

REVIEW

January-March 2017



ORBOTECH LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

U. S. dollars in thousands
(Unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 201,378	\$ 216,292
Restricted cash	12,292	12,487
Marketable securities	207	
Short-term bank deposits	801	789
Accounts receivable - trade	353,784	326,343
Prepaid expenses and other current assets	42,035	47,258
Inventories	140,720	132,435
T o t a l current assets	751,217	735,604
INVESTMENTS AND NON-CURRENT ASSETS:		
Marketable securities	7,647	7,012
Funds in respect of employee rights upon retirement	9,679	8,375
Deferred income taxes	16,566	19,840
Equity method investee and other receivables	4,742	9,113
	38,634	44,340
PROPERTY, PLANT AND EQUIPMENT, net	63,267	62,375
OTHER INTANGIBLE ASSETS, net	86,639	84,210
GOODWILL	176,804	176,374
T o t a l assets	\$ 1,116,561	\$ 1,102,903
 LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loan	\$ 16,364	\$ 16,364
Accounts payable and accruals:		
Trade	70,990	72,085
Other	103,281	114,692
Deferred income	29,792	28,576
T o t a l current liabilities	220,427	231,717
LONG-TERM LIABILITIES:		
Long-term loan, net	72,134	72,002
Liability with respect to Applied Microstructure, Inc. ("AMST")	1,471	1,471
Liability for employee rights upon retirement	23,089	22,973
Deferred income taxes	13,778	14,392
Other tax liabilities	7,302	7,567
T o t a l long-term liabilities	117,774	118,405
T o t a l liabilities	338,201	350,122
EQUITY:		
Share capital	2,383	2,381
Additional paid-in capital	423,068	420,185
Retained earnings	455,079	440,159
Accumulated other comprehensive loss	(6,057)	(9,221)
	874,473	853,504
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l Orbotech Ltd. equity	774,934	753,965
Non-controlling interest	3,426	(1,184)
T o t a l equity	778,360	752,781
T o t a l liabilities and equity	\$ 1,116,561	\$ 1,102,903

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended March 31,		Year ended December 31,
	2017	2016	2016
Revenues	\$187,649	\$190,427	\$806,402
Cost of revenues	100,524	104,824	433,995
Gross profit	87,125	85,603	372,407
Operating expenses:			
Research and development, net	28,675	26,569	107,095
Selling, general and administrative	33,953	30,023	124,356
Equity in earnings of Frontline	(1,050)	(636)	(3,445)
Amortization of intangible assets	5,893	6,295	27,456
Total operating expenses	67,471	62,251	255,462
Operating income	19,654	23,352	116,945
Financial expenses - net	2,006	4,664	21,042
Income before taxes on income	17,648	18,688	95,903
Taxes on income	2,868	2,845	16,308
Share in losses of equity method investee		150	600
Net income	14,780	15,693	78,995
Net loss attributable to the non-controlling interests	(140)	(61)	(443)
Net income attributable to Orbotech Ltd.	\$14,920	\$15,754	\$79,438
Basic earnings per share	\$0.31	\$0.36	\$1.74
Diluted earnings per share	\$0.31	\$0.36	\$1.71
Weighted average number of shares (in thousands) used in computation of:			
Basic earnings per share	47,839	43,186	45,534
Diluted earnings per share	48,768	44,062	46,461

ORBOTECH LTD.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS

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

	Three months ended March 31,		Year ended December 31,
	2017	2016	2016
Reported operating income on GAAP basis	\$19,654	\$23,352	\$116,945
Equity-based compensation expenses	2,218	1,680	6,356
Amortization of intangible assets	5,893	6,295	27,456
Non-GAAP operating income	<u>\$27,765</u>	<u>\$31,327</u>	<u>\$150,757</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$14,920	\$15,754	\$79,438
Equity-based compensation expenses	2,218	1,680	6,356
Amortization of intangible assets	5,893	6,295	27,456
Tax effect of non-GAAP adjustments	(748)	(729)	(3,205)
Share in losses of equity method investee		150	600
Charges associated with the retirement of the 2014 Credit Agreement			6,228
Non-GAAP net income	<u>\$22,283</u>	<u>\$23,150</u>	<u>\$116,873</u>
GAAP earnings per diluted share	<u>\$0.31</u>	<u>\$0.36</u>	<u>\$1.71</u>
Non-GAAP earnings per diluted share	<u>\$0.46</u>	<u>\$0.53</u>	<u>\$2.52</u>
Shares used in earnings per diluted share computation- in thousands	48,768	44,062	46,461

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

	Three months ended		Year ended
	March 31,		December 31,
	2017	2016	2016
Net income attributable to Orbotech Ltd. on GAAP basis	\$14,920	\$15,754	\$79,438
Minority interest and equity losses	(140)	89	157
Taxes on income	2,868	2,845	16,308
Financial expenses - net	2,006	4,664	21,042
Depreciation and amortization	10,651	10,251	44,756
Equity-based compensation expenses	2,218	1,680	6,356
ADJUSTED EBITDA	\$32,523	\$35,283	\$168,057

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

	Three months ended		Year ended
	March 31,		December,
	2017	2016	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 14,780	\$ 15,693	\$ 78,995
Adjustment to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,651	10,251	44,756
Compensation relating to equity awards granted to employees and others - net	2,218	1,680	6,356
Decrease (Increase) in liability for employee rights upon retirement, net	(130)	247	943
Long- term loans discount amortization		300	1,866
Deferred financing costs amortization	132	798	5,692
Deferred income taxes	322	(1,214)	(2,693)
Amortization of premium and accretion of discount on marketable Securities, net	(333)	66	145
Equity in earnings of Frontline, net of dividend received	26	189	1,261
Other	90	150	751
Decrease (increase) in accounts receivable:			
Trade	(27,441)	(4,325)	(41,607)
Other	5,469	(2,717)	(2,921)
Increase (decrease) in accounts payable and accruals:			
Trade	(1,146)	1,638	6,898
Deferred income	1,216	850	(1,056)
Other	(6,912)	(5,744)	7,994
Decrease (increase) in inventories	(8,182)	(2,130)	1,080
Net cash provided by (used in) operating activities	(9,240)	15,732	108,460
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(4,979)	(5,757)	(23,550)
Consideration received for the sale of the Thermal product business			12,000
Withdraw of (investment in) bank deposits	(12)	6,507	8,761
Purchase of marketable securities	(2,292)	(1,268)	(5,553)
Redemption of marketable securities	1,804	1,157	4,337
Investment in equity method investee		(1,000)	(1,000)
Acquisition of AMST			(6,429)
Decrease (increase) in funds in respect of employee rights upon retirement	(1,057)	60	249
Net cash used in investing activities	(6,536)	(301)	(11,185)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term loan		(25,607)	(239,635)
Repayment of bank loan			(20,000)
Bank loan, net of \$2 millions financing costs			108,031
Issuance of shares, net			99,962
Employee stock options exercised	667	2,075	7,427
Net cash provided by (used in) financing activities	667	(23,532)	(44,215)
Net increase (decrease) in cash, cash equivalents and restricted cash	(15,109)	(8,101)	53,060
Cash, cash equivalents and restricted cash at beginning of period*	228,779	175,719	175,719
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD*	\$ 213,670	\$ 167,618	\$ 228,779

* Reclassified

ORBOTECH LTD.
FINANCIAL SUMMARY (\$ MILLIONS)



	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017
BALANCE SHEET AND CASH FLOW													
Assets	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		1,116.6
Debt	296.5		295.9	276.1	268.1	232.3		207.8	108.0	108.2	88.4		88.5
Equity	496.9		511.6	532.5	549.2	567.8		587.2	696.1	724.1	752.8		778.4
Net working capital	402.5		447.6	463.7	487.0	455.8		452.3	460.6	494.8	503.9		530.8
Capital expenditures	3.8	12.5	3.2	3.9	4.2	8.0	19.3	5.8	6.4	5.3	6.2	23.6	5.0
Depreciation	3.8	11.1	3.7	3.7	3.7	3.9	15.1	4.0	4.3	4.0	5.1	17.3	4.8
Current ratio	3.3		3.5	3.8	3.8	3.2		3.2	3.2	3.3	3.2		3.4
Equity / Assets	48.1%		49.3%	52.2%	52.6%	54.5%		56.9%	67.0%	67.3%	68.3%		69.7%
Book value / share (US\$)	11.9		12.2	12.5	12.9	13.2		13.6	14.7	15.2	15.7		16.2
Days sales outstanding	160		138	119	134	138		139	139	150	148		161
INCOME STATEMENT													
	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017
Revenues	197.5	582.8	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4	187.6
GAAP Operating income	16.6	55.0	20.3	25.5	25.0	23.8	94.7	23.4	26.7	30.8	36.1	116.9	19.7
GAAP Net income	13.0	35.2	11.9	13.0	15.9	16.0	56.8	15.7	13.3	24.7	25.6	79.4	14.9
Non GAAP Operating income	26.3	77.4	30.1	32.9	33.4	31.7	128.1	31.3	34.8	39.8	44.8	150.8	27.8
Non GAAP Net income	21.9	63.2	20.8	32.9	23.7	23.4	90.7	23.2	27.0	33.0	33.7	116.9	22.3
Adjusted EBITDA \$	30.1	88.3	33.8	36.6	37.1	35.6	143.2	35.3	39.1	43.8	49.9	168.1	32.5
Adjusted EBITDA margin	15.2%	15.2%	18.3%	19.4%	19.5%	18.9%	19.0%	18.5%	20.0%	21.4%	23.2%	20.8%	17.3%
GAAP Earnings per share diluted	0.31	0.83	0.28	0.30	0.37	0.37	1.31	0.36	0.30	0.51	0.53	1.71	0.31
Non GAAP Earnings per share diluted	0.51	1.48	0.48	0.53	0.55	0.54	2.09	0.53	0.60	0.68	0.70	2.52	0.46
Average shares outstanding GAAP (K)	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	48,768
Average shares outstanding Non GAAP (K)	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	48,768
MARGIN ANALYSIS													
	Q4 2014	FY 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017
GROSS MARGIN-\$M	84.9	253.2	83.1	85.8	86.3	84.6	339.8	85.6	89.9	96.2	100.7	372.4	87.1
Gross margin (excluding X-items)	43.0%	43.5%	45.0%	45.4%	45.3%	45.0%	45.2%	45.0%	45.9%	46.9%	46.8%	46.2%	46.4%
Operating margin (excluding X-items)	8.4%	9.4%	16.3%	17.4%	17.5%	16.9%	17.0%	16.5%	17.8%	19.4%	20.8%	18.7%	14.8%
Net margin (excluding X-items)	6.6%	6.0%	11.2%	12.1%	12.4%	12.4%	12.1%	12.2%	13.8%	16.1%	15.7%	14.5%	11.9%
Net margin (reported)	6.6%	6.0%	6.5%	6.9%	8.4%	8.5%	7.5%	8.2%	6.8%	16.1%	15.7%	14.5%	11.9%
R & D / revenues (excluding X-items)	14.2%	15.2%	13.9%	13.2%	14.7%	14.7%	14.0%	14.0%	13.3%	13.3%	12.6%	13.3%	15.3%
S,G&A/revenues (includ. goodwill amort.)	16.4%	16.5%	15.7%	15.9%	18.6%	18.6%	15.8%	15.8%	16.0%	15.2%	14.9%	15.4%	18.1%
Effective tax rate (excluding X-items)	-14.6%	8.7%	12.7%	33.5%	16.8%	16.8%	15.2%	15.2%	16.5%	16.5%	15.5%	17.0%	16.3%
No. of employees	2,238		2,252	2,263	2,241	2,256		2,329	2,365	2,406	2,407		2,464

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



	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017
SALES											
PCB	31.3	37.0	34.5	38.3	141.1	39.9	43.8	38.0	48.6	170.4	49.8
as % of total sales	24%	27%	25%	29%	26%	29%	30%	26%	31%	29%	37%
FPD	47.3	44.4	38.6	35.9	166.2	35.6	39.8	49.4	60.2	185.1	43.0
as % of total sales	36%	33%	28%	27%	31%	25%	29%	34%	39%	32%	31%
SDD	46.6	45.7	58.4	57.5	208.2	62.5	53.6	57.4	48.3	221.8	41.5
as % of total sales	35%	34%	43%	43%	39%	44%	38%	39%	30%	38%	30%
Character Recognition	1.7	2.1	1.4	2.7	7.9	1.6	2.2	1.9	2.2	7.9	2.2
as % of total sales	1%	2%	1%	2%	1%	1%	2%	1%	1%	1%	2%
Solar	4.4	5.4	4.1	-	13.9	1.3	1.6	0.2	-	3.1	0.2
as % of total sales	4%	4%	3%	0%	3%	1%	1%	0%	0%	1%	0%
Total	131.3	134.6	137.0	134.4	537.3	140.9	141.0	147.0	159.5	588.4	136.7
SERVICE											
PCB	26.7	28.4	29.7	29.5	114.3	28.1	28.8	31.0	28.6	116.5	27.7
as % of total service	49%	52%	56%	55%	53%	57%	52%	53%	52%	54%	55%
FPD	10.1	9.2	9.9	9.5	38.7	9.0	10.1	10.4	11.3	40.8	10.4
as % of total service	19%	17%	19%	18%	18%	18%	18%	18%	20%	19%	20%
SDD	14.8	14.9	11.8	12.6	54.1	10.0	13.9	14.2	13.6	51.7	11.0
as % of total service	28%	27%	22%	23%	25%	20%	26%	24%	24%	22%	21%
Character Recognition	1.6	1.6	1.6	1.6	6.4	1.6	1.6	1.6	1.6	6.3	1.4
as % of total service	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Solar	0.3	0.3	0.5	0.5	1.6	0.8	0.6	0.9	0.4	2.7	0.4
as % of total service	1%	1%	1%	1%	1%	2%	1%	2%	1%	1%	1%
Total	53.5	54.4	53.5	53.8	215.2	49.5	55.0	58.0	55.6	218.0	50.9
TOTAL REVENUES											
PCB	58.0	65.4	64.2	67.9	255.5	68.0	72.6	69.0	77.2	286.9	77.5
as % of total revenues	31%	35%	34%	36%	34%	36%	36%	34%	36%	35%	42%
FPD	57.4	53.6	48.5	45.5	205.0	44.7	49.9	59.8	71.6	225.9	53.4
as % of total revenues	31%	28%	25%	24%	27%	24%	26%	29%	33%	28%	28%
SDD	61.4	60.6	70.2	70.1	262.3	72.5	67.5	71.6	61.9	273.5	52.5
as % of total revenues	33%	32%	37%	37%	35%	37%	35%	35%	29%	34%	28%
Character Recognition	3.3	3.7	3.0	4.3	14.3	3.2	3.8	3.5	3.8	14.3	3.7
as % of total revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Solar	4.7	5.7	4.6	0.5	15.5	2.1	2.2	1.1	0.4	5.9	0.5
as % of total revenues	3%	3%	2%	0%	2%	1%	1%	1%	0%	1%	0%
Total	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4	187.6

ORBOTECH LTD.
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017
SALES											
North America	23.3	13.2	12.3	12.3	61.1	14.8	12.6	29.5	13.8	70.8	18.3
as % of total sales	18%	10%	9%	9%	11%	10%	9%	20%	9%	12%	13%
Europe	18.7	21.2	19.6	18.5	78.0	6.2	24.2	5.0	13.7	49.1	16.6
as % of total sales	14%	16%	14%	14%	15%	4%	17%	3%	8%	9%	12%
PAC	61.2	77.3	80.5	76.8	295.8	91.9	79.0	83.6	93.7	348.2	68.7
as % of total sales	47%	57%	59%	57%	55%	66%	56%	57%	59%	59%	51%
OAE	27.8	22.9	24.0	26.8	101.5	28.0	22.9	28.8	38.0	117.8	32.6
as % of total sales	21%	17%	18%	20%	19%	20%	16%	20%	24%	20%	24%
Others	0.3	-	0.6	0.1	1.0	-	2.3	-	0.2	2.6	0.5
as % of total sales	0%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%
Total	131.3	134.6	137.0	134.4	537.3	140.9	141.0	147.0	159.5	588.4	136.7
SERVICE											
North America	9.4	9.0	8.7	10.2	37.3	8.9	8.8	9.4	10.6	37.6	9.0
as % of total services	18%	16%	16%	19%	17%	18%	16%	16%	19%	17%	19%
Europe	8.3	8.8	6.7	6.3	30.1	6.2	6.9	6.8	6.3	26.2	5.5
as % of total services	15%	16%	13%	12%	14%	13%	13%	12%	11%	12%	11%
PAC	22.6	23.9	25.9	25.2	97.6	22.2	27.2	29.1	27.8	106.2	24.2
as % of total services	42%	44%	48%	47%	45%	45%	50%	50%	50%	49%	48%
OAE	12.9	12.6	12.1	11.9	49.5	12.0	11.8	12.6	10.5	47.0	11.9
as % of total services	24%	24%	0.2	0.2	23%	24%	21%	22%	19%	22%	22%
Others	0.3	0.1	0.1	0.2	0.7	0.2	0.3	0.2	0.3	1.0	0.3
as % of total services	1%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%
Total	53.5	54.4	53.5	53.8	215.2	49.5	55.0	58.0	55.6	218.0	50.9
TOTAL REVENUES											
North America	32.7	22.2	21.0	22.4	98.3	23.7	21.4	38.9	24.5	108.5	27.3
as % of total revenues	18%	12%	11%	12%	13%	12%	11%	19%	12%	13%	15%
Europe	27.0	30.0	26.3	24.8	108.1	12.4	31.1	11.8	20.0	75.3	22.1
as % of total revenues	15%	16%	14%	13%	14%	7%	16%	6%	9%	10%	12%
PAC	83.8	101.2	106.4	102.0	393.4	114.1	106.2	112.7	121.5	454.5	92.9
as % of total revenues	45%	54%	56%	54%	52%	60%	54%	55%	57%	56%	49%
OAE	40.7	35.5	36.1	38.7	151.0	40.0	34.7	41.4	48.5	164.5	44.5
as % of total revenues	22%	19%	19%	21%	20%	21%	18%	20%	23%	20%	24%
Others	0.6	0.1	0.7	0.3	1.7	0.2	2.6	0.2	0.5	3.6	0.8
as % of total revenues	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%
Total	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4	187.6