

1 **SSYS Q4 2019 Earnings Script**

2

3 **SLIDE 1 & 2: TITLE SLIDES**

4

5 **SPEAKER: Operator**

6

7 Good day, ladies and gentlemen. Welcome to today's conference call to discuss Stratasy's fourth
8 quarter and full year 2019 financial results.

9

10 My name is [INSERT], and I'm your operator for today's call. [INSERT RELEVANT INSTRUCTIONS].

11

12 And now, I'd like to hand the call over to Yonah Lloyd, Vice President of Investor Relations for
13 Stratasy. Mr. Lloyd, please go ahead.

14

15 **SLIDE 3 & 4: FLS & NON-GAAP DISCLOSURE**

16

17 **SPEAKER: Yonah Lloyd**

18

19 Good morning, everyone, and thank you for joining us to discuss our 2019 fourth quarter and full
20 year financial results. On the call with us today are our new CEO Yoav Zeif, and our CFO, Lilach
21 Payorski.

22

23 I remind you that access to today's call, including the prepared slide presentation, is available
24 online at the web address provided in our press release.

25

26 In addition, a replay of today's call, including access to the slide presentation, will also be available,
27 and can be accessed through the investor relations section of our website.

28

29 Please note that some of the information you will hear during our discussion today will consist of
30 forward-looking statements, including, without limitation, those regarding our expectations as to
31 our future revenue, gross margin, operating expenses, taxes and other future financial performance,
32 and our expectations for our business outlook. All statements that speak to future performance,
33 events, expectations or results are forward-looking statements. Actual results or trends could differ

34 materially from our forecast. For risks that could cause actual results to be materially different
35 from those set forth in forward-looking statements, please refer to the risk factors discussed in
36 Stratasys' annual report on Form 20-F for the 2019 year, which we are filing today with the SEC, as
37 well as our report on Form 6-K and the related press release concerning our earnings for the fourth
38 quarter of 2019, the latter two of which we are furnishing to the SEC today. Stratasys assumes no
39 obligation to update any forward-looking statements or information which speak as of their
40 respective dates.

41

42 As in previous quarters, today's call will include GAAP and non-GAAP financial measures. The non-
43 GAAP financial measures should be read in combination with our GAAP metrics to evaluate our
44 performance. Certain non-GAAP to GAAP reconciliations are provided in the table contained in our
45 slide presentation and in today's press release.

46 Now I would like to turn the call over to our CEO, Yoav Zeif - Yoav?

47

48 **SLIDE 5: CEO INTRODUCTION**

49

50 Thanks, Yonah.

51

52 I'll start by expressing my excitement and enthusiasm to be serving as Stratasys' new CEO at such a
53 pivotal time for the company.

54

55 Since joining Stratasys this month I have taken the opportunity to begin an in-depth review of the
56 business and am already impressed by the deep level of knowledge, professionalism, and
57 dedication exhibited at all levels of the organization.

58

59 I strongly believe in the solid foundation for growth that has been created at Stratasys, including an
60 innovative and expanding product portfolio, disciplined financial management, and the industry's
61 leading distribution partners. Last month I had the opportunity to attend our annual global partner
62 event where I met with many of our resellers. We believe that Stratasys has the strongest
63 distribution channel in our industry, and I appreciate their input and their passion for mutual
64 success – together we will have an exciting journey in the coming years.

65

66 I would like to thank Elan Jaglom and the board of directors, and the oversight committee of David
67 Reis, Scott Crump, and Dov Ofer, for the exemplary work done under Elan's leadership to guide the
68 company through the transition period, laying the groundwork and building the infrastructure that
69 will be the basis of our future growth.

70

71 In addition, over the last several years the Company has implemented a culture of financial
72 discipline led by Lilach Payorski and her team that has resulted in meeting our profitability targets
73 and maintaining a healthy balance sheet.

74

75 Starting in the back half of this year we will introduce our next phase of growth with a notable step-
76 change in our portfolio as we begin to launch a series of new products, including both
77 manufacturing and design prototyping focused solutions. We plan to invest in the success of these
78 new launches by increasing our go-to-market spending this year. We also expect to continue to see
79 the steadily increasing adoption of our manufacturing-focused platforms in our target verticals of
80 automotive, aerospace, and healthcare. Our penetration into industrial manufacturing applications
81 is among the deepest in the industry, and we plan to expand our leadership even further with our
82 new solutions.

83

84 Overall, I am extremely optimistic regarding the outlook of the business and believe that there is
85 tremendous potential to drive significant near-term and long-term value for all of our stakeholders.

86

87 I want to take the opportunity now, as the new CEO, to emphasize my strong belief that Stratasys
88 will continue to lead the additive manufacturing industry as it moves through what we, and
89 industry analysts, expect to be a period of growth and adoption.

90

91 We will continue to build on our key focus areas of design and engineering prototyping,
92 manufacturing, healthcare, and software; and we will work to generate a more effective operating
93 model and to execute with excellence on our go-to-market strategy with the goal of offering the
94 broadest, most innovative product portfolio and unique field-support service organization.

95

96 As I continue to learn and familiarize myself with Stratasys, I look forward to meeting our
97 customers, partners, investors and most importantly, our amazing employees worldwide, and to
98 providing further updates to you during the course of the year.

99

100 Now, I'd like to turn the call over to our CFO, Lilach Payorski, who will review the details of our
101 financial results. Lilach?

102

103 **SLIDE 6 & 7: FINANCIAL RESULTS SUMMARY**

104 **SPEAKER: Lilach Payorski**

105

106 Thank you, Yoav, and good morning, everyone.

107

108 2019 was a year of market challenges, primarily stemming from ongoing macro conditions. We
109 took a conservative approach and continued to drive efficiencies by remaining committed to
110 operating expense controls to meet our profitability objectives, while continuing to invest in our
111 new product introductions.

112

113 Total revenue in the fourth quarter was \$160.2 million compared to \$177.1 million for the same
114 period last year. On a constant currency basis, total revenue declined 9.3%.

115 For the full year 2019, total revenue was \$636.1 million compared to \$663.2 million for 2018, and
116 on a constant currency basis, full year revenue declined 3.1%.

117 After adjusting for the sale of our divested entities during 2018, on a like-for-like basis total
118 revenue declined 3.2% for the full year, and 2.2% on a constant currency basis.

119 Regionally, we saw mid-single digit year-over-year growth in our core Americas business for full
120 year 2019, offset by the impact of macro weakness in Europe and Asia.

121 In the Americas region, we are pleased with the growth we are seeing in our target verticals, as well
122 as the share of new systems that are being sold into manufacturing environments.

123 GAAP operating loss for the quarter was \$3.3 million, compared to an operating loss of \$3.8 million
124 for the same period last year.

125

126 Non-GAAP operating income for the fourth quarter was \$10.2 million, compared to operating
127 income of \$12.8 million for the same period last year.

128

129 GAAP net loss for the quarter was \$2.8 million, or (\$0.05) per diluted share, compared to a net
130 income of \$6.3 million, or \$0.12 per diluted share, for the same period last year.

131
132 Non-GAAP net income for the quarter was \$10.0 million, or \$0.18 per diluted share, compared to
133 Non-GAAP net income of \$11.3 million, or \$0.21 per diluted share, reported for the same period last
134 year.

135
136 For full year 2019, GAAP net loss was \$10.8 million, or (\$0.20) per diluted share, compared to a loss
137 of \$11.0 million, or (\$0.22) per diluted share, for fiscal 2018, and non-GAAP net income was \$30.5
138 million, or \$0.56 per diluted share, compared to non-GAAP net income of \$27.8 million, or \$0.52 per
139 diluted share, reported for fiscal 2018.

140

141 **SLIDE 8: REVENUE**

142

143 Product revenue in the fourth quarter was \$109.0 million, a decrease of 12.5% compared to the
144 same period last year, or 12.1% on a constant currency basis.

145

146 For the full year 2019, product revenue was \$430.7 million, a decrease of 5.6% compared to 2018.
147 Excluding the divested entities and on constant currency basis, full year product revenue decreased
148 3.3%.

149

150 Within product revenue, consumables revenue for the quarter decreased by 2.9% compared to the
151 same period last year and decreased 2.4% on constant currency basis.

152

153 On an annual basis, 2019 consumables revenue decreased 0.5%, and increased 1.7% after adjusting
154 for divestments and constant currency.

155

156 Materials for our higher-end platforms, such as Design Realism in PolyJet, and advanced materials
157 in FDM, including Ultem and Antero, grew year-over-year, demonstrating customer adoption of our
158 solutions for high-value applications. We also continue to see materials growth for our F123
159 platform.

160

161 The decrease in the period was driven primarily by regional weakness in Europe and Asia, coupled
162 with some decline in materials associated with our legacy platforms, which we believe will be offset
163 over time by strong growth in materials demand that will come from our new products, as well as
164 from systems that we have placed over the last few years.

165
166 System revenue for the quarter decreased 20.6%, compared to the same period last year, with no
167 material change on a constant currency basis. Our systems revenues were negatively impacted
168 primarily by continued macroeconomic weakness in Europe and Asia, as well as declines in certain
169 legacy product lines that we expect will be more than offset by our new product introductions.

170
171 For full year 2019, system revenue decreased 10.8%, and 8.3% after adjusting for divestments and
172 constant currency.

173
174 Services revenue in the fourth quarter was \$51.2 million, a decrease of 2.6% compared to the same
175 period last year, with no material change on a constant currency basis. For the full year 2019,
176 services revenue was \$205.3 million, a decrease of 0.7% compared to 2018, and relative flat on a
177 constant currency basis.

178
179 Within services revenue, customer support revenue increased by 1.0% compared to the same
180 period last year, with no material change on a constant currency basis. For the full year 2019,
181 customer support revenue increased 1.9% compared to 2018, and 3.1% on a constant currency
182 basis.

183
184 **SLIDE 9: GROSS MARGIN TRENDS**

185
186 GAAP gross margin was 49.1 % for the quarter, flat compared to the same period last year.

187
188 Non-GAAP gross margin was 52.4% for the quarter, compared to 52.2% for the same period last
189 year.

190
191 **SLIDE 10: OPERATING EXPENSES & OPERATING INCOME**

192

193 GAAP operating expenses decreased by 9.8% to \$81.9 million for the fourth quarter, as compared to
194 the same period last year. For full year 2019, GAAP operating expenses decreased 2.6% to 325.4
195 million.

196
197 Non-GAAP operating expenses decreased by 7.4% to \$73.8 million for the fourth quarter as
198 compared to the same period last year, driven by our focus on efficiency. We remain committed to
199 our long-term strategy and we continue to invest in developing new products that we believe will
200 expand our addressable markets.

201
202 For full year 2019, non-GAAP operating expenses decreased 4.0% to \$298.7 million reflecting our
203 successful operational discipline and the impact of divestments.

204

205 **SLIDE 11: BALANCE SHEET SUMMARY & CASH FLOW FROM OPERATIONS**

206

207 The Company used \$3.4 million of cash from operations during the fourth quarter, as compared to
208 \$18.7 million of cash generated in the fourth quarter last year, primarily due to proactive steps to
209 increase inventory levels in order to improve fulfillment time and support product demand as well
210 as to prepare for new product launches in 2020.

211

212 We ended the fourth quarter with \$321.8 million in cash, cash equivalents and short-term deposits,
213 compared to \$347.1 million at the end of the third quarter of 2019.

214

215 **SLIDE 12: FINANCIAL SUMMARY**

216

217 To recap:

- 218 1. We are pleased with the full year growth we observed in our target verticals in the
219 Americas.
- 220 2. We successfully drove efficiencies through expense control, demonstrated by our stable
221 gross margins and ability to meet profitability objectives while investing in new product
222 introductions.
- 223 3. Our balance sheet remains healthy and we are well positioned for future opportunities

224

225 I would now like to turn the call over to our VP of Investor Relations, Yonah Lloyd, who will provide
226 greater details on our 2020 financial guidance. Yonah?

227 **SLIDE 13: REVENUE & EARNINGS GUIDANCE**

228

229 **SPEAKER: Yonah Lloyd**

230

231 Thank you, Lilach.

232

233 We are providing full year guidance for 2020 as follows:

- 234 1. Revenue guidance of \$620 million to \$680 million.
- 235 2. GAAP net loss of \$30 million to \$18 million, or (\$0.54) to (\$0.33) per diluted share.
- 236 3. Non-GAAP net income of \$25 million to \$34 million, or \$0.45 to \$0.60 per diluted share.
- 237 4. Non-GAAP operating margins of 5% to 6.5%.
- 238 5. Capital expenditures are projected at \$40 million to \$60 million.

239

240 We are committed to successfully introducing our new products and our guidance reflects
241 increased investments earlier in the year in resources for specific go-to-market initiatives in order
242 to support the planned launches that will begin in the back half of 2020, primarily in Q4.

243

244 We believe that this increase in operating expenses will provide the basis for long term growth.

245

246 Additionally, our guidance range is larger than we typically provide, due primarily to the ongoing
247 industrial macro-economic issues globally, as well as uncertainty around the potential impact of the
248 Coronavirus. We are in the early stages of understanding if and to what extent we may be
249 temporarily impacted by this and we will provide additional updates later in the year.

250

251 Non-GAAP earnings guidance excludes \$25 million to \$26 million of projected amortization of
252 intangible assets; \$26 million to \$28 million of share-based compensation expense; reorganization
253 and other expenses of \$3 million to \$4 million. Non-GAAP guidance includes tax adjustments
254 ranging from \$3 million to \$4 million on the above non-GAAP items.

255

256 The estimated non-GAAP tax rate for 2020 is impacted by the ongoing non-cash valuation
257 allowance on deferred tax assets that we expect to record throughout the year on U.S. losses.

258 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our
259 net income, as well as significant quarter to quarter variability in our non-GAAP tax rate, the
260 Company believes non-GAAP operating income is the best measure of our performance.

261

262 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a
263 table at the end of our press release and slide presentation, with itemized detail concerning the
264 non-GAAP financial measures.

265

266 Operator, please open the call for questions.

267

268 **SLIDE 14: Q&A**

269

270 **SPEAKER: Yoav**

271

272 Thank you for joining today's call. I am thrilled to be joining the Stratasys team and look forward to
273 speaking with all of you again next quarter.

274

275 **SLIDE 15: FINANCIAL RECONCILIATION TABLES**