

REVIEW

January – December 2014



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

	December 31	
	<u>2014</u>	<u>2013</u>
A s s e t s		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash	\$146,367	\$161,155
Short-term bank deposits	10,000	38,650
Marketable securities		
Accounts receivable:		
Trade	248,071	198,203
Other	39,076	31,546
Deferred income taxes	8,213	8,094
Inventories	<u>157,030</u>	<u>93,938</u>
T o t a l current assets	<u>608,757</u>	<u>536,851</u>
<u>INVESTMENTS AND NON-CURRENT ASSETS:</u>		
Marketable securities	5,890	13,106
Funds in respect of employee rights upon retirement	9,755	11,024
Deferred income taxes	13,067	15,130
Equity method investee and other receivable	8,926	9,911
Deferred financing costs	<u>7,470</u>	<u></u>
	<u>45,108</u>	<u>49,171</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>55,580</u>	<u>27,715</u>
GOODWILL	<u>179,445</u>	<u>12,444</u>
OTHER INTANGIBLE ASSETS, net	<u>145,082</u>	<u>10,401</u>
T o t a l assets	<u><u>\$1,033,972</u></u>	<u><u>\$636,582</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$2,636	
Accounts payable and accruals:		
Trade	64,683	\$43,663
Other	81,747	55,482
Deferred income	<u>38,008</u>	<u>24,854</u>
T o t a l current liabilities	<u>187,074</u>	<u>123,999</u>
LONG-TERM LIABILITIES:		
Long-term loan	293,851	
Liability for employee rights upon retirement	22,763	25,845
Deferred income taxes	20,185	2,406
Other tax liabilities	<u>13,218</u>	<u>17,178</u>
T o t a l long-term liabilities	<u>350,017</u>	<u>45,429</u>
T o t a l liabilities	<u>537,091</u>	<u>169,428</u>
EQUITY:		
Share capital	2,163	2,124
Additional paid-in capital	293,056	281,159
Retained earnings	303,950	268,570
Accumulated other comprehensive income (loss)	<u>(1,980)</u>	<u>409</u>
	597,189	552,262
Less treasury shares, at cost	<u>(99,539)</u>	<u>(84,946)</u>
T o t a l Orbotech Ltd. shareholders' equity	<u>497,650</u>	<u>467,316</u>
Non-controlling interest	<u>(769)</u>	<u>(162)</u>
T o t a l equity	<u>496,881</u>	<u>467,154</u>
T o t a l liabilities and equity	<u><u>\$1,033,972</u></u>	<u><u>\$636,582</u></u>

ORBOTECH LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
U. S. dollars in thousands (except per share data)
(Unaudited)

	12 months ended		3 months ended	
	December 31		December 31	
	2014	2013	2014	2013
Revenues	\$582,746	\$439,995	\$197,491	\$122,235
Cost of revenues	329,553	248,455	112,614	67,948
Gross profit	<u>253,193</u>	<u>191,540</u>	<u>84,877</u>	<u>54,287</u>
Operating expenses:				
Research and development, net	88,651	69,573	28,045	18,601
Selling, general and administrative	96,169		32,426	22,172
Equity in earnings of Frontline	(5,769)	(5,553)	(1,028)	(1,584)
Amortization of intangible assets	19,235	4,041	8,805	1,011
Total operating expenses	<u>198,286</u>	<u>78,061</u>	<u>68,248</u>	<u>40,200</u>
Operating income	54,907	47,531	16,629	14,087
SPTS acquisition costs	6,761			
Financial expenses (income) - net	<u>9,046</u>	<u>1,191</u>	<u>5,232</u>	<u>139</u>
Income before taxes on income	39,100	46,340	11,397	13,948
Taxes on income (tax benefit)	3,419	6,927	(1,660)	1,493
Share in losses of equity method investee	<u>417</u>	<u>252</u>	<u>102</u>	<u>69</u>
Net income	35,264	39,161	12,955	12,386
Net income (loss) attributable to the non-controlling interests	(116)	(840)	(167)	(228)
Net income attributable to Orbotech Ltd.	<u>\$35,380</u>	<u>\$40,001</u>	<u>\$13,122</u>	<u>\$12,614</u>
Basic earnings per share	<u>\$0.85</u>	<u>\$0.94</u>	<u>\$0.31</u>	<u>\$0.30</u>
Diluted earnings per share	<u>\$0.83</u>	<u>\$0.92</u>	<u>\$0.31</u>	<u>\$0.30</u>
Weighted average number of shares (in thousands) used in computation of:				
Basic earnings per share	41,703	42,571	41,707	41,858
Diluted earnings per share	42,757	43,253	42,626	42,692

ORBOTECH LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

U. S. dollars in thousands

(Unaudited)

	12 months ended		3 months ended	
	December 31		December 31	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$35,264	\$39,161	\$12,955	\$12,386
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	30,333	13,261	12,616	3,546
Compensation relating to equity awards granted to employees and others - net	3,192	3,182	822	869
Increase (decrease) in liability for employee rights upon retirement, Net	(1,553)	624	(77)	64
Long-term loan discount amortization	237		119	
Deferred financing costs amortization	612		308	
Deferred income taxes	1,253	(1,558)	(961)	171
Amortization of premium and accretion of discount on marketable Securities, net	656	554	84	242
Equity in earnings of Frontline, net of dividend received	468	446	572	(285)
Other	1,242	268	693	(137)
Loss from sales of marketable securities	339			
Decrease (increase) in accounts receivable:				
Trade	(17,440)	(33,721)	(9,643)	(13,931)
Other	(2,075)	(2,954)	484	65
Increase (decrease) in accounts payable and accruals:				
Trade	2,140	11,377	(10,042)	6,436
Deferred income and other	10,672	15,511	13,884	3,532
Decrease (increase) in inventories	(13,984)	(190)	1,546	(1,001)
Net cash provided by operating activities	51,356	45,961	23,360	11,957
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(12,500)	(12,978)	(3,754)	(2,772)
Withdraw (placement) of bank deposits	28,650	(35,636)	4,000	4,363
Purchase of marketable securities	(15,152)	(9,936)	(66)	(7,760)
Redemption of marketable securities	26,586	6,037		4,377
SPTS net of cash acquired	(375,061)			
Investment in equity method investee	(250)	(2,250)		
Proceeds from disposal of property, plant and equipment	15	39		39
Increase in funds in respect of employee rights upon retirement	(260)	(262)	(193)	(76)
Net cash used in investing activities	(347,972)	(54,986)	(13)	(1,829)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Long term loan, net of \$8 millions	288,918			
Repayment of long-term bank loan	(750)	(64,000)	(750)	(8,000)
Short term bank loan			(6,000)	
Employee stock options exercised	8,253	3,312	1,251	1,176
Acquisition of treasury shares	(14,593)	(25,795)		(4,965)
Net cash provided by (used in) financing activities	281,828	(86,483)	(5,499)	(11,789)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,788)	(95,508)	17,848	(1,661)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	161,155	256,663	128,519	162,816
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$146,367	\$161,155	\$146,367	\$161,155

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

	12 months ended		3 months ended	
	December 31		December 31	
	2014	2013	2014	2013
Reported operating income on GAAP basis	\$54,907	\$47,531	\$16,629	\$14,087
Equity based compensation expenses	3,192	3,182	822	873
Amortization of intangible assets	19,235	4,041	8,805	1,011
Non-GAAP operating income	<u>\$77,334</u>	<u>\$54,754</u>	<u>\$26,256</u>	<u>\$15,971</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$35,380	\$40,001	\$13,122	\$12,614
Equity based compensation expenses	3,192	3,182	822	873
Amortization of intangible assets	19,235	4,041	8,805	1,011
Tax adjustments re non-GAAP adjustments	(1,823)		(935)	
SPTS Acquisition costs	6,761		0	0
Share in losses of associated company	417	252	102	69
Non-GAAP net income	<u>\$63,162</u>	<u>\$47,476</u>	<u>\$21,916</u>	<u>\$14,567</u>
Non-GAAP earnings per diluted share	<u>\$1.48</u>	<u>\$1.10</u>	<u>\$0.51</u>	<u>\$0.34</u>
Shares used in earnings per diluted share calculation-in thousands	42,757	43,253	42,626	42,692

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA
FOR THE YEAR AND THREE MONTH PERIODS ENDED DECEMBER 31, 2014

	12 months ended		3 months ended	
	December 31		December 31	
	2014	2013	2014	2013
Net income attributable to Orbotech Ltd. on GAAP basis	\$35,380	\$40,001	\$13,122	\$12,614
Minority interest and interest losses	301	(588)	(65)	(159)
Tax expenses	3,419	6,927	(1,660)	1,493
Financoal expenses	<u>\$9,046</u>	<u>\$1,191</u>	<u>\$5,232</u>	<u>\$139</u>
Depreciation and amortization	30,333	13,261	12,616	3,546
Equity-based compensation expenses	3,192	3,182	822	869
SPTS acquisition costs	6,761	0	0	0
ADJUSTED EBITDA	<u>\$88,432</u>	<u>\$63,974</u>	<u>\$30,067</u>	<u>\$18,502</u>

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	YTD 2014
BALANCE SHEET AND CASH FLOW										
Assets	611.0	619.7	624.8	636.6		627.8	631.7	1,020.6	1,034.0	
Debt	24.0	16.0	8.0	-		-	-	2.5	2.6	
Equity	451.1	453.5	457.6	467.2		473.3	475.8	483.3	496.9	
Net working capital	403.6	407.9	409.1	412.3		416.6	427.8	402.5	402.5	
Capital expenditures	3.4	3.1	3.7	2.8	13.0	3.6	2.4	2.8	3.8	12.5
Depreciation	1.8	2.3	2.6	2.5	9.2	2.5	2.4	2.5	3.8	11.1
Current ratio	4.5	4.4	4.4	4.3		4.7	4.7	3.2	3.3	
Equity / Assets	73.8%	73.2%	73.2%	73.4%		75.4%	75.3%	47.4%	48.1%	
Book value / share (US\$)	10.4	10.7	10.9	11.2		11.3	11.5	11.6	11.9	
Days sales outstanding	174	175	162	164		154	154	144	160	
INCOME STATEMENT										
	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	YTD 2014
Revenues	95.5	108.8	113.4	122.2	440.0	104.8	113.2	167.3	197.5	582.8
GAAP Operating income (Loss)	6.7	12.2	14.5	14.1	47.5	8.1	10.0	20.2	16.6	55.0
GAAP Net income (Loss)	5.0	10.5	11.9	12.6	40.0	6.3	8.6	7.3	13.0	35.2
Non GAAP Operating income (Loss)	8.5	14.1	16.2	16.0	54.8	9.9	11.8	29.4	26.3	77.4
Non GAAP Net income (Loss)	6.8	12.4	13.6	14.6	47.5	8.2	10.5	22.6	21.9	63.2
Adjusted EBITDA \$	10.5	16.5	19.0	18.5	64.0	12.3	14.0	32.0	30.1	88.3
Adjusted EBITDA margin	11.0%	15.2%	16.7%	15.1%	14.5%	11.7%	12.4%	19.1%	15.2%	15.2%
GAAP Earnings (Losses) per share diluted	0.11	0.24	0.28	0.30	0.92	0.15	0.20	0.17	0.31	0.83
Non GAAP Earnings per share diluted	0.16	0.29	0.32	0.34	1.10	0.19	0.25	0.53	0.51	1.48
Average shares outstanding GAAP (K)	43,739	43,503	43,113	42,692	43,253	42,835.0	42,830.0	42,735.0	42,626.0	42,757
Average shares outstanding Non GAAP (K)	43,739	43,503	43,113	42,692	43,253	42,835.0	42,830.0	42,735.0	42,626.0	42,757
MARGIN ANALYSIS										
	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	YTD 2014
GROSS MARGIN-\$M	40.1	46.6	50.5	54.3	191.5	45.7	48.7	74.0	84.9	253.2
Gross margin (excluding X-items)	42%	42.8%	44.6%	44.4%	43.5%	43.6%	43.0%	44.2%	43.0%	43.5%
Operating margin (excluding X-items)	7.0%	11.2%	12.8%	11.5%	10.8%	7.7%	8.9%	12.1%	8.4%	9.4%
Net margin (excluding X-items)	5.2%	9.6%	10.5%	10.3%	9.1%	6.0%	7.6%	4.4%	6.6%	6.0%
Net margin (reported)	5.2%	9.6%	10.5%	10.3%	9.1%	6.0%	7.6%	4.4%	6.6%	6.0%
R & D / revenues (excluding X-items)	17.1%	15.6%	15.6%	15.2%	15.8%	17.6%	16.9%	13.8%	14.2%	15.2%
S,G&A/revenues (includ. goodwill amort.)	18.1%	16.1%	16.7%	18.1%	17.3%	18.7%	18.2%	14.1%	16.4%	16.5%
Effective tax rate (excluding X-items)	19.2%	16.0%	16.4%	10.7%	14.9%	17.4%	15.7%	22.0%	-14.6%	8.7%
No. of employees	1,626	1,630	1,661	1,674		1,693	1,713	2,216	2,238	

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



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	YTD 2014
<u>SALES</u>										
PCB	47.5	51.1	45.5	45.3	189.4	41.5	48.5	41.4	39.6	171.0
as % of total sales	76%	70%	61%	53%	64%	61%	67%	35%	28%	42%
FPD	13.2	20.2	26.5	37.2	97.1	23.1	18.4	26.7	57.5	125.7
as % of total sales	21%	28%	36%	45%	33%	34%	24%	22%	40%	31%
SDD	-	-	-	-	-	-	-	45.6	43.0	88.6
as % of total sales	-	-	-	-	-	-	-	39%	30%	22%
Character Recognition	1.8	1.7	2.3	1.7	7.5	1.4	1.2	1.6	3.3	7.5
as % of total sales	3%	2%	3%	2%	3%	2%	2%	1%	2%	2%
Solar	-	-	-	-	-	1.8	5.2	4.2	-	11.2
as % of total sales	0%	0%	0%	0%	0%	3%	7%	3%	0%	3%
Total	62.5	73.0	74.3	84.2	294.0	67.8	73.3	119.5	143.4	404.0
<u>SERVICE</u>										
PCB	23.5	25.2	29.0	28.2	105.9	27.1	28.7	30.3	29.1	115.2
as % of total sales	70%	70%	73%	74%	73%	73%	71%	64%	54%	66%
FPD	8.1	9.2	8.7	8.5	34.5	8.4	9.7	8.2	8.9	35.2
as % of total sales	25%	26%	23%	23%	23%	23%	25%	17%	16%	19%
SDD	-	-	-	-	-	-	-	7.7	14.3	22.0
as % of total sales	-	-	-	-	-	-	-	16%	26%	12%
Character Recognition	1.5	1.4	1.4	1.3	5.6	1.5	1.4	1.4	1.4	5.7
as % of total sales	5%	4%	4%	4%	4%	4%	4%	3%	3%	3%
Solar	-	-	-	-	-	-	0.1	0.2	0.4	0.7
as % of total sales	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%
Total	33.1	35.8	39.1	38.0	146.0	37.0	39.9	47.8	54.1	178.8
<u>TOTAL REVENUES</u>										
PCB	71.0	76.3	74.5	73.5	295.3	68.6	77.2	71.7	68.7	286.2
as % of total sales	75%	70%	66%	59%	67%	65%	69%	43%	34%	49%
FPD	21.3	29.4	35.2	45.7	131.6	31.5	28.1	34.9	66.4	160.9
as % of total sales	22%	27%	31%	38%	30%	30%	24%	21%	34%	28%
SDD	-	-	-	-	-	-	-	53.3	57.3	110.6
as % of total sales	-	-	-	-	-	-	-	31%	29%	19%
Character Recognition	3.3	3.1	3.7	3.0	13.1	2.9	2.6	3.0	4.7	13.2
as % of total sales	3%	3%	3%	3%	3%	3%	2%	2%	3%	2%
Solar	-	-	-	-	-	1.8	5.3	4.4	0.4	11.9
as % of total sales	0%	0%	0%	0%	0%	2%	5%	3%	0%	2%
Total	95.6	108.8	113.4	122.2	440.0	104.8	113.2	167.3	197.5	582.8

ORBOTECH LTD.
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	YTD 2014
<u>SALES</u>										
North America	5.5	6.2	5.0	7.1	23.8	4.5	3.8	16.3	37.0	61.6
as % of total sales	9%	8%	7%	8%	8%	7%	5%	14%	26%	15%
Europe	2.8	1.5	2.4	1.3	8.0	1.9	2.7	21.3	4.9	30.8
as % of total sales	4%	2%	3%	2%	3%	3%	4%	18%	3%	8%
PAC	28.3	46.5	45.7	55.9	176.4	32.9	50.0	53.5	78.6	215.0
as % of total sales	45%	64%	62%	66%	60%	49%	68%	45%	55%	53%
OAE	24.9	18.8	21.2	19.9	84.8	28.4	16.8	27.9	22.5	95.6
as % of total sales	40%	26%	28%	24%	29%	42%	23%	23%	16%	24%
Others	1.0	-	-	-	1.0	0.1	-	0.5	0.4	1.0
as % of total sales	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	62.5	73.0	74.3	84.2	294.0	67.8	73.3	119.5	143.4	404.0
<u>SERVICE</u>										
North America	4.8	4.7	4.8	4.9	19.2	4.9	5.1	5.3	11.0	26.3
as % of total services	14%	13%	13%	13%	13%	13%	13%	11%	20%	15%
Europe	2.5	2.5	2.7	2.9	10.6	2.6	2.7	10.4	7.4	23.1
as % of total services	8%	7%	7%	8%	7%	7%	7%	21%	14%	13%
PAC	16.3	17.9	21.5	20.1	75.8	19.9	21.1	21.7	23.6	86.3
as % of total services	49%	50%	55%	53%	52%	55%	53%	46%	44%	48%
OAE	8.0	10.7	9.9	10.0	38.6	9.5	10.9	10.2	12.0	42.6
as % of total services	25%	30%	25%	26%	27%	25%	27%	22%	22%	24%
Others	1.5	-	0.2	0.1	1.8	0.1	0.1	0.2	0.1	0.5
as % of total services	4%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Total	33.1	35.8	39.1	38.0	146.0	37.0	39.9	47.8	54.1	178.8
<u>TOTAL REVENUES</u>										
North America	10.3	10.9	9.8	12.0	43.0	9.4	8.9	21.6	48.0	87.9
as % of total revenues	11%	10%	9%	10%	9%	9%	8%	13%	24%	15%
Europe	5.3	4.0	5.1	4.2	18.6	4.5	5.4	31.7	12.3	53.9
as % of total revenues	6%	4%	4%	3%	4%	4%	5%	19%	6%	9%
PAC	44.6	64.4	67.2	76.0	252.2	52.8	71.1	75.2	102.2	301.3
as % of total revenues	47%	59%	59%	62%	57%	50%	63%	45%	52%	52%
OAE	32.9	29.5	31.1	29.9	123.4	37.9	27.7	38.1	34.5	138.2
as % of total revenues	34%	27%	28%	25%	29%	36%	24%	23%	18%	25%
Others	2.5	-	0.2	0.1	2.8	0.2	0.1	0.7	0.5	1.5
as % of total revenues	2%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Total	95.6	108.8	113.4	122.2	440.0	104.8	113.2	167.3	197.5	582.8