

REVIEW

October-December 2016



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

	December 31 2016	December 31 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 216,292	\$ 162,102
Restricted cash	12,487	13,617
Marketable securities		409
Short-term bank deposits	789	9,550
Accounts receivable:		
Trade	326,343	284,192
Other	47,258	55,906
Inventories	132,435	133,250
T o t a l current assets	735,604	659,026
INVESTMENTS AND NON-CURRENT ASSETS:		
Marketable securities	7,012	5,637
Funds in respect of employee rights upon retirement	8,375	8,130
Deferred income taxes	19,840	20,147
Equity method investee and other receivables	9,113	10,144
	44,340	44,058
PROPERTY, PLANT AND EQUIPMENT, net	62,375	58,982
OTHER INTANGIBLE ASSETS, net	84,210	109,635
GOODWILL	176,374	170,177
T o t a l assets	\$ 1,102,903	\$ 1,041,878
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$ 16,364	\$ 13,937
Accounts payable and accruals:		
Trade	72,085	65,037
Other	114,692	94,930
Deferred income	28,576	29,282
T o t a l current liabilities	231,717	203,186
LONG-TERM LIABILITIES:		
Long-term loan, net	72,002	218,372
Other long-term liability	1,471	
Liability for employee rights upon retirement	22,973	21,535
Deferred income taxes	14,392	16,984
Other tax liabilities	7,567	14,045
T o t a l long-term liabilities	118,405	270,936
T o t a l liabilities	350,122	474,122
EQUITY:		
Share capital	2,381	2,209
Additional paid-in capital	420,185	306,612
Retained earnings	440,159	360,721
Accumulated other comprehensive loss	(9,221)	(1,506)
	853,504	668,036
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l Orbotech Ltd. shareholders' equity	753,965	568,497
Non-controlling interest	(1,184)	(741)
T o t a l equity	752,781	567,756
T o t a l liabilities and equity	\$ 1,102,903	\$ 1,041,878

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Year ended December 31		Three months ended December 31	
	2016	2015	2016	2015
Revenues	\$806,402	\$752,517	\$215,042	\$188,235
Cost of revenues	433,995	412,719	114,361	103,623
Gross profit	<u>372,407</u>	<u>339,798</u>	<u>100,681</u>	<u>84,612</u>
Operating expenses:				
Research and development, net	107,095	103,854	27,046	27,596
Selling, general and administrative	124,356	117,493	31,999	28,371
Equity in earnings of Frontline	(3,445)	(5,849)	(1,134)	(1,873)
Amortization of intangible assets	27,456	30,224	6,706	6,677
Gain from the sale of the Thermal product business		(628)		
Total operating expenses	<u>255,462</u>	<u>245,094</u>	<u>64,617</u>	<u>60,771</u>
Operating income	116,945	94,704	36,064	23,841
Financial expenses - net	<u>21,042</u>	<u>23,585</u>	<u>5,724</u>	<u>5,180</u>
Income before taxes on income	95,903	71,119	30,340	18,661
Taxes on income	16,308	13,788	4,709	2,651
Share in losses of equity method investee	<u>600</u>	<u>615</u>	<u>150</u>	<u>200</u>
Net income	78,995	56,716	25,481	15,810
Net loss attributable to the non-controlling interests	<u>(443)</u>	<u>(55)</u>	<u>(150)</u>	<u>(237)</u>
Net income attributable to Orbotech Ltd.	<u><u>\$79,438</u></u>	<u><u>\$56,771</u></u>	<u><u>\$25,631</u></u>	<u><u>\$16,047</u></u>
Basic earnings per share	<u><u>\$1.74</u></u>	<u><u>\$1.34</u></u>	<u><u>\$0.54</u></u>	<u><u>\$0.37</u></u>
Diluted earnings per share	<u><u>\$1.71</u></u>	<u><u>\$1.31</u></u>	<u><u>\$0.53</u></u>	<u><u>\$0.37</u></u>
Weighted average number of shares (in thousands) used in computation of:				
Basic earnings per share	45,534	42,412	47,645	42,852
Diluted earnings per share	46,461	43,322	48,513	43,575

ORBOTECH LTD.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA

U.S. dollars in thousands
(Unaudited)

	Year ended December 31		Three months ended December 31	
	2016	2015	2016	2015
Net income attributable to Orbotech Ltd. on GAAP basis	\$79,438	\$56,771	\$25,631	\$16,047
Minority interest and equity losses	157	560		(37)
Taxes on income	16,308	13,788	4,709	2,651
Financial expenses	21,042	23,585	5,724	5,180
Depreciation and amortization	44,756	45,282	11,759	10,544
Gain from the sale of the Thermal product business		(628)		
Equity-based compensation expenses	6,356	3,816	2,037	1,219
ADJUSTED EBITDA	\$168,057	\$143,174	\$49,860	\$35,604

ORBOTECH LTD.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS

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

	Year ended December 31		Three months ended December 31	
	2016	2015	2016	2015
Reported operating income on GAAP basis	\$116,945	\$94,704	\$36,064	\$23,841
Equity-based compensation expenses	6,356	3,816	2,037	1,219
Amortization of intangible assets	27,456	30,224	6,706	6,677
Gain from the sale of the Thermal product business		(628)		
Non-GAAP operating income	<u>\$150,757</u>	<u>\$128,116</u>	<u>\$44,807</u>	<u>\$31,737</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$79,438	\$56,771	\$25,631	\$16,047
Equity-based compensation expenses	6,356	3,816	2,037	1,219
Amortization of intangible assets	27,456	30,224	6,706	6,677
Gain from the sale of the Thermal product business		(628)		
Tax adjustments re non-GAAP adjustments	(3,205)	(46)	(795)	(775)
Share in losses of equity method investee	600	615	150	200
Charges associated with the retirement of the 2014 Credit Agreement	6,228			
Non-GAAP net income	<u>\$116,873</u>	<u>\$90,752</u>	<u>\$33,729</u>	<u>\$23,368</u>
GAAP earnings per diluted share	<u>\$1.71</u>	<u>\$1.31</u>	<u>\$0.53</u>	<u>\$0.37</u>
Non-GAAP earnings per diluted share	<u>\$2.52</u>	<u>\$2.09</u>	<u>\$0.70</u>	<u>\$0.54</u>
Shares used in earnings per diluted share computation- in thousands	46,461	43,322	48,513	43,575

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

	Year ended		Three months ended	
	December 31		December 31	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 78,995	\$ 56,716	\$ 25,481	\$ 15,810
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	44,756	45,282	11,759	10,544
Compensation relating to equity awards granted to employees and others - net	6,356	3,816	2,037	1,219
Decrease (Increase) in liability for employee rights upon retirement, net	943	(113)	(588)	(268)
Long- term loans discount amortization	1,866	897		325
Deferred financing costs amortization	5,692	2,010	107	479
Deferred income taxes	(2,693)	(2,024)	81	(2,472)
Amortization of premium and accretion of discount on marketable Securities, net	145	145	33	14
Equity in earnings of Frontline, net of dividend received	1,261	(540)	156	(730)
Other	751	1,014	120	310
Gain from the sale of the Thermal product business		(628)		
Increase in accounts receivable:				
Trade	(41,607)	(37,067)	(6,292)	(5,280)
Other	(2,921)	(5,507)	(3,529)	(1,408)
Increase (decrease) in accounts payable and accruals:				
Trade	6,898	353	9,632	6,182
Deferred income	(1,056)	(7,770)	734	519
Other	7,994	13,915	3,792	7,835
Decrease in inventories	1,080	18,765	5,651	1,455
Net cash provided by operating activities	108,460	89,264	49,174	34,533
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	(23,550)	(19,348)	(6,163)	(7,992)
Consideration received for the sale of the Thermal product business	12,000	10,000		
Withdraw of (investment in) bank deposits	8,761	450	3,047	(5,516)
Purchase of marketable securities	(5,553)	(1,099)	(717)	(945)
Redemption of marketable securities	4,337	821	720	821
Investment in equity method investee	(1,000)	(1,500)		
Acquisition of the assets of AMST	(6,429)		(6,429)	
Decrease (increase) in restricted cash	1,130	(3,617)	(3,042)	(3,542)
Increase in funds in respect of employee rights upon retirement	249	510	55	65
Net cash used in investing activities	(10,055)	(13,783)	(12,529)	(17,109)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term loan	(239,635)	(59,615)		(30,683)
Repayment of bank loan	(20,000)		(20,000)	
Bank loan, net of \$2 millions financing costs	108,031			
Issuance of shares, net	99,962			
Employee stock options exercised	7,427	9,869	2,327	2,284
Net cash used in financing activities	(44,215)	(49,746)	(17,673)	(28,399)
Net increase (decrease) in cash and cash equivalents	54,190	25,735	18,972	(10,975)
Cash and cash equivalents at beginning of period	162,102	136,367	197,320	173,077
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 216,292	\$ 162,102	\$ 216,292	\$ 162,102

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
BALANCE SHEET AND CASH FLOW													
Assets	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	1,102.9	
Debt	297.1	296.5		295.9	276.1	268.1	232.3		207.8	108.0	108.2	88.4	
Equity	483.3	496.9		511.6	532.5	549.2	567.8		587.2	696.1	724.1	752.8	
Net working capital	402.5	402.5		447.6	463.7	487.0	455.8		452.3	460.6	494.8	503.9	
Capital expenditures	2.8	3.8	12.5	3.2	3.9	4.2	8.0	19.3	5.8	6.4	5.3	6.2	23.6
Depreciation	2.5	3.8	11.1	3.7	3.7	3.7	3.9	15.1	4.0	4.3	4.0	5.1	17.3
Current ratio	3.2	3.3		3.5	3.8	3.8	3.2		3.2	3.2	3.3	3.2	
Equity / Assets	47.4%	48.1%		49.3%	52.2%	52.6%	54.5%		56.9%	67.0%	67.3%	68.3%	
Book value / share (US\$)	11.6	11.9		12.2	12.5	12.9	13.2		13.6	14.7	15.2	15.7	
Days sales outstanding	144	160		138	119	134	138		139	139	150	148	
INCOME STATEMENT													
Revenues	167.3	197.5	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4
GAAP Operating income	20.2	16.6	55.0	20.3	25.5	25.0	23.8	94.7	23.4	26.7	30.8	36.1	116.9
GAAP Net income	7.3	13.0	35.2	11.9	13.0	15.9	16.0	56.8	15.7	13.3	24.7	25.6	79.4
Non GAAP Operating income	29.4	26.3	77.4	30.1	32.9	33.4	31.7	128.1	31.3	34.8	39.8	44.8	150.8
Non GAAP Net income	22.6	21.9	63.2	20.8	22.9	23.7	23.4	90.7	23.2	27.0	33.0	33.7	116.9
Adjusted EBITDA \$	32.0	30.1	88.3	33.8	36.6	37.1	35.6	143.2	35.3	39.1	43.8	49.9	168.1
Adjusted EBITDA margin	19.1%	15.2%	15.2%	18.3%	19.4%	19.5%	18.9%	19.0%	18.5%	20.0%	21.4%	23.2%	20.8%
GAAP Earnings per share diluted	0.17	0.31	0.83	0.28	0.30	0.37	0.37	1.31	0.36	0.30	0.51	0.53	1.71
Non GAAP Earnings per share diluted	0.53	0.51	1.48	0.48	0.53	0.55	0.54	2.09	0.53	0.60	0.68	0.70	2.52
Average shares outstanding GAAP (K)	42,735.0	42,626.0	42,757.0	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385	48,513	46,461
Average shares outstanding Non GAAP (K)	42,735.0	42,626.0	42,757.0	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385	48,513	46,461
MARGIN ANALYSIS													
GROSS MARGIN-\$M	74.0	84.9	253.2	83.1	85.8	86.3	84.6	339.8	85.6	89.9	96.2	100.7	372.4
Gross margin (excluding X-items)	44.2%	43.0%	43.5%	45.0%	45.4%	45.3%	45.0%	45.2%	45.0%	45.9%	46.9%	46.8%	46.2%
Operating margin (excluding X-items)	12.1%	8.4%	9.4%	16.3%	17.4%	17.5%	16.9%	17.0%	16.5%	17.8%	19.4%	20.8%	14.5%
Net margin (excluding X-items)	4.4%	6.6%	6.0%	11.2%	12.1%	12.4%	12.4%	12.1%	12.2%	13.8%	16.1%	15.7%	9.8%
Net margin (reported)	4.4%	6.6%	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	8.2%	6.8%	16.1%	15.7%	9.8%
R & D / revenues (excluding X-items)	13.8%	14.2%	15.2%	13.9%	13.2%	14.7%	13.8%	13.8%	14.0%	13.3%	13.3%	12.6%	13.3%
S,G&A/revenues (includ. goodwill amort.)	14.1%	16.4%	16.5%	15.7%	15.9%	18.6%	18.6%	15.6%	15.8%	16.0%	15.2%	14.9%	15.4%
Effective tax rate (excluding X-items)	22.0%	-14.6%	8.7%	12.7%	33.5%	16.8%	16.8%	19.4%	15.2%	16.5%	16.5%	15.5%	17.0%
No. of employees	2,216	2,238		2,252	2,263	2,241	2,256		2,329	2,365	2,406	2,407	

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



	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
SALES											
PCB	171.0	31.3	37.0	34.5	38.3	141.1	39.9	43.8	38.0	48.6	170.4
as % of total sales	42%	24%	27%	25%	29%	26%	29%	30%	26%	31%	29%
FPD	125.7	47.3	44.4	38.6	35.9	166.2	35.6	39.8	49.4	60.2	185.1
as % of total sales	31%	36%	33%	28%	27%	31%	25%	29%	34%	39%	32%
SDD	88.6	46.6	45.7	58.4	57.5	208.2	62.5	53.6	57.4	48.3	221.8
as % of total sales	22%	35%	34%	43%	43%	39%	44%	38%	39%	30%	38%
Character Recognition	7.5	1.7	2.1	1.4	2.7	7.9	1.6	2.2	1.9	2.2	7.9
as % of total sales	2%	1%	2%	1%	2%	1%	1%	2%	1%	1%	1%
Solar	11.2	4.4	5.4	4.1	-	13.9	1.3	1.6	0.2	-	3.1
as % of total sales	3%	4%	4%	3%	0%	3%	1%	1%	0%	0%	1%
Total	404.0	131.3	134.6	137.0	134.4	537.3	140.9	141.0	147.0	159.5	588.4
SERVICE											
PCB	115.2	26.7	28.4	29.7	29.5	114.3	28.1	28.8	31.0	28.6	116.5
as % of total service	66%	49%	52%	56%	55%	53%	57%	52%	53%	52%	54%
FPD	35.2	10.1	9.2	9.9	9.5	38.7	9.0	10.1	10.4	11.3	40.8
as % of total service	19%	19%	17%	19%	18%	18%	18%	18%	18%	20%	19%
SDD	22.0	14.8	14.9	11.8	12.6	54.1	10.0	13.9	14.2	13.6	51.7
as % of total service	12%	28%	27%	22%	23%	25%	20%	26%	24%	24%	22%
Character Recognition	5.7	1.6	1.6	1.6	1.6	6.4	1.6	1.6	1.6	1.6	6.3
as % of total service	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Solar	0.7	0.3	0.3	0.5	0.5	1.6	0.8	0.6	0.9	0.4	2.7
as % of total service	0%	1%	1%	1%	1%	1%	2%	1%	2%	1%	1%
Total	178.8	53.5	54.4	53.5	53.8	215.2	49.5	55.0	58.0	55.6	218.0
TOTAL REVENUES											
PCB	286.2	58.0	65.4	64.2	67.9	255.5	68.0	72.6	69.0	77.2	286.9
as % of total revenues	49%	31%	35%	34%	36%	34%	36%	36%	34%	36%	35%
FPD	160.9	57.4	53.6	48.5	45.5	205.0	44.7	49.9	59.8	71.6	225.9
as % of total revenues	28%	31%	28%	25%	24%	27%	24%	26%	29%	33%	28%
SDD	110.6	61.4	60.6	70.2	70.1	262.3	72.5	67.5	71.6	61.9	273.5
as % of total revenues	19%	33%	32%	37%	37%	35%	37%	35%	35%	29%	34%
Character Recognition	13.2	3.3	3.7	3.0	4.3	14.3	3.2	3.8	3.5	3.8	14.3
as % of total revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Solar	11.9	4.7	5.7	4.6	0.5	15.5	2.1	2.2	1.1	0.4	5.9
as % of total revenues	2%	3%	3%	2%	0%	2%	1%	1%	1%	0%	1%
Total	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4

ORBOTECH LTD.
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
SALES											
North America	61.6	23.3	13.2	12.3	12.3	61.1	14.8	12.6	29.5	13.8	70.8
as % of total sales	15%	18%	10%	9%	9%	11%	10%	9%	20%	9%	12%
Europe	30.8	18.7	21.2	19.6	18.5	78.0	6.2	24.2	5.0	13.7	49.1
as % of total sales	8%	14%	16%	14%	14%	15%	4%	17%	3%	8%	9%
PAC	215.0	61.2	77.3	80.5	76.8	295.8	91.9	79.0	83.6	93.7	348.2
as % of total sales	53%	47%	57%	59%	57%	55%	66%	56%	57%	59%	59%
OAE	95.6	27.8	22.9	24.0	26.8	101.5	28.0	22.9	28.8	38.0	117.8
as % of total sales	24%	21%	17%	18%	20%	19%	20%	16%	20%	24%	20%
Others	1.0	0.3	-	0.6	0.1	1.0	-	2.3	-	0.2	2.6
as % of total sales	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%	0%
Total	404.0	131.3	134.6	137.0	134.4	537.3	140.9	141.0	147.0	159.5	588.4
SERVICE											
North America	26.3	9.4	9.0	8.7	10.2	37.3	8.9	8.8	9.4	10.6	37.6
as % of total services	15%	18%	16%	16%	19%	17%	18%	16%	16%	19%	17%
Europe	23.1	8.3	8.8	6.7	6.3	30.1	6.2	6.9	6.8	6.3	26.2
as % of total services	13%	15%	16%	13%	12%	14%	13%	13%	12%	11%	12%
PAC	86.3	22.6	23.9	25.9	25.2	97.6	22.2	27.2	29.1	27.8	106.2
as % of total services	48%	42%	44%	48%	47%	45%	45%	50%	50%	50%	49%
OAE	42.6	12.9	12.6	12.1	11.9	49.5	12.0	11.8	12.6	10.5	47.0
as % of total services	24%	24%	24%	0.2	0.2	23%	24%	21%	22%	19%	22%
Others	0.5	0.3	0.1	0.1	0.2	0.7	0.2	0.3	0.2	0.3	1.0
as % of total services	0%	1%	0%	0%	0%	0%	0%	0%	0%	1%	0%
Total	178.8	53.5	54.4	53.5	53.8	215.2	49.5	55.0	58.0	55.6	218.0
TOTAL REVENUES											
North America	87.9	32.7	22.2	21.0	22.4	98.3	23.7	21.4	38.9	24.5	108.5
as % of total revenues	15%	18%	12%	11%	12%	13%	12%	11%	19%	12%	13%
Europe	53.9	27.0	30.0	26.3	24.8	108.1	12.4	31.1	11.8	20.0	75.3
as % of total revenues	9%	15%	16%	14%	13%	14%	7%	16%	6%	9%	10%
PAC	301.3	83.8	101.2	106.4	102.0	393.4	114.1	106.2	112.7	121.5	454.5
as % of total revenues	52%	45%	54%	56%	54%	52%	60%	54%	55%	57%	56%
OAE	138.2	40.7	35.5	36.1	38.7	151.0	40.0	34.7	41.4	48.5	164.5
as % of total revenues	25%	22%	19%	19%	21%	20%	21%	18%	20%	23%	20%
Others	1.5	0.6	0.1	0.7	0.3	1.7	0.2	2.6	0.2	0.5	3.6
as % of total revenues	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%
Total	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4