



# First Quarter FY2014 Earnings Call

December 9, 2013

Nasdaq: ALOG

# Safe Harbor

Any statements about future expectations, plans, and prospects for the Company, including statements containing the words “believes,” “anticipates,” “plans,” “expects,” and similar expressions, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including risks relating to product development and commercialization, limited demand for the Company’s products, risks associated with competition, uncertainties associated with regulatory agency approvals, competitive pricing pressures, downturns in the economy, the risk of potential intellectual property litigation, acquisition related risks, and other factors discussed in our most recent quarterly or annual report filed with the Securities and Exchange Commission. In addition, the forward-looking statements included in this presentation represent the Company’s views as of the date of this document. While the Company anticipates that subsequent events and developments will cause the Company’s views to change, the Company specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company’s views as of any later date.

# Use of Non-GAAP Financials

This presentation includes non-GAAP financial measures that are not in accordance with, nor an alternative to, generally accepted accounting principles and may be different from such non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles.

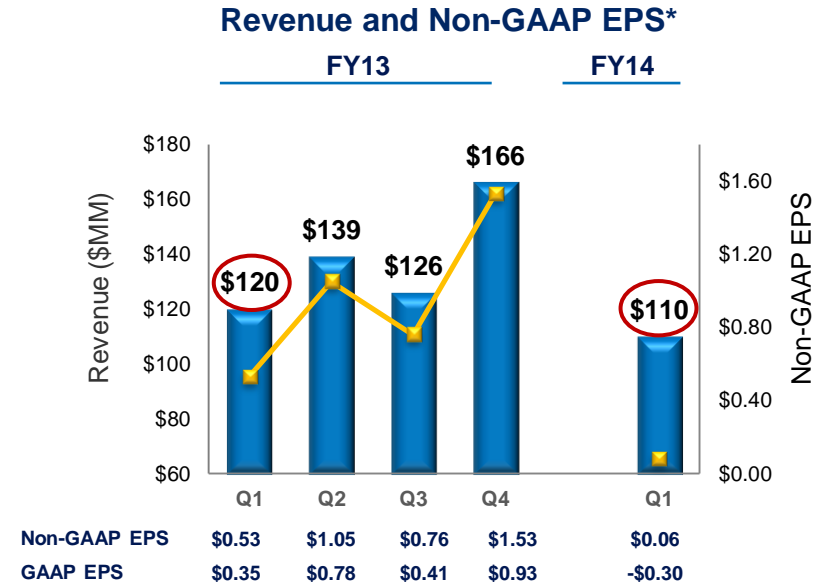
Management uses non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP operating margin, non-GAAP net income and non-GAAP diluted earnings per share to evaluate the Company's operating performance against past periods and to budget and allocate resources in future periods. These non-GAAP measures also assist management in understanding and evaluating the underlying baseline operating results and trends in the Company's business.

Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. They are limited in value because they exclude charges that have a material effect on our reported results and, therefore, should not be relied upon as the sole financial measures to evaluate our financial results. The non-GAAP financial measures are meant to supplement, and to be viewed in conjunction with, GAAP financial measures. A reconciliation of GAAP to non-GAAP financial measures can be found in the appendix to this presentation and our First Quarter FY2014 press release issued December 9, 2013 available at our website <http://investor.analogic.com>.

# Q1 '14 Financial Highlights

**Strong Growth in Ultrasound & Security offset by OEM Medical Timing; Reaffirm Full Year Growth and Margin Expectations**

- **Revenue \$110 MM, down 8% from Q1 '13**
  - Near term timing impact; strong pipeline supports FY14 growth expectations
- **Gross Margin 39%, up 1 pt.**
  - Shift to higher margin Ultrasound & Security
- **GAAP Operating Margin -5%; non-GAAP 0.2%**
  - Lower funded R&D as products move towards production
  - GAAP figures include acquisition-related charges
  - Ultrasound manufacturing consolidation on schedule, supporting FY14 margin expansion expectations
- **GAAP EPS (\$0.30) loss, down \$0.65**
- **Non-GAAP\* EPS \$0.06, down \$0.47**
- **Operating Cash Flow \$11MM**



\* Non-GAAP operating margin/income figures exclude certain charges; please refer to the non-GAAP reconciliation table in the back of this presentation and in Analogic's Q1 FY 2014 earnings release available at <http://investor.analogic.com>.

# Q1 '14 Business Highlights

## *Strong growth in direct Ultrasound and Security*

- **Ultrasound revenue up 9%, direct Sales up 29% as Ultrasound mix shifts toward direct**
  - Direct sales strong growth on core Urology and Surgery, plus Point of Care gaining traction
  - OEM Probe sales down as mix changes to direct
  - Received FDA clearance enabling GPS Guidance sales into Regional Anesthesia (after the quarter)
- **Completed PocketSonics acquisition, providing strategic platform technology for handheld and guidance applications**
- **Security sales up 25%**
  - New production high speed units drove growth; lower startup gross margin as ramp up production
  - Customer funded engineering down on completion of high speed EDS system development now transitioning to production
  - U.S. Government shutdown delayed POs for replacement cycle, TSA indicates significant demand over next 2-3 years
  - Installed first CT checkpoint in-lane evaluation system in Amsterdam's Schiphol airport (after the quarter)



Flex Focus Family



eXaminer® XLB High-Speed EDS System

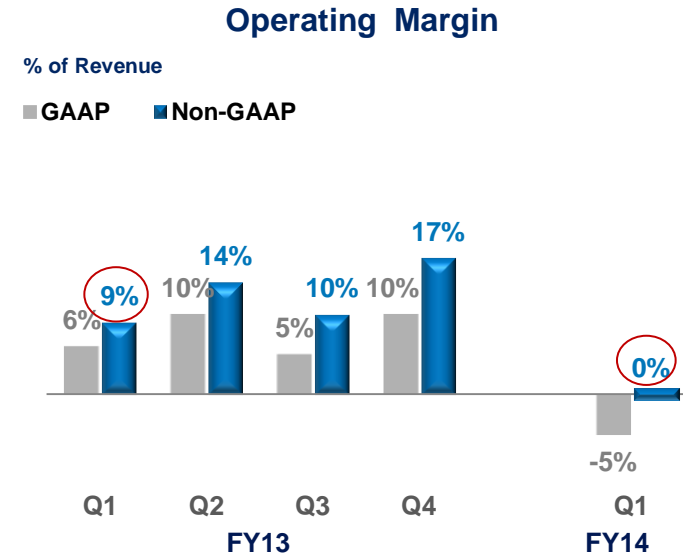
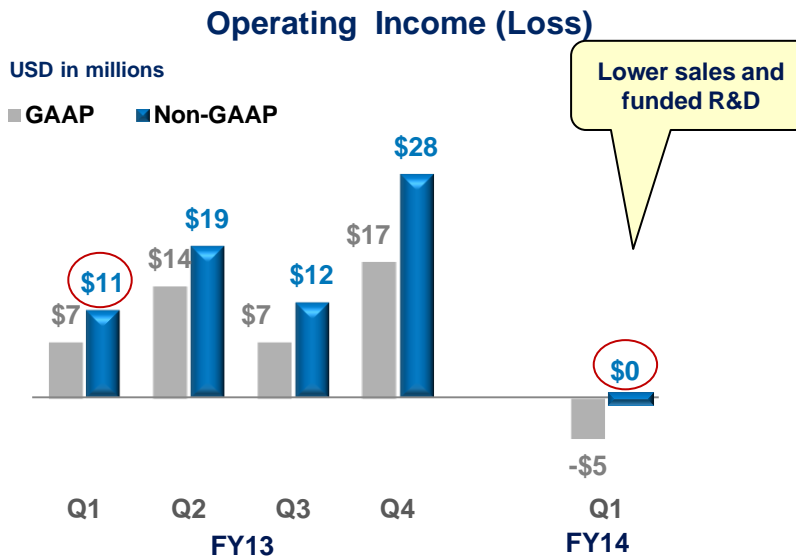
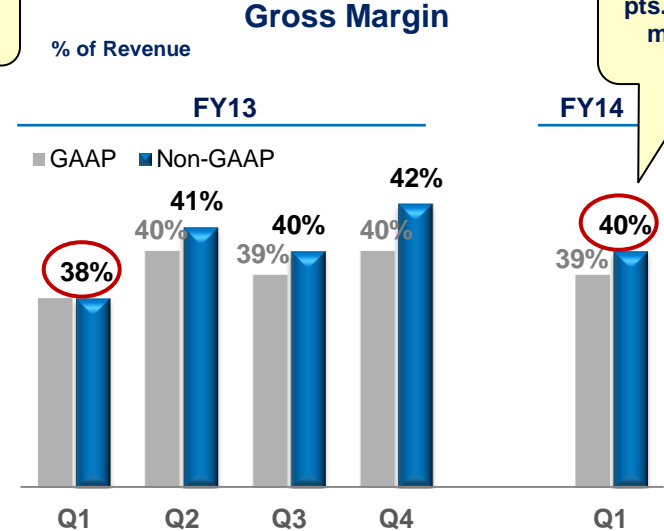
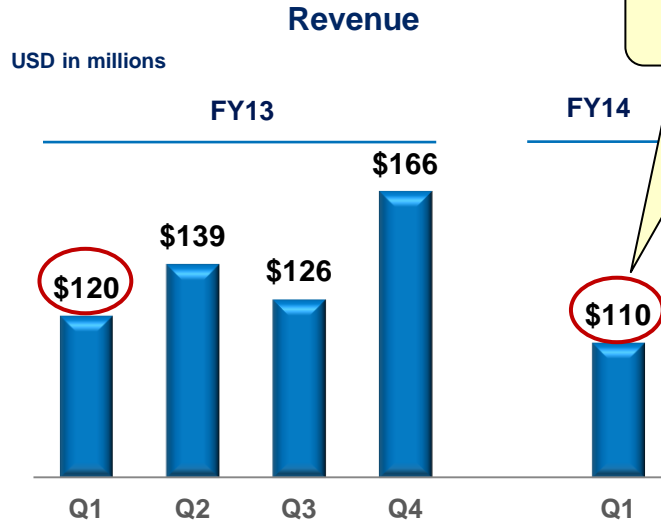
# Q1 '14 Business Highlights (continued)

*OEM Medical timing impact, returns to growth throughout the year*

- **Medical Imaging revenues down 21% from Q1 '13, back to YoY growth for remainder of the year**
  - Near-term negative impact of timing of OEM purchasing; strong forecast heading into second quarter and year
  - Down 3% on planned exit of our legacy patient monitoring product line
  - Down 6% on planned end of life of an older generation CT subsystem ahead of introduction of higher content CT scanner
  - Down 4% on lower customer funded engineering that precedes ramp later this fiscal year of new CT system
  - Strong RSNA showing with expanding new business pipeline moving toward higher content and private label product offerings



# Analogic Quarterly Performance Highlights



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# Q1 FY 2014 Financial Results

	GAAP		Non-GAAP	
	Quarters		Quarters	
Unaudited - \$ Millions ex. EPS	Q1 FY14	Q1 FY13	Q1 FY14	Q1 FY13
Products	\$ 108.5	\$ 112.6	\$ 108.5	\$ 112.6
Engineering	1.6	7.3	1.6	7.3
<b>Total Revenue</b>	<b>110.1</b>	<b>119.9</b>	<b>110.1</b>	<b>119.9</b>
<b>Gross Profit</b>	<b>42.9</b>	<b>45.1</b>	<b>44.4</b>	<b>46.0</b>
<b>Gross Margin</b>	<b>39%</b>	<b>38%</b>	<b>40%</b>	<b>38%</b>
<b>Operating Expenses</b>	<b>48.3</b>	<b>37.7</b>	<b>44.2</b>	<b>35.1</b>
<b>Op Ex % of Revenue</b>	<b>44%</b>	<b>31%</b>	<b>39%</b>	<b>29%</b>
<b>Operating (Loss) Income</b>	<b>(5.4)</b>	<b>7.4</b>	<b>0.2</b>	<b>10.9</b>
<b>Operating Margin</b>	<b>-5%</b>	<b>6%</b>	<b>0%</b>	<b>9%</b>
Other Income (Expense)	(0.4)	(0.9)	0.1	(0.9)
<b>(Loss) Income Before Taxes</b>	<b>(5.8)</b>	<b>6.5</b>	<b>0.3</b>	<b>10.0</b>
(Benefit From) Provision for Income Taxes	(2.0)	2.1	(0.5)	3.3
<b>Effective tax rate</b>	<b>35%</b>	<b>33%</b>	<b>n/a</b>	<b>33%</b>
<b>Net (Loss) Income</b>	<b>\$ (3.8)</b>	<b>\$ 4.4</b>	<b>\$ 0.8</b>	<b>\$ 6.7</b>
<b>EPS Diluted</b>	<b>\$ (0.30)</b>	<b>\$ 0.35</b>	<b>\$ 0.06</b>	<b>\$ 0.53</b>

Revenue down 8%

Gross margin improved on favorable mix and cost reductions

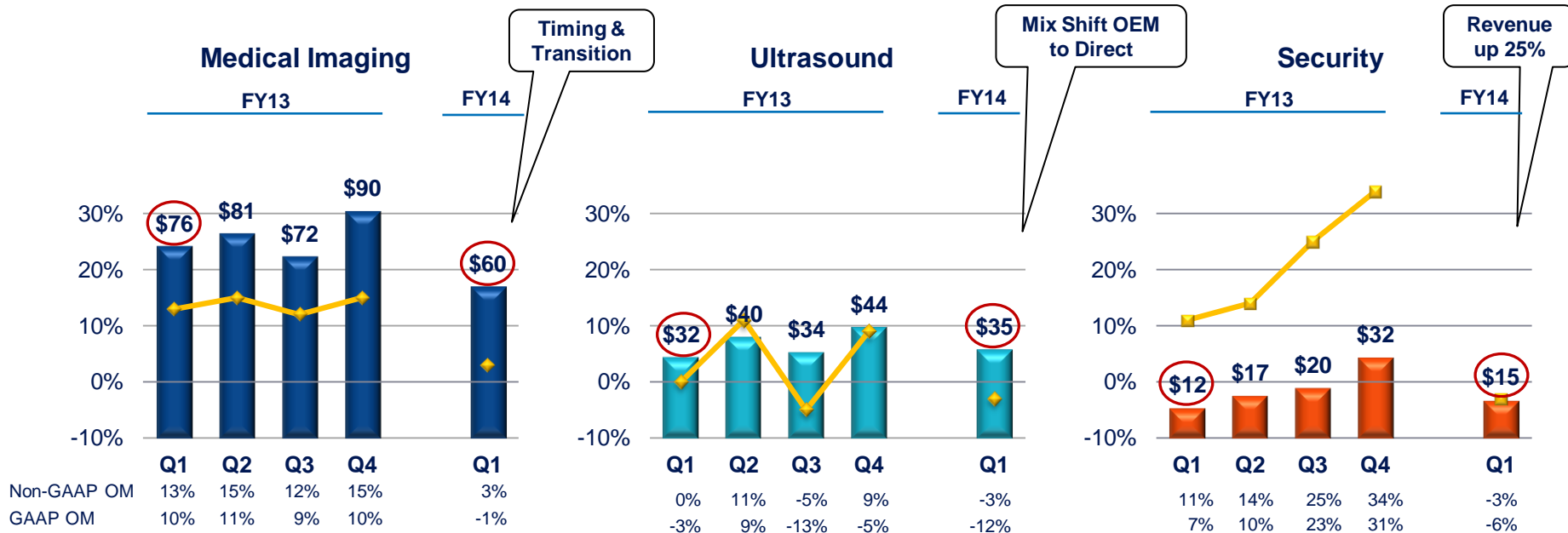
Operating expense growth related to Ultrasonix acquisition and lower customer-funded engineering

\* Non-GAAP gross margin/operating margin/income figures exclude certain charges; please refer to the non-GAAP reconciliation table in the back of this presentation and in Analogic's Q1 FY 2014 earnings release available at <http://investor.analogic.com>.



# Operating Performance by Segment

Revenue \$MM and Non-GAAP\* Operating Margin Trend



— Non-GAAP Operating Margin\*

- Medical Imaging** revenue down 21% from Q1 '13 driven by older generation CT end-of-life, lower funded engineering, exit of legacy patient monitor product and timing of OEM purchases; operating margin impacted by lower customer-funded engineering and the lower revenue in the period
- Ultrasound** revenue up 9%; strong sales in the direct channel, helped by the addition of point of care sales, offset by a reduction in OEM Ultrasound probe sales; operating margin impacted during restructuring transition period as plant consolidation progresses and by investment in point-of-care expansion
- Security** revenue grew 25% driven by volume of high speed checked baggage scanners; operating margin impacted by transition from funded engineering to lower gross margin during early production phase

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# Working Capital and Cash Flow

<b>Working Capital</b>	<b>Q1 FY14</b>	<b>Q4 FY13</b>	<b>Q1 FY13</b>
(Unaudited - in millions)			
<b>Cash and investments</b>	<b>\$ 105.1</b>	<b>\$ 113.0</b>	<b>\$ 170.9</b>
Accounts receivable	86.8	113.2	78.3
Inventories	118.8	116.3	123.3
Other working capital, Net	(54.0)	(73.0)	(58.3)
<b>Non-cash working capital</b>	<b>151.6</b>	<b>156.5</b>	<b>143.3</b>
<b>Net working capital</b>	<b>\$ 256.7</b>	<b>\$ 269.5</b>	<b>\$ 314.2</b>

<b>Cash Flow</b>	<b>Q1 FY14</b>	<b>Q4 FY13</b>	<b>Q1 FY13</b>
(Unaudited - in millions)			
Operating cash flow from operations	\$ 10.7	\$ 30.3	\$ (6.7)
Capital spending	4.2	5.7	5.6
<b>Free cash flow*</b>	<b>6.5</b>	<b>24.6</b>	<b>(12.3)</b>
Stock repurchased and dividends paid	5.0	3.1	5.4
<b>Cash flow after stock repurchase and dividends</b>	<b>\$ 1.5</b>	<b>\$ 21.5</b>	<b>\$ (17.7)</b>

- **Cash and Investments** decreased from Q4 '13 on \$11MM acquisition of Pocketsonics
- **Operating** cash flow positive on collection of receivables after strong Q4 '13

\* Free cash flow is defined as operating cash minus capital spending

# Fiscal 2014 Full Year Outlook

## *Strong direct growth overcomes short-term OEM timing...*

- **Medical Imaging returns to growth remainder of year; see slightly down to flat for full year**
  - Includes \$14 MM impact on exit of non-strategic legacy Patient Monitoring product line
  - Revenue recovers starting in Q2 on growth in product revenue across modalities in line with long term outlook
  - CT product launches drive growth later in fiscal year
  - Expect operating margin to improve through the remainder of the year, with recovery of revenue and improved gross margin coupled with increased customer-funded engineering and operating expense control
- **Overall Ultrasound maintains expansion strategy, delivers strong double-digit growth**
  - Expanded Surgery, Urology, and Point-of-Care sales reps continue move toward quota
  - Continued mix shift to direct on strong direct sales, lower margin OEM Probes stabilize at lower level
  - Expect operating margin to improve through the remainder of the year, with strong growth and stabilization of OEM Probes, coupled with completion of manufacturing consolidations
- **Continued investment in next generation guidance for long term growth and breakthrough handheld applications**
- **Security continues expansion, double-digit growth**
  - International adoption of high speed systems
  - US replacement delayed somewhat on government shutdown, though still expect solid incremental growth in mid-tier
  - Rapid DNA in early stage of adoption
  - Expect operating margin to improve through the remainder of the year on mix and operating expense control

***FY14 expected to deliver upper single digit revenue growth and continued operating margin expansion over FY13***

# Appendix

# Non-GAAP Statement of Operations Reconciliation

	Three Months Ended				
	31-Oct-12	31-Jan-13	30-Apr-13	31-Jul-13	31-Oct-13
(In thousands, except per share data)					
<b>GAAP Net Revenue</b>	\$ 119,867	\$ 138,554	\$ 125,765	\$ 166,177	\$ 110,082
Deferred revenue amortization	-	-	102	203	48
<b>Non-GAAP Net Revenue</b>	<u>\$ 119,867</u>	<u>\$ 138,554</u>	<u>\$ 125,867</u>	<u>\$ 166,380</u>	<u>\$ 110,130</u>
<b>GAAP Gross Profit</b>	\$ 45,086	\$ 55,399	\$ 49,140	\$ 67,054	\$ 42,936
Share-based compensation expense	564	537	350	484	296
Acquisition related expenses	303	303	1,203	3,128	1,209
<b>Non-GAAP Gross Profit</b>	<u>\$ 45,953</u>	<u>\$ 56,239</u>	<u>\$ 50,693</u>	<u>\$ 70,666</u>	<u>\$ 44,440</u>
Percentage of Total Net Revenue	38%	41%	40%	42%	40%
<b>GAAP Operating Expenses</b>	\$ 37,651	\$ 41,596	\$ 42,428	\$ 49,629	\$ 48,301
Share-based compensation expense	(2,080)	(2,773)	(1,654)	(3,159)	(2,439)
B-K distributor matter inquiry related costs	(75)	(330)	(335)	(471)	(331)
Restructuring	-	-	(496)	(3,023)	39
Acquisition related gains and expenses	(438)	(1,125)	(1,443)	(367)	(1,343)
<b>Non-GAAP Operating Expenses</b>	<u>\$ 35,058</u>	<u>\$ 37,368</u>	<u>\$ 38,500</u>	<u>\$ 42,609</u>	<u>\$ 44,227</u>
Percentage of Total Net Revenue	29%	27%	31%	26%	40%
<b>GAAP (Loss) Income From Operations</b>	\$ 7,435	\$ 13,803	\$ 6,712	\$ 17,425	\$ (5,365)
Share-based compensation expense	2,644	3,310	2,004	3,643	2,735
B-K distributor matter inquiry related costs	75	330	335	471	331
Restructuring	-	-	496	3,023	(39)
Acquisition related gains and expenses	741	1,428	2,646	3,495	2,552
<b>Non-GAAP Income From Operations</b>	<u>\$ 10,895</u>	<u>\$ 18,871</u>	<u>\$ 12,193</u>	<u>\$ 28,057</u>	<u>\$ 213</u>
Percentage of Total Net Revenue	9%	14%	10%	17%	0%
<b>GAAP Other Income (Expense)</b>	\$ (906)	\$ (402)	\$ 190	\$ (160)	\$ (421)
Acquisition related loss	-	-	-	-	484
<b>Non-GAAP Other Income (Expense)</b>	<u>\$ (906)</u>	<u>\$ (402)</u>	<u>\$ 190</u>	<u>\$ (160)</u>	<u>\$ 63</u>
Percentage of Total Net Revenue	-1%	0%	0%	0%	0%
<b>GAAP Net (Loss) Income</b>	\$ 4,381	\$ 9,809	\$ 5,224	\$ 11,707	\$ (3,775)
Share-based compensation expense	1,821	2,216	1,432	2,546	1,852
B-K distributor matter inquiry related costs	49	212	215	303	245
Restructuring	-	-	372	2,000	(25)
Acquisition related gains and expenses	478	921	2,382	2,705	2,522
<b>Non-GAAP Net Income</b>	<u>\$ 6,729</u>	<u>\$ 13,158</u>	<u>\$ 9,625</u>	<u>\$ 19,261</u>	<u>\$ 818</u>
Percentage of Total Net Revenue	6%	9%	8%	12%	1%
<b>GAAP Diluted Net (Loss) Income Per Share</b>	\$ 0.35	\$ 0.78	\$ 0.41	\$ 0.93	\$ (0.30)
Effect of non-GAAP adjustments	0.18	0.27	0.35	0.60	0.36
<b>Non-GAAP Diluted Net Income Per Share</b>	<u>\$ 0.53</u>	<u>\$ 1.05</u>	<u>\$ 0.76</u>	<u>\$ 1.53</u>	<u>\$ 0.06</u>

# Non-GAAP Segment Financial Reconciliation

(In thousands, except per share data)

	Three Months Ended				
	31-Oct-12	31-Jan-13	30-Apr-13	31-Jul-13	31-Oct-13
<b>Medical Imaging</b>					
<b>GAAP (Loss) Income From Operations</b>	\$ 7,399	\$ 8,535	\$ 6,506	\$ 9,424	\$ (471)
Share-based compensation expense	1,581	2,100	1,179	2,203	1,582
Restructuring	-	-	-	1,099	(54)
Acquisition related expenses	733	1,195	1,110	502	738
<b>Non-GAAP Income From Operations</b>	<b>\$ 9,713</b>	<b>\$ 11,830</b>	<b>\$ 8,795</b>	<b>\$ 13,228</b>	<b>\$ 1,795</b>
Percentage of Segment Revenue	13%	15%	12%	15%	3%
<b>Ultrasound</b>					
<b>GAAP (Loss) Income From Operations</b>	\$ (794)	\$ 3,527	\$ (4,422)	\$ (2,046)	\$ (4,030)
Share-based compensation expense	593	\$ 585	\$ 442	\$ 788	\$ 656
BK Distributor matter inquiry related costs	75	\$ 330	\$ 335	\$ 471	\$ 331
Restructuring	-	\$ -	\$ 496	\$ 1,713	\$ 49
Acquisition related expenses	8	\$ 108	\$ 1,436	\$ 3,056	\$ 1,814
<b>Non-GAAP (Loss) Income From Operations</b>	<b>\$ (118)</b>	<b>\$ 4,550</b>	<b>\$ (1,713)</b>	<b>\$ 3,981</b>	<b>\$ (1,180)</b>
Percentage of Segment Revenue	0%	11%	-5%	9%	-3%
<b>Security</b>					
<b>GAAP (Loss) Income From Operations</b>	\$ 830	\$ 1,741	\$ 4,628	\$ 10,047	\$ (864)
Share-based compensation expense	470	624	382	652	497
Restructuring	-	-	-	211	(34)
Acquisition related expenses	-	125	100	(63)	-
<b>Non-GAAP (Loss) Income From Operations</b>	<b>\$ 1,300</b>	<b>\$ 2,490</b>	<b>\$ 5,111</b>	<b>\$ 10,847</b>	<b>\$ (401)</b>
Percentage of Segment Revenue	11%	14%	25%	34%	-3%
<b>Analogic</b>					
<b>GAAP Income (Loss) From Operations</b>	\$ 7,435	\$ 13,803	\$ 6,712	\$ 17,425	\$ (5,365)
Share-based compensation expense	2,643	\$ 3,309	\$ 2,004	\$ 3,643	\$ 2,735
BK Distributor matter inquiry related costs	75	\$ 330	\$ 335	\$ 471	\$ 331
Restructuring	-	\$ -	\$ 496	\$ 3,023	\$ (39)
Acquisition related expenses	741	\$ 1,428	\$ 2,646	\$ 3,495	\$ 2,552
<b>Non-GAAP Income From Operations</b>	<b>\$ 10,894</b>	<b>\$ 18,870</b>	<b>\$ 12,193</b>	<b>\$ 28,057</b>	<b>\$ 213</b>
Percentage of Total Net Revenue	9%	14%	10%	17%	0%