PARTICIPANTS

Corporate Participants

Mark J. Namaroff – Director-Strategic Marketing & Investor Relations
James W. Green – President, Chief Executive Officer & Director
Michael L. Levitz – Chief Financial Officer, Treasurer & Senior VP

Other Participants

Lawrence Solow – Analyst, CJS Securities, Inc.
Beth M. Lilly – Senior Vice President, GAMCO Asset Management Inc.
Dalton L. Chandler – Analyst, Needham & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Analogic Corporation's Fourth Quarter and Year-End Conference Call for Fiscal 2012. The following corporate officers are present: Mr. Jim Green, President and CEO; Mr. Michael Levitz, Senior Vice President, CFO and Treasurer; and Mr. John Fry, Senior Vice President, General Counsel and Corporation Secretary.

I'd like to remind everyone that a supplementary financial presentation will be used during today's call. If you have not already downloaded that presentation, you can do so at any time at investor.analogic.com. That presentation will remain available until October 30, 2012.

Now, I will turn the call over to Mark Namaroff, Director of Investor Relations. Sir, you may begin.

Mark J. Namaroff, Director-Strategic Marketing & Investor Relations

Thank you. Good afternoon, everyone, and welcome to Analogic's fourth quarter and year-end conference call for fiscal 2012. I'm sure you have downloaded our press release issued earlier today describing our results for our fourth quarter. If not, you can do so via our website at investor.analogic.com. Please note the procedure for asking questions at the conclusion of our prepared remarks. [Operator Instructions] We will repeat these instructions at the end of the presentation.

Before I turn the call over to Jim Green and Mike Levitz to review our fourth quarter and year-end results, I would like to remind everyone of our Safe Harbor statement. Today's call may include forward-looking statements, such as comments about our plans, expectations and projections. For more information on risks and other factors that could cause our actual results to differ significantly from our forward-looking statements, please refer to our most recent Form 10-K and 10-Q reports on file with the Securities and Exchange Commission.

And now, I'd like to turn the call over to Jim Green, our President and CEO.

James W. Green, President, Chief Executive Officer & Director

Thanks Mark. Good afternoon, everybody.

Let's move to the presentation and start with page 4, and we will start by taking a look at our Q4 financial highlights. Our fourth quarter revenues came in at $151 million, that's up 12% from Q4 last year. Our gross margin improved to 39%, that's up 3 points. Operating margin measured 11% on a U.S. GAAP basis, that's up 6 points from the same quarter last year. Our non-GAAP operating margin in the quarter was 15%, that's up 5 points. GAAP earnings per share measured $0.96 that's more than double last year's number. Our non-GAAP earnings per share measured $1.32 and that's up 59% from last year. And operating cash flows in the quarter were $14 million.

We move to slide 5 to take a look at the business highlights for the quarter. Medical Imaging revenue was in line with a strong Q4 of last year. CT grew significantly and MRI product revenues were up slightly. Mammography margins improved, as we address the supplier defect issues that we spoke about on the last call, although revenue was down on challenges in Europe. Motion control revenues remained down on the semiconductor market cycle, but we expect the lower basis to annualize early in this fiscal 2013. And during the quarter, we released a new high-value content CT system to an existing OEM customer.

Moving now to Ultrasound. Our Ultrasound business saw record sales, up 20% in spite of currency impacts and the economic challenges. Our direct business saw over 30% growth in North America, driven by our continued sales force expansion and future growth – further growth in robotic surgery guidance. Our European direct channel had better than expected growth, but was offset by the distributor transitions in Eastern Europe and a negative currency impact. During the quarter, we continued our North American sales force expansion.

Security continues to be a very bright spot with revenue growing 47% from Q4 last year. We now have full product line offerings covering medium-speed, high-speed, and small footprint demand. After the quarter ended, the Smiths HI-SCAN XCT, with Analogic CT Technology passed EU certification testing. And for some long-awaited exciting news after the quarter ended, L3 received the TSA IDIQ funding vehicle to kick off the initial U.S. recapitalization phase. This indefinite delivery and definite quantity vehicle is targeted to the eXaminer 3DX, today's workhorse, medium-speed, automatic explosive detection system.

Move on to slide 6, we'll take a look at the full year of fiscal 2012. First, I want to say that we're extremely proud to be named one of Forbes' Top 100 Most Trusted Public Companies. Now in FY 2012, our revenues for the year came in at $517 million and that's up 9% from fiscal 2011. Product shipment revenues of $495 million, that's up 11%. Our gross margin improved nearly a point to 37%.

GAAP operating margin was up 4 points to 8% and that equates to GAAP operating income of $40 million, that's up 93% from last year. Non-GAAP operating margin improved 4 points to 12%. That equates to $61 million in non-GAAP operating income, which is up 50% from the prior year. GAAP earnings per share was $3.42, that's up 141%, which includes a net benefit of $0.66 from tax refund. Non-GAAP earnings per share measured $3.60. That's up 53% from last year and we saw strong operating cash flows of $74 million in the year.

Now, let me turn it over to Mike Levitz, our CFO.

Michael L. Levitz, Chief Financial Officer, Treasurer & Senior VP

Thank you, Jim. Good evening, everyone. I'm going to describe the financial results for the fourth quarter of fiscal year 2012, which ended July 31 as compared to the same period of fiscal year 2011. I woll also spend some time describing the results for the full fiscal year 2012. This information begins on slide 8 of our online presentation.

As Jim mentioned, our sales in the fourth quarter were very strong, reaching $151 million or 12% growth as compared to the fourth quarter of last year. We saw very strong revenue performance in our Security segment, which was up 47% and our Ultrasound segment, which was up 20%. Revenues in our Medical Imaging segment in the fourth quarter were in line with the strong Q4 of last year as growth in this segment was offset by a decline in revenues in our motion control business associated with the down-cycle in the semiconductor market. I will review this segment performance in more detail later in this presentation.

Our gross margin reached 39% this quarter, which was a 3 point improvement from Q4 of last year, reflecting the positive impacts of favorable product mix, strong volume and lower costs and improved efficiencies following consolidation of our Ultrasound manufacturing operations from Denmark into our existing facilities in the United States and in China.

Our operating margin also improved significantly in the fourth quarter. Our GAAP operating margin was 11% this quarter, up 6 points from the same quarter last year and our non-GAAP operating margin was 15% this quarter, up 5 points from last year. We have now achieved our goal of double-digit non-GAAP operating margin in three consecutive quarters and exceeded our 10% goal for the full year with 12% non-GAAP operating margin for fiscal 2012, as Jim mentioned earlier. The significant improvement in our operating margin this quarter as compared to the same period last year is a result of strong revenue growth in our Security and Ultrasound segments which provide higher gross margins than our Medical Imaging segment, along with the benefit of a lower cost structure and improved operating efficiency following the organizational realignment last year.

Turning to slide 9 and a look at our P&L, the strong revenues and significantly improved operating margin in the fourth quarter of 2012 delivered GAAP net income of $12.1 million or $0.96 per diluted share representing EPS growth of 113% over Q4 of last year.

Our non-GAAP net income reached $16.6 million or $1.32 per share in the fourth quarter, representing non-GAAP EPS growth of 59% over last year. Consistent with prior periods, our non-GAAP results exclude certain items as detailed in the appendix to this online presentation in our earnings release such as stock compensation, restructuring and acquisition related charge. Of note, this quarter, our non-GAAP results exclude higher stock compensation charges in the fourth quarter, reflecting increased accruals for performance stock on our improved current and future expected performance, as well as the restructuring charge in the fourth quarter of last year.

Looking at the full year results on slide 10, our fiscal 2012 revenues reached a record for Analogic at $516.6 million, up 9% from last year on 11% growth in our product revenues. Our full-year GAAP operating margin was 8%, up 4 points from last year. And our non-GAAP operating margin reached 12% for the full year, up 4 points from last year and ahead of our goal of 10% for this year as I noted earlier.

Our GAAP net income for the full year reached $43.1 million or $3.42 per diluted share, representing EPS growth of 141% over last year. Our non-GAAP net income reached $45.3 million or $3.60 per diluted share, representing EPS growth of 53% over last year. Of note, in fiscal 2012, our non-GAAP results exclude the benefit of a significant tax refund we received in the second quarter of this year as well as higher performance based stock compensation charges this year than in prior years, reflecting as I said on the quarterly basis our improved current and future expected performance.

Our effective tax rate on a GAAP basis of 3% this year reflects the benefit of the significant IRS tax refund in the second quarter. I expect our effective tax rate next year to be between 28% to 30%, subject to renewal by Congress of the U.S. research and development tax credit.

Now I'd like to walk you through our results by reportable segment. Turning to slide 11, our Medical Imaging segment revenue in the fourth quarter was $81 million in line with our strong fourth quarter last year. These revenues reflect strong growth in our CT business, which recovered from lower sales earlier this year due to customer ordering patterns. The growth in CT this quarter was offset by lower mammography revenues reflecting European headwind. The net growth in our medical revenues in this segment was offset by lower sales in our Motion Control business, resulting from a down cycle in the semiconductor market which began negatively impacting our growth during the first half of fiscal 2012. As Jim said, we expect this to annualize in the first quarter of 2013.

While revenues in this segment remain constant year-over-year, our non-GAAP operating margin improved 5 points to 13% this quarter. This improvement was a result of favorable product mix, additional strategic customer funded engineering project, and a lower cost structure following our restructuring last year.

So please turn to slide 12. I'll briefly discuss the financial results of our Ultrasound segment. Revenue in this segment grew significantly, reaching a record of $42 million in the fourth quarter up 20% from last year. The revenue growth reflects over 30% growth in sales in North America, reflecting growing demand for our Ultrasound system for robotic surgery, as well as increased sales coverage on our core urology and surgery markets.

We also saw stronger than expected growth this quarter from direct sales in Europe, offset by unfavorable foreign currency rates which had a 7 point negative impact on Ultrasound segment revenue growth this quarter. Also offsetting this growth was lower sales to distributors, primarily reflecting transition of certain distributor relationships.

In addition to the strong growth in our direct sales, we also saw strong growth in sales of our OEM transducers in the fourth quarter, as compared to the same period last year. Our non-GAAP operating margin in the Ultrasound segment reached 13% in the fourth quarter, up 8 points from last year. The significant growth in operating margins reflects the strong growth in sales, favorable product mix, and benefited the lower cost structure following the consolidation of our manufacturing out of Denmark and into our existing facilities in U.S. and China that began in fiscal 2011.

The improved operating margin is net of an increased investment in expanding our sales force and new product development activities to drive future growth in this segment.

Please turn to slide 13, and our Security Technology business. This segment had one of its strongest quarters in several years with revenues reaching $28 million in the fourth quarter, up 47% from the same quarter last year. This growth was driven by increased sales of our medium speed checked baggage scanners, as well as initial production shipments of our high-speed and small footprint systems. Our non-GAAP operating margin was 27% in the quarter in line with our strong fourth quarter performance last year, on strong product sales, offset by lower customer funded engineering.

Please now turn to slide 14, for a brief discussion of our other key financial metrics. We finished the year with $187 million in cash, up over $70 million from a year ago. This increase reflects strong operating cash flows to $74 million for the full fiscal year 2012, which included a $12 million IRS tax refund. Offsetting that was $28 million of cash for investing activities in the year, as well as repurchase of over $23 million of our common stock, as well as our regular dividend of $5 million for the year.

In the fourth quarter of this year, we had operating cash flows of $14 million; capital spending of $8 million, primarily associated with our facilities investments in Shanghai and Pennsylvania. And we repurchased approximately 120,000 shares of our common stock for $7.5 million.

In summary, Analogic finished fiscal 2012 in very strong fashion. We saw one of our best sales quarters in recent memory and once again had a record year for revenue. We also saw the fulfillment of our three-year goals to drive revenue growth and double-digit operating margin even in a challenging economic environment. It has truly been a successful year and we look forward to continue strong performance this coming year.

Please note our upcoming Annual Investor Day is scheduled for October 4 at the NASDAQ MarketSite in New York City. It is a great opportunity to hear from our key business leaders and better understand our longer term strategy and financial goals.

With that, I'll now turn the call back to Jim.

James W. Green, President, Chief Executive Officer & Director

Thanks Mike. Okay, let's move to slide 15. In summary, let me just say in a nutshell, our fiscal 2013 outlook is a solid growth on continued improving margins. Our Medical Imaging business is expected to outperform the market with mid-single digit growth. This growth will be driven by increased value content incorporating breakthrough reliability for lowered customer cost of ownership. We'll be introducing new key subsystems and systems with advanced reliability and performance.

We do expect challenges in mammography from economic challenges in Europe and continued lower revenues in motion control. Staying the course with our strategy, we will continue to enable and expand our customer base and work with selected new entrants.

Overall, we expect Ultrasound will outperform the market with double-digit growth in direct sales. We will further expand sales coverage in North America and continue movement into adjacent markets that are moving to real-time intraoperative guidance. Our next-generation development will enable top-tier image quality at extreme depth. Our OEM probes revenue is expected to remain somewhat flat and currency could impact our Ultrasound segment.

Coming off a strong fiscal 2012, Security is expected to continue a strong double-digit growth driven by our expanded full product line family covering all three performing segments, small footprint, medium speed, and high speed. We expect to see TSA orders starting the recapitalization of the predominantly medium speed U.S. install base with shipments in our second half. We expect to see continued international growth in high-speed and small footprint segments.

And with Smiths passing EU certification, we expect international shipments of this new high-speed technology in our second half. So, for our fiscal 2013 outlook, we expect high single-digit organic revenue growth with continued operating margin improvement. We're targeting 1 percentage point operating margin improvement from our FY 2012 base. In addition, we continue to explore opportunities to augment growth with good fit acquisitions that accelerate our long-term strategy.

Thank you. And we'll now open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. And at this time and we will open the floor for questions. [Operator Instructions] The first question comes from Larry Solow with CJS.

<Q – Larry Solow – CJS Securities, Inc.>: Good afternoon.

<A – Jim Green – Analogic Corp.>: Hi, Larry.

<Q – Larry Solow – CJS Securities, Inc.>: First of all, congratulations, nice quarter, nice year. Just the first question, just getting back on your – to your last comment about the operating margin growing about 100 bps, that's your target. Any particular segment that you think has more potential to grow this year? Obviously all your segments are now on a non-GAAP basis in double digits, which was your short-term goal or your three-year goal, so is there any one – I mean does Security continue to grow from sort of the 20% that it did this year, with obviously pretty good contribution margin on the incremental sales or any more color on that would be great?

<A – Jim Green – Analogic Corp.>: Well, I just – I would say overall, I expect all three segments to continue to grow in profitability with some of the faster growing segments like Ultrasound and Security really contributing dramatically as they grow.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And – go ahead, go ahead. Yeah, please.

<A – Mike Levitz – Analogic Corp.>: So, one other things we've also talked about is, you've seen that we spent some money on our facilities in other places and one of the reasons that we're doing that is to drive gross margin improvement. And, so we now are in our new China facility and we expect that to also contribute to the growth that's coming in.

<Q – Larry Solow – CJS Securities, Inc.>: Okay, great. And...

<A – Jim Green – Analogic Corp.>: Larry, I would also just remind you, remember that we're investing in the sales force...

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Jim Green – Analogic Corp.>: ...and in new products, so that does have somewhat of a drag on what would be an even faster growth trajectory in certain areas, for instance, in Ultrasound.

<Q – Larry Solow – CJS Securities, Inc.>: Right. And just on the Ultrasound, just the direct piece, what percentage of revenues is that overall of that business?

<A – Jim Green – Analogic Corp.>: It's probably somewhere around three-fourths of it or so...

<Q – Larry Solow – CJS Securities, Inc.>: Okay. So, it's been – okay.

<A – Jim Green – Analogic Corp.>: It's a predominant portion.

<Q – Larry Solow – CJS Securities, Inc.>: Right, okay, good. And then I guess you've had some issues, I know you mentioned that last quarter, too; Russia was one of the areas with some new distributors there or transition?

<A – Jim Green – Analogic Corp.>: Right. Right. We had indicated that there needed to be some changes of distributor relationships in a small number of areas where we've taken out that business and we're in the process of developing a relationship with new opportunities to sell into those segments.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Just on Medical Imaging, is it both CT and MRI that you expect to do sort of, I guess, a little bit above the mid-single digits of mammography and motion control coming down, but is it – are both of those sort of driving the upside there?

<A – Jim Green – Analogic Corp.>: I would think so, yeah, plus there's also – there's some new products coming in with more content and which also is driving growth and share and more specifically in the CT side.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And then just lastly on the mammography piece, obviously EU – Europe's giving you some headwinds. Is there any offset – Siemens in the U.S., are they having any success in their penetration and do you expect growth in the U.S.?

<A – Jim Green – Analogic Corp.>: Well, we don't really comment on – for our key customers.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Well, just how about overall growth in the U.S.?

<A – Jim Green – Analogic Corp.>: I think it's fair to say that they – everyone is giving the same message as far as issues in Europe and more in Southern Europe...

<Q – Larry Solow – CJS Securities, Inc.>: Okay.

<A – Jim Green – Analogic Corp.>: ...they have more exposure.

<Q – Larry Solow – CJS Securities, Inc.>: Okay, great. I appreciate it Jim. Thanks.

<A – Jim Green – Analogic Corp.>: Thanks, Larry.

Operator: Thank you [Operator Instructions] Our next question comes from Beth Lilly with Gabelli Investors.

<Q – Beth Lilly – GAMCO Asset Management Inc.>: Good afternoon, it's Beth Lilly with Gabelli Investors.

<A – Jim Green – Analogic Corp.>: Hi, Beth.

<A – Mike Levitz – Analogic Corp.>: Hi, Beth.

<Q – Beth Lilly – GAMCO Asset Management Inc.>: Congratulations on the terrific results.

<A – Jim Green – Analogic Corp.>: Thank you.

<A – Mike Levitz – Analogic Corp.>: Thank you.

<Q – Beth Lilly – GAMCO Asset Management Inc.>: You've certainly executed and exceeded what we expected you to do, so this is wonderful. I wanted to just follow up and ask about – you talked about augmenting the growth, as you look out at the landscape, are you thinking about any of your particular businesses where you're thinking of doing acquisitions?

<A – Jim Green – Analogic Corp.>: Yeah. We've for a while have been saying that we're interested in areas where we can either tuck-in or bolt-on to our direct business. So, more in the Ultrasound side of things, where we'd like to accelerate growth and accelerate capacity – distribution capacity and prefer – and also hopefully bring in may be some new technology that fits well within those call points. So, that's the primary area that we've been looking. And we've been looking for a while, we're pretty particular, we're not in a situation where we feel like we have to do anything. So, we can be selective, but that's primarily the area that we have a lot of interest in.

<Q – Beth Lilly – GAMCO Asset Management Inc.>: Okay, great. And now in terms of the 1% margin improvement, I wanted to just throw down a little bit more was that – and so, you talked about gross margins and capacity and the new facilities in China and everything. Can you expand a little bit more in terms of – and you guys have taken out costs out of the system, just as you look forward in the next year or so, what changes – or where do you see the margin improvement coming from? Sny particular business division or geography or anything like that, just describe a little bit better?

<A – Jim Green – Analogic Corp.>: I think on the cost side, it's fair to say that we've done a nice job of integrating and consolidating the supply chain and leveraging the infrastructure, so that those savings can be applied across all of our operating segments. So, those – as we complete the transition and ramp up more in our China facility, as of today, there is still some double costing going on with activities in both locations. So as that completes the transition, those costs will really start to roll into our product mix. And there, we typically see it at the gross margin line and then dropping down. Other areas that we're looking at is just with the new growth in some of these high-margin areas, that drives expansion of our margins at the gross margin line and down. And then, as I've said earlier, we continue to invest in building the capacity to really further and sustainably accelerate this growth because we're not really yet at full coverage for being able to see all of the opportunities for our products and primarily in the direct side of the business.

<Q – Beth Lilly – GAMCO Asset Management Inc.>: Okay, great. Terrific. Thanks so much.

<A – Jim Green – Analogic Corp.>: Thanks, Beth.

Operator: Thank you. Our next question comes from Dalton Chandler with Needham & Company.

<Q – Dalton Chandler – Needham & Co. LLC>: Hi, good afternoon and congratulations.

<A – Jim Green – Analogic Corp.>: Thanks, Dalton.

<Q – Dalton Chandler – Needham & Co. LLC>: Just wanted to ask about the Security business. It was really kind of a breakout quarter here, but if I heard you correctly, you're not expecting the new TSA initiative or Smiths to kick in until the second half of fiscal 2013. So, the question is, I guess, what should we expect the two quarters between now and then to look like or should – is this sort of a new base and you'll start growing off of that or was there something unusual in this quarter?

<A – Jim Green – Analogic Corp.>: Well, you know, we've always said that we need to look at this company as on an annual basis because we do experience a lot of lumpiness and we do have seasonality with our strongest quarters typically being second and fourth. So, I mean, I think it's fair to assume that that's kind of the typical morphology. But, we do see – on the Security side of things, we do expect it to be more second half loaded simply just due to timing with now finally getting on – I would say removing the logjam of the TSA and starting to see that coming along now with the funding vehicle in place and with orders now really soon to follow. There will, of course, still be demand in those areas just for replacement as things stay like we've been basically living on in over the last few years but we really see the acceleration coming and it is – we do expect to see year-over-year some very significant double-digit growth, but we do expect it to be more in the second half of the year than it had been in the first half.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay.

<A – Mike Levitz – Analogic Corp.>: The other thing I would add to that is just that we do have a backlog going into the year. And so, I would agree with everything Jim said, but we still have existing orders that are scheduled to ship in the next six months. So, it's not all back-end loaded.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. And can you give us the backlog number?

<A – Mike Levitz – Analogic Corp.>: Yeah, it's $24 million.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. And the number of units you shipped in the quarter?

<A – Mike Levitz – Analogic Corp.>: I don't know that we disclosed units anymore from that.

<A – Jim Green – Analogic Corp.>: Yeah. Now that there is potential competitive information with unit numbers, we're not in a position to be giving that out now.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. Thanks very much.

<A – Jim Green – Analogic Corp.>: All right. Thanks, Dalton.

Operator: Thank you. Currently, there are no questions at this time. Now, I'll turn the conference to Mark Namaroff for closing comments.

James W. Green, President, Chief Executive Officer & Director

Okay. This is Jim Green. Let me just say thank you for joining us today. I want to remind you today that we are going to have our Analysts and Investors presentation, the annual one in New York on Thursday, October the 4th. It will be at the NASDAQ site in New York City. I'm sure you've already received your invitations, at least I hope so, and we look forward to seeing you there where you can learn more about our business. Please contact Mark Namaroff, our Director of Investor Relations, RSVP. We look forward to seeing you there next month. We also invite you to call-in again in December when our company will review our first quarter fiscal 2013 results. Thank you again and have a good evening. Thank you.

Operator: Thank you. For listeners who may have come in late, this call has been recorded. You can access the telephone replay by dialing 1-877-919-4059, or for international callers, 1-334-323-7226, and entering the passcode 578-65380. The telephone replay will be available at that number beginning two hours now and running through midnight Eastern Time Saturday, October 13, 2012. The webcast replay will be available on the Investor Relations page of our website at www.analogic.com beginning about three hours from now and will be available through Saturday, October 13, 2012.

Thank you for joining Analogic Corporation's fourth quarter and year-end earnings conference call. You may now disconnect.

