

# REVIEW

July-September 2017



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

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 237,754	\$ 216,292
Restricted cash		12,487
Marketable securities	201	
Short-term bank deposits	973	789
Accounts receivable - trade	385,481	326,343
Prepaid expenses and other current assets	52,750	47,258
Inventories	164,049	132,435
T o t a l current assets	841,208	735,604
<b>INVESTMENTS AND NON-CURRENT ASSETS:</b>		
Marketable securities	8,058	7,012
Funds in respect of employee rights upon retirement	10,105	8,375
Deferred income taxes	22,323	19,840
Equity method investee and other receivables	5,166	9,113
	45,652	44,340
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	67,848	62,375
<b>OTHER INTANGIBLE ASSETS, net</b>	73,897	84,210
<b>GOODWILL</b>	176,804	176,374
T o t a l assets	\$ 1,205,409	\$ 1,102,903
 <b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term loan	\$ 16,364	\$ 16,364
Accounts payable and accruals:		
Trade	82,883	72,085
Other	117,032	114,692
Deferred income	33,512	28,576
T o t a l current liabilities	249,791	231,717
<b>LONG-TERM LIABILITIES:</b>		
Long-term loan, net	56,001	72,002
Liability with respect to Applied Microstructure, Inc. ("AMST")	1,471	1,471
Liability for employee rights upon retirement	24,357	22,973
Deferred income taxes	12,425	14,392
Other tax liabilities	10,771	7,567
T o t a l long-term liabilities	105,025	118,405
T o t a l liabilities	354,816	350,122
<b>EQUITY:</b>		
Share capital	2,390	2,381
Additional paid-in capital	429,296	420,185
Retained earnings	516,663	440,159
Accumulated other comprehensive loss	(804)	(9,221)
	947,545	853,504
Less treasury shares, at cost	(99,539)	(99,539)
T o t a l Orbotech Ltd. equity	848,006	753,965
Non-controlling interest	2,587	(1,184)
T o t a l equity	850,593	752,781
T o t a l liabilities and equity	\$ 1,205,409	\$ 1,102,903

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues	\$643,976	\$591,360	\$245,664	\$204,953
Cost of revenues	340,224	319,634	127,652	108,739
Gross profit	303,752	271,726	118,012	96,214
Operating expenses:				
Research and development, net	90,662	80,049	31,921	27,345
Selling, general and administrative	103,019	92,357	36,563	31,068
Equity in earnings of P.C.B. Solutions L.P. ("Frontline")	(3,235)	(2,311)	(880)	(634)
Amortization of intangible assets	18,635	20,750	6,371	7,615
Total operating expenses	209,081	190,845	73,975	65,394
Operating income	94,671	80,881	44,037	30,820
Financial expenses - net	4,890	15,318	1,317	1,171
Income before taxes on income	89,781	65,563	42,720	29,649
Taxes on income	14,256	11,599	6,569	4,885
Share in losses of equity method investee	—	450	—	150
Net income	75,525	53,514	36,151	24,614
Net loss attributable to non-controlling interests	(979)	(293)	(403)	(99)
Net income attributable to Orbotech Ltd.	\$76,504	\$53,807	\$36,554	\$24,713
Basic earnings per share	\$1.60	\$1.20	\$0.76	\$0.52
Diluted earnings per share	\$1.57	\$1.17	\$0.75	\$0.51
Weighted average number of shares (in thousands)				
used in computation of:				
Basic earnings per share	47,914	44,867	47,995	47,397
Diluted earnings per share	48,812	45,813	48,903	48,385

**ORBOTECH LTD.**  
**RECONCILIATION OF GAAP TO NON-GAAP RESULTS**

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

	Nine months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016
Reported operating income on GAAP basis	\$94,671	\$80,881	\$44,037	\$30,820
Equity-based compensation expenses	6,982	4,319	2,480	1,361
Amortization of intangible assets	18,635	20,750	6,371	7,615
Non-GAAP operating income	<u>\$120,288</u>	<u>\$105,950</u>	<u>\$52,888</u>	<u>\$39,796</u>
Reported net income attributable to Orbotech Ltd. on GAAP basis	\$76,504	\$53,807	\$36,554	\$24,713
Equity-based compensation expenses	6,982	4,319	2,480	1,361
Amortization of intangible assets	18,635	20,750	6,371	7,615
Tax effect of non-GAAP adjustments	(2,244)	(2,410)	(748)	(887)
Share in losses of equity method investee		450		150
Charges associated with the retirement of the 2014 Credit Agreement		6,228		
Non-GAAP net income	<u>\$99,877</u>	<u>\$83,144</u>	<u>\$44,657</u>	<u>\$32,952</u>
GAAP earnings per diluted share	<u>\$1.57</u>	<u>\$1.17</u>	<u>\$0.75</u>	<u>\$0.51</u>
Non-GAAP earnings per diluted share	<u>\$2.05</u>	<u>\$1.81</u>	<u>\$0.91</u>	<u>\$0.68</u>
Shares used in earnings per diluted share computation - in thousands	48,812	45,813	48,903	48,385

**ORBOTECH LTD.**

**RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA**

U.S. dollars in thousands  
(Unaudited)

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income attributable to Orbotech Ltd. on GAAP basis	\$76,504	\$53,807	\$36,554	\$24,713
Minority interest and equity losses	(979)	157	(403)	51
Taxes on income	14,256	11,599	6,569	4,885
Financial expenses - net	4,890	15,318	1,317	1,171
Depreciation and amortization	32,749	32,997	11,101	11,599
Equity-based compensation expenses	6,982	4,319	2,480	1,361
ADJUSTED EBITDA	<u>\$134,402</u>	<u>\$118,197</u>	<u>\$57,618</u>	<u>\$43,780</u>

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	\$ 75,525	\$ 53,514	\$ 36,151	\$ 24,614
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	32,749	32,997	11,101	11,599
Compensation relating to equity awards granted to employees and others - net	6,982	4,319	2,480	1,361
Increase in liability for employee rights upon retirement, net	842	1,531	685	652
Long- term loans discount amortization		1,866		
Deferred financing costs amortization	363	5,585	363	125
Deferred income taxes	(6,788)	(2,774)	(1,327)	(1,096)
Amortization of premium and accretion of discount on marketable Securities, net	37	112	36	18
Equity in earnings of Frontline, net of dividend received	(363)	1,105	20	266
Other	127	631	(290)	243
Decrease (increase) in accounts receivable:				
Trade	(59,138)	(35,315)	(24,245)	(28,091)
Other	(7,286)	608	(4,359)	4,311
Increase (decrease) in accounts payable and accruals:				
Trade	10,747	(2,734)	(1,611)	938
Deferred income	4,936	(1,790)	2,503	(246)
Other	16,690	4,202	18,177	10,598
increase in inventories	(29,811)	(4,571)	(11,907)	(3,456)
<b>Net cash provided by operating activities</b>	<b>45,612</b>	<b>59,286</b>	<b>27,777</b>	<b>21,836</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment	(19,850)	(17,387)	(7,936)	(5,272)
Consideration received for the sale of the Thermal Products business		12,000		
Withdrawal of (investment in) bank deposits	(184)	5,714	2,469	(774)
Purchase of marketable securities	(1,994)	(4,836)		(2,592)
Redemption of marketable securities	804	3,617		1,280
Investment in equity method investee		(1,000)		
Acquisition of the assets of AMST				
Decrease (increase) in funds in respect of employee rights upon retirement	(1,187)	194	(65)	68
<b>Net cash used in investing activities*</b>	<b>(22,411)</b>	<b>(1,698)</b>	<b>(5,532)</b>	<b>(7,290)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Repayment of long- term loan		(239,635)		
Repayment of bank loan	(16,364)			
Bank loan, net of \$2 million financing costs		108,031		
Issuance of shares, net		99,962		
Employee share options exercised	2,138	5,100	901	1,636
<b>Net cash provided by (used in) financing activities</b>	<b>(14,226)</b>	<b>(26,542)</b>	<b>901</b>	<b>1,636</b>
Net increase in cash, cash equivalents and restricted cash*	8,975	31,046	23,146	16,182
Cash, cash equivalents and restricted cash at beginning of period*	228,779	175,719	214,608	190,583
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD*</b>	<b>\$ 237,754</b>	<b>\$ 206,765</b>	<b>\$ 237,754</b>	<b>\$ 206,765</b>

\* Reclassified

**ORBOTECH LTD.**  
**FINANCIAL SUMMARY (\$ MILLIONS)**



	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017
<b>BALANCE SHEET AND CASH FLOW</b>													
Assets	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	1,147.2	1,205.4
Debt	295.9	276.1	268.1	232.3		207.8	108.0	108.2	88.4		88.5	72.3	72.4
Equity	511.6	532.5	549.2	567.8		587.2	696.1	724.1	752.8		778.4	809.1	850.6
Net working capital	447.6	463.7	487.0	455.8		452.3	460.6	494.8	503.9		530.8	545.4	591.4
Capital expenditures	3.2	3.9	4.2	8.0	19.3	5.8	6.4	5.3	6.2	23.6	5	6.9	7.9
Depreciation	3.7	3.7	3.7	3.9	15.1	4.0	4.3	4.0	5.1	17.3	4.8	4.6	4.7
Current ratio	3.5	3.8	3.8	3.2		3.2	3.2	3.3	3.2		3.4	3.3	3.4
Equity / Assets	49.3%	52.2%	52.6%	54.5%		56.9%	67.0%	67.3%	68.3%		69.7%	70.5%	70.6%
Book value / share (US\$)	12.2	12.5	12.9	13.2		13.6	14.7	15.2	15.7		16.2	16.9	17.7
Days sales outstanding	138	119	134	138		139	139	150	148		161	161	164
<b>INCOME STATEMENT</b>													
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017	Q3 2017
Revenues	184.8	189.0	190.5	188.2	752.5	190.4	196.0	205.0	215.0	806.4	187.6	210.7	245.7
GAAP Operating income	20.3	25.5	25.0	23.8	94.7	23.4	26.7	30.8	36.1	116.9	19.7	31.0	44.0
GAAP Net income	11.9	13.0	15.9	16.0	56.8	15.7	13.3	24.7	25.6	79.4	14.9	25.0	36.6
Non GAAP Operating income	30.1	32.9	33.4	31.7	128.1	31.3	34.8	39.8	44.8	150.8	27.8	39.6	52.9
Non GAAP Net income	20.8	22.9	23.7	23.4	90.7	23.2	27.0	33.0	33.7	116.9	22.3	32.9	44.7
Adjusted EBITDA \$	33.8	36.6	37.1	35.6	143.2	35.3	39.1	43.8	49.9	168.1	32.5	44.3	57.6
Adjusted EBITDA margin	18.3%	19.4%	19.5%	18.9%	19.0%	18.5%	20.0%	21.4%	23.2%	20.8%	17.3%	21.0%	23.5%
GAAP Earnings per share diluted	0.28	0.30	0.37	0.37	1.31	0.36	0.30	0.51	0.53	1.71	0.31	0.51	0.75
Non GAAP Earnings per share diluted	0.48	0.53	0.55	0.54	2.09	0.53	0.60	0.68	0.70	2.52	0.46	0.67	0.91
Average shares outstanding GAAP (K)	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385	48,513	46,461	48,768	48,868	48,903
Average shares outstanding Non GAAP (K)	42,860	43,360	43,491	43,575	43,322	44,062	44,992	48,385	48,513	46,461	48,768	48,868	48,903
<b>MARGIN ANALYSIS</b>													
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	Q1 2017	Q2 2017	Q3 2017
GROSS MARGIN-\$M	83.1	85.8	86.3	84.6	339.8	85.6	89.9	96.2	100.7	372.4	87.1	98.6	118.0
Gross margin (excluding X-items)	45.0%	45.4%	45.3%	45.0%	45.2%	45.0%	45.9%	46.9%	46.8%	46.2%	46.4%	46.8%	48.0%
Non-GAAP Operating margin (excluding X-items)	16.3%	17.4%	17.5%	16.9%	17.0%	16.5%	17.8%	19.4%	20.8%	18.7%	14.8%	18.8%	21.5%
Non-GAAP Net margin (excluding X-items)	11.2%	12.1%	12.4%	12.4%	12.1%	12.2%	13.8%	16.1%	15.7%	14.5%	11.9%	15.6%	18.2%
Non-GAAP Net margin (reported)	6.5%	6.9%	8.4%	8.5%	7.5%	8.2%	6.8%	16.1%	15.7%	14.5%	11.9%	15.6%	18.2%
R & D / revenues (excluding X-items)	13.9%	13.2%	14.7%	14.7%	13.5%	14.0%	13.3%	13.3%	12.6%	13.3%	15.3%	14.3%	13.0%
S,G&A/revenues (excluding goodwill amort.)	15.7%	15.9%	18.6%	18.6%	15.6%	15.8%	16.0%	15.2%	14.9%	15.4%	18.1%	15.4%	14.9%
Effective tax rate (excluding X-items)	12.7%	33.5%	16.8%	16.8%	17.7%	15.2%	16.5%	16.5%	15.5%	17.0%	16.3%	16.4%	15.4%
No. of employees	2,252	2,263	2,241	2,256		2,329	2,365	2,406	2,407		2,464	2,503	2,578

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



	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017
<b>SALES</b>											
PCB	34.5	38.3	141.1	39.9	43.8	38.0	48.6	170.4	49.8	51.1	52.6
as % of total sales	25%	29%	26%	29%	30%	26%	31%	29%	37%	33%	28%
FPD	38.6	35.9	166.2	35.6	39.8	49.4	60.2	185.1	43.0	58.6	64.5
as % of total sales	28%	27%	31%	25%	29%	34%	39%	32%	31%	38%	35%
SDD	58.4	57.5	208.2	62.5	53.6	57.4	48.3	221.8	41.5	44.1	65.9
as % of total sales	43%	43%	39%	44%	38%	39%	30%	38%	30%	28%	35%
Character Recognition	1.4	2.7	7.9	1.6	2.2	1.9	2.2	7.9	2.2	1.6	3.5
as % of total sales	1%	2%	1%	1%	2%	1%	1%	1%	2%	1%	2%
Solar	4.1	-	13.9	1.3	1.6	0.2	-	3.1	0.2	-	-
as % of total sales	3%	0%	3%	1%	1%	0%	0%	1%	0%	0%	0%
<b>Total</b>	<b>137.0</b>	<b>134.4</b>	<b>537.3</b>	<b>140.9</b>	<b>141.0</b>	<b>147.0</b>	<b>159.5</b>	<b>588.4</b>	<b>136.7</b>	<b>155.4</b>	<b>186.5</b>
<b>SERVICE</b>											
PCB	29.7	29.5	114.3	28.1	28.8	31.0	28.6	116.5	27.6	31.4	33.1
as % of total service	56%	55%	53%	57%	52%	53%	52%	54%	55%	57%	54%
FPD	9.9	9.5	38.7	9.0	10.1	10.4	11.3	40.8	10.4	11.0	11.5
as % of total service	19%	18%	18%	18%	18%	18%	20%	19%	20%	20%	19%
SDD	11.8	12.6	54.1	10.0	13.9	14.2	13.6	51.7	11.0	10.8	12.7
as % of total service	22%	23%	25%	20%	26%	24%	24%	22%	21%	20%	22%
Character Recognition	1.6	1.6	6.4	1.6	1.6	1.6	1.6	6.3	1.5	1.6	1.5
as % of total service	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Solar	0.5	0.5	1.6	0.8	0.6	0.9	0.4	2.7	0.4	0.5	0.4
as % of total service	1%	1%	1%	2%	1%	2%	1%	1%	1%	1%	1%
<b>Total</b>	<b>53.5</b>	<b>53.8</b>	<b>215.2</b>	<b>49.5</b>	<b>55.0</b>	<b>58.0</b>	<b>55.6</b>	<b>218.0</b>	<b>50.9</b>	<b>55.3</b>	<b>59.2</b>
<b>TOTAL REVENUES</b>											
PCB	64.2	67.9	255.5	68.0	72.6	69.0	77.2	286.9	77.5	82.5	85.7
as % of total revenues	34%	36%	34%	36%	36%	34%	36%	35%	42%	39%	35%
FPD	48.5	45.5	205.0	44.7	49.9	59.8	71.6	225.9	53.4	69.6	76.0
as % of total revenues	25%	24%	27%	24%	26%	29%	33%	28%	28%	33%	31%
SDD	70.2	70.1	262.3	72.5	67.5	71.6	61.9	273.5	52.5	54.9	78.6
as % of total revenues	37%	37%	35%	37%	35%	35%	29%	34%	28%	26%	32%
Character Recognition	3.0	4.3	14.3	3.2	3.8	3.5	3.8	14.3	3.7	3.2	5.0
as % of total revenues	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Solar	4.6	0.5	15.5	2.1	2.2	1.1	0.4	5.9	0.5	0.5	0.4
as % of total revenues	2%	0%	2%	1%	1%	1%	0%	1%	0%	0%	0%
<b>Total</b>	<b>190.5</b>	<b>188.2</b>	<b>752.5</b>	<b>190.4</b>	<b>196.0</b>	<b>205.0</b>	<b>215.0</b>	<b>806.4</b>	<b>187.6</b>	<b>210.7</b>	<b>245.7</b>



ORBOTECH LTD.  
REVENUES BY GEOGRAPHY (\$ MILLIONS)



	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017
<b>SALES</b>											
North America	12.3	12.3	61.1	14.8	12.6	29.5	13.8	70.8	18.3	9.4	17.3
as % of total sales	9%	9%	11%	10%	9%	20%	9%	12%	13%	6%	10%
Europe	19.6	18.5	78.0	6.2	24.2	5.0	13.7	49.1	16.6	19.3	17.9
as % of total sales	14%	14%	15%	4%	17%	3%	8%	9%	12%	12%	10%
PAC	80.5	76.8	295.8	91.9	79.0	83.6	93.7	348.2	68.7	98.1	106.3
as % of total sales	59%	57%	55%	66%	56%	57%	59%	59%	51%	63%	57%
OAE	24.0	26.8	101.5	28.0	22.9	28.8	38.0	117.8	32.6	21.4	23.0
as % of total sales	18%	20%	19%	20%	16%	20%	24%	20%	24%	14%	12%
Others	0.6	0.1	1.0	-	2.3	-	0.2	2.6	0.5	7.2	22.0
as % of total sales	0%	0%	0%	0%	2%	0%	0%	0%	0%	5%	12%
<b>Total</b>	<b>137.0</b>	<b>134.4</b>	<b>537.3</b>	<b>140.9</b>	<b>141.0</b>	<b>147.0</b>	<b>159.5</b>	<b>588.4</b>	<b>136.7</b>	<b>155.4</b>	<b>186.5</b>
<b>SERVICE</b>											
North America	8.7	10.2	37.3	8.9	8.8	9.4	10.6	37.6	9.0	8.9	8.2
as % of total services	16%	19%	17%	18%	16%	16%	19%	17%	19%	16%	14%
Europe	6.7	6.3	30.1	6.2	6.9	6.8	6.3	26.2	5.5	6.8	8.6
as % of total services	13%	12%	14%	13%	13%	12%	11%	12%	11%	12%	15%
PAC	25.9	25.2	97.6	22.2	27.2	29.1	27.8	106.2	24.2	27.3	28.2
as % of total services	48%	47%	45%	45%	50%	50%	50%	49%	48%	49%	48%
OAE	12.1	11.9	49.5	12.0	11.8	12.6	10.5	47.0	11.9	9.3	9.9
as % of total services	0.2	0.2	23%	24%	21%	22%	19%	22%	22%	17%	17%
Others	0.1	0.2	0.7	0.2	0.3	0.2	0.3	1.0	0.3	3.0	4.3
as % of total services	0%	0%	0%	0%	0%	0%	1%	0%	0%	5%	7%
<b>Total</b>	<b>53.5</b>	<b>53.8</b>	<b>215.2</b>	<b>49.5</b>	<b>55.0</b>	<b>58.0</b>	<b>55.6</b>	<b>218.0</b>	<b>50.9</b>	<b>55.3</b>	<b>59.2</b>
<b>TOTAL REVENUES</b>											
North America	21.0	22.4	98.3	23.7	21.4	38.9	24.5	108.5	27.3	18.3	25.5
as % of total revenues	11%	12%	13%	12%	11%	19%	12%	13%	15%	9%	10%
Europe	26.3	24.8	108.1	12.4	31.1	11.8	20.0	75.3	22.1	26.1	26.5
as % of total revenues	14%	13%	14%	7%	16%	6%	9%	10%	12%	12%	11%
PAC	106.4	102.0	393.4	114.1	106.2	112.7	121.5	454.5	92.9	125.4	134.5
as % of total revenues	56%	54%	52%	60%	54%	55%	57%	56%	49%	60%	55%
OAE	36.1	38.7	151.0	40.0	34.7	41.4	48.5	164.5	44.5	30.7	32.9
as % of total revenues	19%	21%	20%	21%	18%	20%	23%	20%	24%	15%	13%
Others	0.7	0.3	1.7	0.2	2.6	0.2	0.5	3.6	0.8	10.2	26.3
as % of total revenues	0%	0%	0%	0%	1%	0%	0%	0%	0%	5%	11%
<b>Total</b>	<b>190.5</b>	<b>188.2</b>	<b>752.5</b>	<b>190.4</b>	<b>196.0</b>	<b>205.0</b>	<b>215.0</b>	<b>806.4</b>	<b>187.6</b>	<b>210.7</b>	<b>245.7</b>