analogic

2014 Shareholder Letter

Dear Fellow Shareholder,

Following a very strong fiscal 2013, global market headwinds in 2014 challenged both our medical and security segments. Despite revenues in fiscal 2014 declining 6% to $518 million compared with fiscal 2013, we maintained strong margins and cash flows positioning us for growth and significant profitability for the future. Our gross margins improved 3 points to 42% and we were able to maintain double-digit, non-GAAP* operating margins as well. Our cash position strengthened as we generated $48 million of operating cash flow and $30 million of free cash flow† for the year. Non-GAAP earnings per share for fiscal 2014 was $3.52.

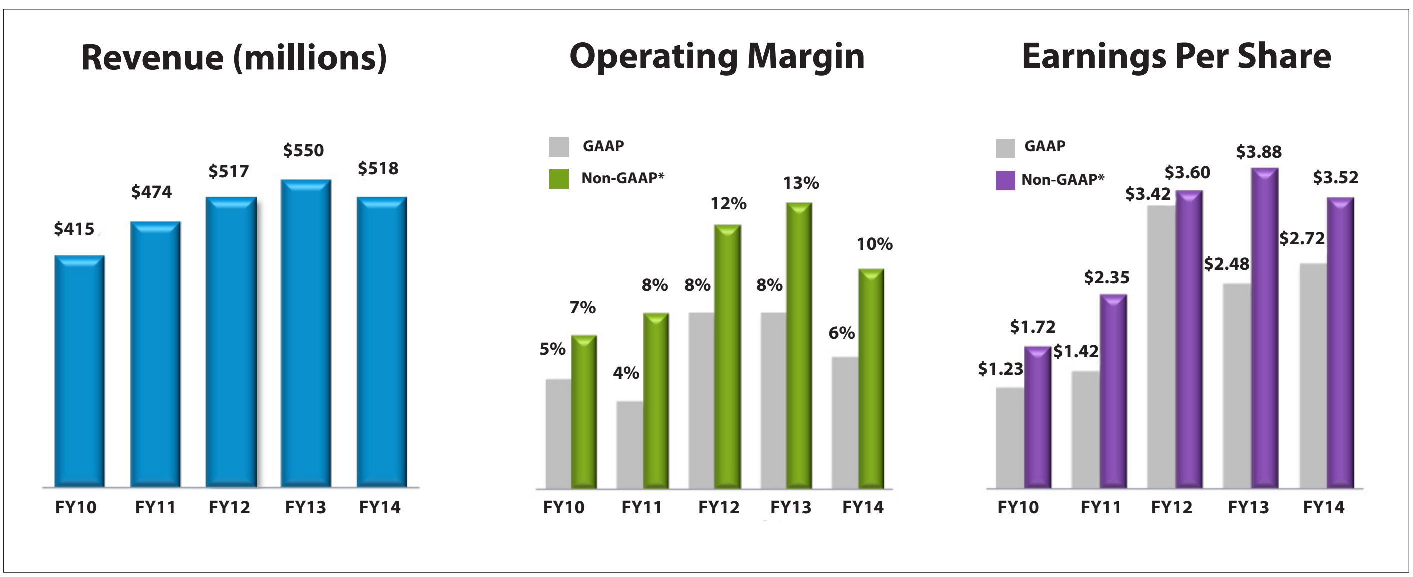
As we exited fiscal 2014 we began to see signs of fiscal 2015 returning us to growth. Our continued investment in research and development combined with last year's channel expansion is beginning to pay dividends as market conditions show signs of improvement and our new products are gaining traction. After the end of the fiscal year we received significant orders for threat detection and DNA analysis systems, increasing our security backlog to over $60 million, the highest levels in years.

We are continuing our strategy in each of our three lines of business: Medical Imaging, Ultrasound, and Security Technology. Let me describe briefly what we are doing in each of these areas.

In our Medical Imaging business, although market conditions were challenging, we remained focused on improving our profitability and delivered operating margins in line with our total Company objectives.

On the product front, we continue to focus on increasing our value content in CT and delivering high-performance, highly reliable critical imaging chain subsystems in MRI, CT, and digital mammography. Our first private label 16-slice CT system, designed for highly ruggedized environments, is now entering commercialization in China. In MRI, we continue to drive growth for our high-power, high-reliability RF and gradient amplifiers for standard and wide-bore MRI systems with our existing OEM customers as well as supplying new entrants in Asia. Finally, in digital mammography we continue to enable Siemens and other new OEM customers by offering best-in-class reliability with lower-dose, high-throughput 3D capable subsystems for breast cancer screening and procedure guidance.

In Ultrasound, we continued to augment our product portfolio to position ourselves for growth beyond our core markets of urology and surgery, expanding into faster growing point-of-care markets. We have now completed the integration of our fiscal 2013 Ultrasonix acquisition and stabilized our expanded sales organization. We introduced the Sonix+™ product family, with improved image quality and reli-



* Non-GAAP operating margin/income figures exclude certain charges; please refer to the non-GAAP reconciliation in the back of this letter.
† Free cash flow is defined as operating cash flow less capital expenditures.

ability, to further expand our portfolio and provide access to emerging markets. During the year, we were very pleased to receive FDA approval for the Sonic Window®, our new handheld ultrasound system for vascular access applications, and began initial clinical evaluation in key hospitals and medical centers.

After the end of the fiscal year we launched our new TriCore™ ultrasound architecture and the first product to use this new technology, the bk3000™. The bk3000 is in production and shipping to customers in both Europe and North America. The new TriCore architecture, which enables new levels of imaging performance and quick, confident assessments during exams, will be the basis of our new ultrasound platforms moving forward. With the introduction of the TriCore architecture, we also signed a private label agreement with a large multinational medical equipment company to expand our market reach into segments we historically have not addressed, such as general imaging and OB/GYN applications.

In our Security Technology business, demand for our high-speed threat detection systems continues to drive sales as airports outside of the U.S. begin to adopt the highest levels of detection for checked-baggage screening. Timing of several major airport tenders outside the U.S. during fiscal 2014 impacted our results in our Security Technology business. However, after year-end we received significant orders for both medium-speed and high-speed systems, which, together with orders for our Rapid DNA systems, brings our Security backlog to over $60 million, shippable in fiscal 2015. This level of backlog entering fiscal 2015 gives us confidence that our Security business will achieve strong growth during the year and beyond.

In fiscal 2015 we expect the company to return to mid-single-digit revenue growth as market conditions improve and our new products begin commercialization, with non-GAAP operating margins improving one to two points. Longer term, we see sustainable growth as we are targeting a return to upper-single-digit revenue growth with our non-GAAP operating margins reaching the mid-teens, with additional upsides from our new products and good fit inorganic opportunities.

I would like to thank all of our hardworking employees and their families for their dedication to making Analogic successful. I also thank our shareholders for their continued support and belief in our team.

Sincerely,

Jim Green
President and Chief Executive Officer

Non-GAAP Statement of Operations Reconciliation

(In thousands, except per share data)	Twelve Months Ended				
	July 31, 2010	July 31, 2011	July 31, 2012	July 31, 2013	July 31, 2014
GAAP Income From Operations	$ 21,320	$ 20,736	$ 39,963	$ 45,375	$ 29,088
Share-based compensation expense	5,791	9,638	13,396	11,601	11,512
BK distributor matter inquiry related costs	-	-	1,288	1,211	1,426
Tax refunds and related charges	-	-	2,714	-	-
Restructuring	690	7,066	-	3,519	3,483
Acquisition related gains and expenses	2,931	2,377	3,183	8,310	8,773
Non-GAAP Income From Operations	$ 30,732	$ 39,817	$ 60,544	$ 70,016	$ 54,282
Percentage of Total Net Revenue	7%	8%	12%	13%	10%
GAAP Net Income	$ 15,555	$ 17,833	$ 43,071	$ 31,121	$ 34,480
Share-based compensation expense	3,870	6,583	9,179	8,015	8,155
BK distributor matter inquiry related costs	-	-	830	779	906
Tax refunds and related charges	-	-	(8,285)	-	-
Restructuring	438	4,903	-	2,372	2,250
Acquisition related gains and expenses	1,860	1,146	2,101	6,486	7,615
Gain (loss) on sale of other investments and other	-	-	(1,603)	-	-
Gain on sale of discontinued operation	-	(924)	-	-	-
Tax benefit	-	-	-	-	(8,764)
Non-GAAP Net Income	$ 21,723	$ 29,541	$ 45,293	$ 48,773	$ 44,642
Percentage of Total Net Revenue	5%	6%	9%	9%	9%
GAAP Diluted Net Income Per Share	$ 1.23	$ 1.42	$ 3.42	$ 2.48	$ 2.72
Effect of non-GAAP adjustments	0.49	0.93	0.18	1.40	0.80
Non-GAAP Diluted Net Income Per Share	$ 1.72	$ 2.35	$ 3.60	$ 3.88	$ 3.52

Analogic Corporation - Headquarters USA
8 Centennial Drive, Peabody, MA 01960
T 978-326-4000
analogic.com

analogic