56.8	15.7	13.3	24.7
Non GAAP Operating income	11.8	29.4	26.3	77.4	30.1	32.9	33.4	31.7	128.1	31.3	34.8	39.8
Non GAAP Net income	10.5	22.6	21.9	63.2	20.8	22.9	23.7	23.4	90.7	23.2	27.0	33.0
Adjusted EBITDA \$	14.0	32.0	30.1	88.3	33.8	36.6	37.1	35.6	143.2	35.3	39.1	43.8
Adjusted EBITDA margin	12.4%	19.1%	15.2%	15.2%	18.3%	19.4%	19.5%	18.9%	19.0%	18.5%	20.0%	21.4%
GAAP Earnings per share diluted	0.20	0.17	0.31	0.83	0.28	0.30	0.37	0.37	1.31	0.36	0.30	0.51
Non GAAP Earnings per share diluted	0.25	0.53	0.51	1.48	0.48	0.53	0.55	0.54	2.09	0.53	0.60	0.68
Average shares outstanding GAAP (K)	42,830.0	42,735.0	42,626.0	42,757	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385
Average shares outstanding Non GAAP (K)	42,830.0	42,735.0	42,626.0	42,757	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385
MARGIN ANALYSIS												
	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016
GROSS MARGIN-\$M	48.7	74.0	84.9	253.2	83.1	85.8	86.3	84.6	339.8	85.6	89.9	96.2
Gross margin (excluding X-items)	43.0%	44.2%	43.0%	43.5%	45.0%	45.4%	45.3%	45.0%	45.2%	45.0%	45.9%	46.9%
Operating margin (excluding X-items)	8.9%	12.1%	8.4%	9.4%	11.0%	13.5%	13.1%	12.7%	12.6%	16.5%	17.8%	19.4%
Net margin (excluding X-items)	7.6%	4.4%	6.6%	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	12.2%	17.0%	16.1%
Net margin (reported)	7.6%	4.4%	6.6%	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	8.2%	6.8%	16.1%
R & D / revenues (excluding X-items)	16.9%	13.8%	14.2%	15.2%	13.9%	13.2%	14.7%	14.7%	18.5%	14.0%	13.3%	13.3%
S,G&A/revenues (includ. goodwill amort.)	18.2%	14.1%	16.4%	16.5%	15.7%	15.9%	18.6%	18.6%	20.6%	15.8%	16.0%	15.2%
Effective tax rate (excluding X-items)	15.7%	22.0%	-14.6%	8.7%	12.7%	33.5%	16.8%	16.8%	24.9%	15.2%	16.5%	16.5%
No. of employees	1,713	2,216	2,238		2,252	2,263	2,241	2,256		2,329	2,365	2,406

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



	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016
SALES													
PCB	41.5	48.5	41.4	39.6	171.0	31.3	37.0	34.5	38.3	141.1	39.9	43.8	38.0
as % of total sales	61%	67%	35%	28%	42%	24%	27%	25%	29%	26%	29%	30%	26%
FPD	23.1	18.4	26.7	57.5	125.7	47.3	44.4	38.6	35.9	166.2	35.6	39.8	49.4
as % of total sales	34%	24%	22%	40%	31%	36%	33%	28%	27%	31%	25%	29%	34%
SDD			45.6	43.0	88.6	46.6	45.7	58.4	57.5	208.2	62.5	53.6	57.4
as % of total sales			39%	30%	22%	35%	34%	43%	43%	39%	44%	38%	39%
Character Recognition	1.4	1.2	1.6	3.3	7.5	1.7	2.1	1.4	2.7	7.9	1.6	2.2	1.9
as % of total sales	2%	2%	1%	2%	1%	2%	1%	1%	2%	1%	1%	2%	1%
Solar	1.8	5.2	4.2	-	11.2	4.4	5.4	4.1	-	13.9	1.3	1.6	0.2
as % of total sales	3%	7%	3%	0%	3%	4%	4%	3%	0%	3%	1%	1%	0%
Total	67.8	73.3	119.5	143.4	404.0	131.3	134.6	137.0	134.4	537.3	140.9	141.0	147.0
SERVICE													
PCB	27.1	28.7	30.3	29.1	115.2	26.7	28.4	29.7	29.5	114.3	28.1	28.8	31.0
as % of total service	73%	71%	64%	54%	66%	49%	52%	56%	55%	53%	57%	52%	53%
FPD	8.4	9.7	8.2	8.9	35.2	10.1	9.2	9.9	9.5	38.7	9.0	10.1	10.4
as % of total service	23%	25%	17%	16%	19%	17%	17%	19%	18%	18%	18%	18%	18%
SDD			7.7	14.3	22.0	14.8	14.9	11.8	12.6	54.1	10.0	13.9	14.2
as % of total service			16%	26%	12%	27%	22%	23%	25%	20%	20%	26%	24%
Character Recognition	1.5	1.4	1.4	1.4	5.7	1.6	1.6	1.6	1.6	6.4	1.6	1.6	1.6
as % of total service	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Solar	-	0.1	0.2	0.4	0.7	0.3	0.3	0.5	0.5	1.6	0.8	0.6	0.9
as % of total service	0%	0%	0%	1%	0%	1%	1%	1%	1%	1%	2%	1%	2%
Total	37.0	39.9	47.8	54.1	178.8	53.5	54.4	53.5	53.8	215.2	49.5	55.0	58.0
TOTAL REVENUES													
PCB	68.6	77.2	71.7	68.7	286.2	58.0	65.4	64.2	67.9	255.5	68.0	72.6	69.0
as % of total revenues	65%	69%	43%	34%	49%	31%	35%	34%	36%	34%	36%	36%	34%
FPD	31.5	28.1	34.9	66.4	160.9	57.4	53.6	48.5	45.5	205.0	44.7	49.9	59.8
as % of total revenues	30%	24%	21%	34%	28%	31%	28%	25%	24%	27%	24%	26%	29%
SDD			53.3	57.3	110.6	61.4	60.6	70.2	70.1	262.3	72.5	67.5	71.6
as % of total revenues			31%	29%	19%	33%	32%	37%	37%	35%	37%	35%	35%
Character Recognition	2.9	2.6	3.0	4.7	13.2	3.3	3.7	3.0	4.3	14.3	3.2	3.8	3.5
as % of total revenues	3%	2%	2%	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Solar	1.8	5.3	4.4	0.4	11.9	4.7	5.7	4.6	0.5	15.5	2.1	2.2	1.1
as % of total revenues	2%	5%	3%	0%	2%	3%	3%	2%	0%	2%	1%	1%	1%
Total	104.8	113.2	167.3	197.5	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0

ORBOTECH LTD.
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016
SALES													
North America	4.5	3.8	16.3	37.0	61.6	23.3	13.2	12.3	12.3	61.1	14.8	12.6	29.5
as % of total sales	7%	5%	14%	26%	15%	18%	10%	9%	9%	11%	10%	9%	20%
Europe	1.9	2.7	21.3	4.9	30.8	18.7	21.2	19.6	18.5	78.0	6.2	24.2	5.0
as % of total sales	3%	4%	18%	3%	8%	14%	16%	14%	14%	15%	4%	17%	3%
PAC	32.9	50.0	53.5	78.6	215.0	61.2	77.3	80.5	76.8	295.8	91.9	79.0	83.6
as % of total sales	49%	68%	45%	55%	53%	47%	57%	59%	57%	55%	66%	56%	57%
OAE	28.4	16.8	27.9	22.5	95.6	27.8	22.9	24.0	26.8	101.5	28.0	22.9	28.8
as % of total sales	42%	23%	16%	16%	24%	21%	17%	18%	20%	19%	20%	16%	20%
Others	0.1	-	0.5	0.4	1.0	0.3	-	0.6	0.1	1.0	-	2.3	-
as % of total sales	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%
Total	67.8	73.3	119.5	143.4	404.0	131.3	134.6	137.0	134.4	537.3	140.9	141.0	147.0
SERVICE													
North America	4.9	5.1	5.3	11.0	26.3	9.4	9.0	8.7	10.2	37.3	8.9	8.8	9.4
as % of total services	13%	13%	11%	20%	15%	18%	16%	16%	19%	17%	18%	16%	16%
Europe	2.6	2.7	10.4	7.4	23.1	8.3	8.8	6.7	6.3	30.1	6.2	6.9	6.8
as % of total services	7%	7%	21%	14%	13%	15%	13%	12%	13%	14%	13%	13%	12%
PAC	19.9	21.1	21.7	23.6	86.3	22.6	23.9	25.9	25.2	97.6	22.2	27.2	29.1
as % of total services	55%	53%	46%	44%	48%	42%	44%	48%	47%	45%	45%	50%	50%
OAE	9.5	10.9	10.2	12.0	42.6	12.9	12.6	12.1	11.9	49.5	12.0	11.8	12.6
as % of total services	25%	27%	22%	22%	24%	24%	0.2	0.2	0.2	23%	24%	21%	22%
Others	0.1	0.1	0.2	0.1	0.5	0.3	0.1	0.1	0.2	0.7	0.2	0.3	0.2
as % of total services	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%
Total	37.0	39.9	47.8	54.1	178.8	53.5	54.4	53.5	53.8	215.2	49.5	55.0	58.0
TOTAL REVENUES													
North America	9.4	8.9	21.6	48.0	87.9	32.7	22.2	21.0	22.4	98.3	23.7	21.4	38.9
as % of total revenues	9%	8%	13%	24%	15%	18%	12%	11%	12%	13%	12%	11%	19%
Europe	4.5	5.4	31.7	12.3	53.9	27.0	30.0	26.3	24.8	108.1	12.4	31.1	11.8
as % of total revenues	4%	5%	19%	6%	9%	15%	16%	14%	13%	14%	7%	16%	6%
PAC	52.8	71.1	75.2	102.2	301.3	83.8	101.2	106.4	102.0	393.4	114.1	106.2	112.7
as % of total revenues	50%	63%	45%	52%	52%	45%	54%	56%	54%	52%	60%	54%	55%
OAE	37.9	27.7	38.1	34.5	138.2	40.7	35.5	36.1	38.7	151.0	40.0	34.7	41.4
as % of total revenues	36%	24%	23%	18%	25%	19%	19%	21%	21%	20%	21%	18%	20%
Others	0.2	0.1	0.7	0.5	1.5	0.6	0.1	0.7	0.3	1.7	0.2	2.6	0.2
as % of total revenues	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%
Total	104.8	113.2	167.3	197.5	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0