

REVIEW

April - June 2016



ORBOTECH LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

U. S. dollars in thousands

(Unaudited)

	<u>June 30</u> <u>2016</u>	<u>December 31</u> <u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 177,767	\$ 162,102
Restricted cash	12,816	13,617
Marketable securities		409
Short-term bank deposits	3,062	9,550
Accounts receivable:		
Trade	291,416	284,192
Other	47,555	55,906
Inventories	134,365	133,250
T o t a l c u r r e n t a s s e t s	<u>666,981</u>	<u>659,026</u>
INVESTMENTS AND NON-CURRENT ASSETS:		
Marketable securities	5,934	5,637
Funds in respect of employee rights upon retirement	8,425	8,130
Deferred income taxes	20,306	20,147
Equity method investee and other receivables	10,051	10,144
	<u>44,716</u>	<u>44,058</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>61,155</u>	<u>58,982</u>
OTHER INTANGIBLE ASSETS, net	<u>96,500</u>	<u>109,635</u>
GOODWILL	<u>170,177</u>	<u>170,177</u>
T o t a l a s s e t s	<u>\$ 1,039,529</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	61,365	65,037
Other	97,283	94,930
Deferred income	27,738	29,282
T o t a l c u r r e n t l i a b i l i t i e s	<u>206,386</u>	<u>203,186</u>
LONG-TERM LIABILITIES:		
Long-term loan, net	88,031	218,372
Liability for employee rights upon retirement	22,835	21,535
Deferred income taxes	15,465	16,984
Other tax liabilities	10,753	14,045
T o t a l l o n g - t e r m l i a b i l i t i e s	<u>137,084</u>	<u>270,936</u>
T o t a l l i a b i l i t i e s	<u>343,470</u>	<u>474,122</u>
EQUITY:		
Share capital	2,363	2,209
Additional paid-in capital	412,842	306,612
Retained earnings	389,815	360,721
Accumulated other comprehensive loss	(8,487)	(1,506)
	<u>796,533</u>	<u>668,036</u>
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l O r b o t e c h L t d . s h a r e h o l d e r s ' e q u i t y	<u>696,994</u>	<u>568,497</u>
Non-controlling interest	(935)	(741)
T o t a l e q u i t y	<u>696,059</u>	<u>567,756</u>
T o t a l l i a b i l i t i e s a n d e q u i t y	<u>\$ 1,039,529</u>	<u>\$ 1,041,878</u>

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

	6 months ended June 30		3 months ended June 30	
	2016	2015	2016	2015
Revenues	\$386,407	\$373,779	\$195,980	\$188,995
Cost of revenues	210,895	204,938	106,071	103,231
Gross profit	175,512	168,841	89,909	85,764
Operating expenses:				
Research and development, net	52,704	50,819	26,135	25,040
Selling, general and administrative	61,289	59,027	31,266	30,055
Equity in earnings of Frontline	(1,677)	(2,222)	(1,041)	(1,351)
Amortization of intangible assets	13,135	16,028	6,840	7,110
Gain from the sale of the Thermal activity		(628)		(628)
Total operating expenses	125,451	123,024	63,200	60,226
Operating income	50,061	45,817	26,709	25,538
Financial expenses - net	14,147	12,268	9,483	5,796
Income before taxes on income	35,914	33,549	17,226	19,742
Taxes on income	6,714	8,368	3,869	6,616
Share in losses of equity method investee	300	215	150	115
Net income	28,900	24,966	13,207	13,011
Net gain (loss) attributable to the non-controlling interests	(194)	161	(133)	8
Net income attributable to Orbotech Ltd.	\$29,094	\$24,805	\$13,340	\$13,003
Basic earnings per share	\$0.67	\$0.59	\$0.30	\$0.31
Diluted earnings per share	\$0.65	\$0.58	\$0.30	\$0.30
Weighted average number of shares (in thousands) used in computation of:				
Basic earnings per share	43,603	42,120	44,019	42,279
Diluted earnings per share	44,527	43,110	44,992	43,360

ORBOTECH LTD.

RECONCILIATION OF GAAP TO NON-GAAP RESULTS

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

(Unaudited)

	6 months ended		3 months ended	
	June 30		June 30	
	2016	2015	2016	2015
Reported operating income on GAAP basis	\$50,061	\$45,817	\$26,709	\$25,538
Equity-based compensation expenses	2,958	1,749	1,278	860
Amortization of intangible assets	13,135	16,028	6,840	7,110
Gain from the sale of the Thermal activity		(628)		(628)
Non-GAAP operating income	<u>\$66,154</u>	<u>\$62,966</u>	<u>\$34,827</u>	<u>\$32,880</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$29,094	\$24,805	\$13,340	\$13,003
Equity- based compensation expenses	2,958	1,749	1,278	860
Amortization of intangible assets	13,135	16,028	6,840	7,110
Gain from the sale of the Thermal activity		(628)		(628)
Tax adjustments re non-GAAP adjustments	(1,523)	1,511	(794)	2,460
Share in losses of associated company	300	215	150	115
Charges associated with the retirement of the 2014 Credit Agreement	6,228		6,228	
Non-GAAP net income	<u>\$50,192</u>	<u>\$43,680</u>	<u>\$27,042</u>	<u>\$22,920</u>
GAAP earnings per diluted share	<u>\$0.65</u>	<u>\$0.58</u>	<u>\$0.30</u>	<u>\$0.30</u>
Non-GAAP earnings per diluted share	<u>\$1.13</u>	<u>\$1.01</u>	<u>\$0.60</u>	<u>\$0.53</u>
Shares used in earnings per diluted share calculation-in thousands	44,527	43,110	44,992	43,360

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA

U.S. dollars in thousands
(Unaudited)

	6 months ended		3 months ended	
	June 30		June 30	
	2016	2015	2016	2015
Net income attributable to Orbotech Ltd. on GAAP basis	\$29,094	\$24,805	\$13,340	\$13,003
Minority interest and equity losses	106	376	17	123
Tax expenses	6,714	8,368	3,869	6,616
Financial expenses	14,147	12,268	9,483	5,796
Depreciation and amortization	21,398	23,518	11,147	10,858
Gain from the sale of the Thermal activity		(628)		(628)
Equity-based compensation expenses	2,958	1,749	1,278	860
ADJUSTED EBITDA	\$74,417	\$70,455	\$39,134	\$36,628

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

	6 months ended		3 months ended	
	June 30		June 30	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 28,900	\$ 24,966	\$ 13,207	\$ 13,011
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	21,398	23,518	11,147	10,858
Compensation relating to equity awards granted to employees and others - net	2,958	1,749	1,278	860
Decrease (increase) in liability for employee rights upon retirement, net	879	(207)	632	(383)
Long- term loans discount amortization	1,866	397	1,566	277
Deferred financing costs amortization	5,460	1,038	4,662	726
Deferred income taxes	(1,678)	803	(464)	(1,531)
Amortization of premium and accretion of discount on marketable Securities, net	94	99	28	49
Equity in earnings of Frontline, net of dividend received	839	602	650	(34)
Other	388	614	238	115
Gain from the sale of the Thermal activity		(628)		(628)
Decrease (increase) in accounts receivable:				
Trade	(7,224)	5,558	(2,899)	7,226
Other	(3,703)	569	(986)	(2,524)
Increase (decrease) in accounts payable and accruals:				
Trade	(3,672)	(12,887)	(5,310)	(15,198)
Deferred income	(1,544)	(7,559)	(2,394)	(6,713)
Other	(6,396)	(1,993)	(652)	7,915
Decrease (increase) in inventories	(1,115)	10,274	1,015	11,246
Net cash provided by operating activities	37,450	46,913	21,718	25,272
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(12,115)	(7,119)	(6,358)	(3,937)
Consideration received for the sale of the Thermal activity	12,000	10,000	12,000	10,000
Withdraw of (investment in) bank deposits	6,488	1,465	(19)	(1,511)
Purchase of marketable securities	(2,244)	(154)	(976)	(154)
Redemption of marketable securities	2,337		1,180	
Investment in equity method investee	(1,000)	(1,500)		
Decrease (increase) in restricted cash	801	(2,979)	(1,442)	265
Increase in funds in respect of employee rights upon retirement	126	393	66	393
Net cash provided by investing activities	6,393	106	4,451	5,056
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term loan	(239,635)	(20,750)	(214,028)	(20,000)
Bank loan, net of \$2 millions financing costs	108,031		108,031	
Issuance of shares, net	99,962		99,962	
Employee stock options exercised	3,464	6,161	1,389	4,009
Net cash used in financing activities	(28,178)	(14,589)	(4,646)	(15,991)
Net increase in cash and cash equivalents	15,665	32,430	21,523	14,337
Cash and cash equivalents at beginning of period	162,102	136,367	156,244	154,460
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 177,767	\$ 168,797	\$ 177,767	\$ 168,797

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ 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
BALANCE SHEET AND CASH FLOW												
Assets	627.8	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
Debt	-	-	297.1	296.5		295.9	276.1	268.1	232.3		207.8	108.0
Equity	473.3	475.8	483.3	496.9		511.6	532.5	549.2	567.8		587.2	696.1
Net working capital	416.6	427.8	402.5	402.5		447.6	463.7	487.0	455.8		452.3	460.6
Capital expenditures	3.6	2.4	2.8	3.8	12.5	3.2	3.9	4.2	8.0	19.3	(5.8)	(6.4)
Depreciation	2.5	2.4	2.5	3.8	11.1	3.7	3.7	3.7	3.9	15.1	4.0	4.3
Current ratio	4.7	4.7	3.2	3.3		3.5	3.8	3.8	3.2		3.2	3.2
Equity / Assets	75.4%	75.3%	47.4%	48.1%		49.3%	52.2%	52.6%	54.5%		56.9%	67.0%
Book value / share (US\$)	11.3	11.5	11.6	11.9		12.2	12.5	12.9	13.2		13.6	14.7
Days sales outstanding	154	154	144	160		138	119	134	138		139	139
INCOME STATEMENT												
	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016
Revenues	104.8	113.2	167.3	197.5	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0
GAAP Operating income	8.1	10.0	20.2	16.6	55.0	20.3	25.5	25.0	23.8	94.7	23.4	26.7
GAAP Net income	6.3	8.6	7.3	13.0	35.2	11.9	13.0	15.9	16.0	56.8	15.7	13.3
Non GAAP Operating income	9.9	11.8	29.4	26.3	77.4	30.1	32.9	33.4	31.7	128.1	31.3	34.8
Non GAAP Net income	8.2	10.5	22.6	21.9	63.2	20.8	22.9	23.7	23.4	90.7	23.2	27.0
Adjusted EBITDA \$	12.3	14.0	32.0	30.1	88.3	33.8	36.6	37.1	35.6	143.2	35.3	39.1
Adjusted EBITDA margin	11.7%	12.4%	19.1%	15.2%	15.2%	18.3%	19.4%	19.5%	18.9%	19.0%	18.5%	20.0%
GAAP Earnings per share diluted	0.15	0.20	0.17	0.31	0.83	0.28	0.30	0.37	0.37	1.31	0.36	0.30
Non GAAP Earnings per share diluted	0.19	0.25	0.53	0.51	1.48	0.48	0.53	0.55	0.54	2.09	0.53	0.60
Average shares outstanding GAAP (K)	42,835.0	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
Average shares outstanding Non GAAP (K)	42,835.0	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
MARGIN ANALYSIS												
	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016
GROSS MARGIN-\$M	45.7	48.7	74.0	84.9	253.2	83.1	85.8	86.3	84.6	339.8	85.6	89.9
Gross margin (excluding X-items)	43.6%	43.0%	44.2%	43.0%	43.5%	45.0%	45.4%	45.3%	45.0%	45.2%	45.0%	45.9%
Operating margin (excluding X-items)	7.7%	8.9%	12.1%	8.4%	9.4%	11.0%	13.5%	13.1%	12.7%	12.6%	16.5%	17.8%
Net margin (excluding X-items)	6.0%	7.6%	4.4%	6.6%	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	12.2%	17.0%
Net margin (reported)	6.0%	7.6%	4.4%	6.6%	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	8.2%	6.8%
R & D / revenues (excluding X-items)	17.6%	16.9%	13.8%	14.2%	15.2%	13.9%	13.2%	14.7%	14.7%	18.5%	14.0%	13.3%
S,G&A/revenues (incl. goodwill amort.)	18.7%	18.2%	14.1%	16.4%	16.5%	15.7%	15.9%	18.6%	18.6%	20.6%	15.8%	16.0%
Effective tax rate (excluding X-items)	17.4%	15.7%	22.0%	-14.6%	8.7%	12.7%	33.5%	16.8%	16.8%	24.9%	15.2%	16.5%
No. of employees	1,693	1,713	2,216	2,238		2,252	2,263	2,241	2,256		2,329	2,365

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
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
as % of total sales	61%	67%	35%	28%	42%	24%	27%	25%	29%	26%	29%	30%
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
as % of total sales	34%	24%	22%	40%	31%	36%	33%	28%	27%	31%	25%	29%
SDD			45.6	43.0	88.6	46.6	45.7	58.4	57.5	208.2	62.5	53.6
as % of total sales			39%	30%	22%	35%	34%	43%	43%	39%	44%	38%
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
as % of total sales	2%	2%	1%	2%	1%	2%	1%	2%	2%	1%	1%	2%
Solar	1.8	5.2	4.2	-	11.2	4.4	5.4	4.1	-	13.9	1.3	1.6
as % of total sales	3%	7%	3%	0%	3%	4%	4%	3%	0%	3%	1%	1%
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
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
as % of total service	73%	71%	64%	54%	66%	49%	52%	56%	55%	53%	57%	52%
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
as % of total service	23%	25%	17%	16%	19%	17%	19%	17%	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
as % of total service			16%	26%	12%	28%	27%	22%	23%	25%	20%	26%
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
as % of total service	4%	4%	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
as % of total service	0%	0%	0%	1%	0%	1%	1%	1%	1%	1%	2%	1%
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
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
as % of total revenues	65%	69%	43%	34%	49%	31%	35%	34%	36%	34%	36%	36%
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
as % of total revenues	30%	24%	21%	34%	28%	31%	28%	25%	24%	27%	24%	26%
SDD			53.3	57.3	110.6	61.4	60.6	70.2	70.1	262.3	72.5	67.5
as % of total revenues			31%	29%	19%	33%	32%	37%	37%	35%	37%	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
as % of total revenues	3%	2%	2%	3%	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
as % of total revenues	2%	5%	3%	0%	2%	3%	3%	2%	0%	2%	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

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
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
as % of total sales	7%	5%	14%	26%	15%	18%	10%	9%	9%	11%	10%	9%
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
as % of total sales	3%	4%	18%	3%	8%	14%	16%	14%	14%	15%	4%	17%
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
as % of total sales	49%	68%	45%	55%	53%	47%	57%	59%	57%	55%	66%	56%
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
as % of total sales	42%	23%	23%	16%	24%	21%	17%	18%	20%	19%	20%	16%
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%
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
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
as % of total services	13%	13%	11%	20%	15%	18%	16%	16%	19%	17%	18%	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
as % of total services	7%	7%	21%	14%	13%	15%	16%	13%	12%	14%	13%	13%
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
as % of total services	55%	53%	46%	44%	48%	42%	44%	48%	47%	45%	45%	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
as % of total services	25%	27%	22%	22%	24%	24%	24%	0.2	0.2	23%	24%	21%
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
as % of total services	0%	0%	0%	0%	0%	1%	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
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
as % of total revenues	9%	8%	13%	24%	15%	18%	12%	11%	12%	13%	12%	11%
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
as % of total revenues	4%	5%	19%	6%	9%	15%	16%	14%	13%	14%	7%	16%
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
as % of total revenues	50%	63%	45%	52%	52%	45%	54%	56%	54%	52%	60%	54%
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
as % of total revenues	36%	24%	23%	18%	25%	22%	19%	19%	21%	20%	21%	18%
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
as % of total revenues	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	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