

1 **SSYS Q1 2020 Earnings Script + Corresponding Slide Reference**

2

3 **SLIDE 1: TITLE**

4

5 **SPEAKER: Operator**

6

7 Good day, ladies and gentlemen. Welcome to today's conference call to discuss Stratasys' first
8 quarter 2020 financial results.

9

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

11

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

14

15 **SLIDE 2: CALL DETAILS & PARTICIPANTS**

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17 **SPEAKER: Yonah Lloyd**

18

19 Good morning, everyone, and thank you for joining us to discuss our 2020 first quarter financial
20 results. On the call with us today are our CEO, Yoav Zeif and our CFO, Lilach Payorski.

21

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

24

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

27

28 **SLIDE 3: FORWARD-LOOKING STATEMENT**

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30 Please note that some of the information you will hear during our discussion today will consist of
31 forward-looking statements including, without limitation, those regarding our expectations as to
32 our future revenue, gross margin, operating expenses, taxes and other future financial

33 performance, and our expectations for our business outlook. All statements that speak to future
34 performance, events, expectations or results are forward-looking statements. Actual results or
35 trends could differ materially from our forecast. For risks that could cause actual results to be
36 materially different from those set forth in forward-looking statements, please refer to the risk
37 factors discussed or referenced in (a) Stratasys' annual report on Form 20-F for the 2019 year, as
38 well as in (b), our reports on Form 6-K that we are furnishing to the SEC today, including (i) the
39 related press release concerning our earnings for the first quarter of 2020, and (ii) our Operating
40 and Financial Review and Prospects, which are attached as exhibits to those reports on Form 6-
41 K. Stratasys assumes no obligation to update any forward-looking statements or information
42 which speak as of their respective dates.

43

44 **SLIDE 4: NON-GAAP DISCLOSURE**

45

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

50

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

52

53 **SLIDE 5: CEO OPENING REMARKS**

54

55 **SPEAKER: Yoav Zeif**

56

57 Thank you Yonah.

58

59 Good morning everyone and thank you for joining today's call.

60

61 First and foremost, I hope that you and your families are healthy and safe. We are all
62 experiencing an unprecedented global pandemic. Our thoughts go out to those that have been
63 impacted, and we'd like to extend our deepest gratitude to the many heroes that are working
64 hard to keep people safe during this difficult time.

65

66 **SLIDE 6: GENERAL BUSINESS REVIEW**

67

68 As many of you have learned, 3D Printing has played an important, even critical role during this
69 crisis, helping the medical community maintain a steady supply of personal protective
70 equipment, testing swabs and more. I could not be prouder of the Stratasys team and how we
71 have responded to the situation. Our top priority is the well-being of our most valuable asset,
72 our employees worldwide. We began an ongoing communications channel here as soon as the
73 news began trickling out. As early as February 3rd we sent a company-wide email regarding
74 travel restrictions and have tried to be ahead of the curve wherever possible. We implemented
75 work-from-home options early, ensured that all IT needs would be met for remote activity, and
76 set up an intranet for real-time updates and FAQs. Stratasys operated as an “essential business”
77 in all key US locations. Our regional HR teams have been providing round-the-clock support.
78 And we have increased the frequency of our management updates, across all corporate and
79 regional teams, with a weekly review of practices and procedures to meet the current specific
80 challenges. I want to recognize the efforts of the entire Stratasys family – those who have made a
81 swift and effective adjustment to working remotely to support our business, as well as those who
82 continued coming into the offices, the labs and production facilities, working under social
83 distancing and safety conditions to keep our production plants open and our products shipping.
84 Our people have demonstrated relentless passion to keep our business strong and active - on
85 behalf of the leadership team, we greatly appreciate your extraordinary resilience at this
86 challenging time.

87

88 On to the business. We are committed to transparently sharing what we are seeing to the extent
89 possible. The unpredictability of so many factors at play, on a global scale, has created an
90 atmosphere of uncertainty on many levels. We will lay out the ways we are being both proactive
91 and adapting as needed, while staying focused on maintaining our business continuity and
92 coming out of this pandemic stronger and poised for growth. We do believe that the fog is slowly
93 lifting and that as things stabilize our visibility will improve in the coming months.

94

95 Let me start by saying that our business is healthy. We believe that we are well-prepared to
96 manage the current downturn with a strong balance sheet, while focusing on cost control and

97 cash generation. We have over \$325 million in cash and equivalents and no debt. Our
98 engagement level with our customers remains high and the demand for our systems is strong.

99

100 Unfortunately, due to COVID-19 our business in Asia was already affected earlier in the quarter,
101 followed by Europe and then the US. As events were unfolding, we recognized how our
102 technology can play a major role to support the healthcare community and we responded
103 immediately. I'd like to share some of what we have experienced – including actions we took to
104 help fight the pandemic, the measures we are taking to address the business operationally, and
105 how we see the market playing out. In fact, as we will soon discuss, in some ways we may
106 emerge from this situation in an even better position for the long-term than before.

107

108 **SLIDE 7: RESPONSE TO COVID-19**

109

110 With over 30 years of experience leading the 3D Printing industry that we helped found,
111 Stratasys was well positioned to mobilize what we believe is the largest additive manufacturing
112 network in the world, in order to assist in the fight against COVID-19. We leveraged our
113 application expertise, our channel and partner network and our corporate-wide resources to
114 help get a variety of printed parts to the global medical community.

115

116 **SLIDE 8: COVID-19 - OEM COALITION**

117

118 Initially, in consultation with customers like Medtronic and the Mayo Clinic, we identified face
119 shields as the first application and fastest way to match what was desperately needed with what
120 could be produced. We built a coalition of over 100 companies, including Medtronic, Boeing and
121 Raytheon, that agreed to use their Stratasys systems and others for this effort. To-date, over
122 100,000 shields and related items have been delivered. We connected most of them via the cloud
123 using our new GrabCAD Shop work management software. Other customers of ours responded
124 as well, such as Schlumberger, General Atomics and Bayer. It has been amazing to watch these
125 multi-national OEMs pivot so quickly to meet the need, highlighting a key benefit of 3D Printing
126 over conventional methods – the versatility to instantly go from making air ducts or tail-lights to
127 PPE and ventilator tubes.

128

129 **SLIDE 9: COVID-19 - PARIS HOSPITAL**

130

131 In Paris, AP-HP, the largest hospital system in Europe, bought, installed and began running 60 of
132 our FDM printers - literally 48 hours from ordering to making their first shield. This provides
133 them with a rapid-response system to address multiple protective equipment and medical device
134 needs, as well as better control over their supply of 3D-printable parts.

135

136 **SLIDE 10: COVID-19 - COVENT CHALLENGE**

137

138 In the US we have been hosting the CoVent-19 Challenge in our GrabCAD community, through
139 the auspices of a team of anesthesiology resident physicians from Massachusetts General
140 Hospital. We have already received over 200 entries from more than two dozen countries
141 around the world. The goal is to design a rapidly deployable, low-cost mechanical ventilator, and
142 Stratasys applications engineers are helping seven finalist teams develop working prototypes in
143 our labs this month.

144

145 **SLIDE 11: COVID-19 - ORIGIN SWABS COLLABORATION**

146

147 Additionally, we recently announced an agreement with Origin, a San Francisco additive
148 manufacturing company, to deliver to healthcare providers and testing centers up to 1.3 million
149 testing swabs every week. We've already facilitated orders for a few hundred thousand units.

150

151 Here in Israel the government implemented a robotic COVID-19 testing system to conduct up to
152 3000 tests per day. Before the program could launch, the system sustained irreversible damage
153 to its fluid containers, and it would have taken weeks or longer to get the exact precision and
154 replacement parts from the vendor in the Far East. Using our PolyJet technology with Bio-
155 compatible materials we were able to quickly print these parts so that the testing could continue.

156

157 And globally, in order to address the unique challenges of providing support at this time, for
158 certain printers such as our new J55, our service teams have been enhancing their tools with
159 videos and remote device management systems in order to provide better digital and real-time
160 support for installation and troubleshooting.

161

162 **SLIDE 12: COVID-19 - 3D PRINTING VALUE PROPOSITION**

163

164 These are just a few examples of what is truly an incredible display of commitment across a
165 worldwide network of “makers,” led by Stratasys and peer companies throughout the entire
166 additive manufacturing industry, to combat COVID-19. We have no doubt that all of these efforts
167 are showcasing our industry in a positive light, educating the market and significantly increasing
168 awareness of the many value propositions of additive. As a reminder, some of those key benefits
169 include greater freedom of design, speed and cost-efficiency of product iteration and the
170 flexibility to produce a wide range of products from a single system. Only 3D Printing can
171 provide localized production in proximity to the end market through digital inventory, adjust
172 production flow on the fly for factory jigs and fixtures, and as demonstrated during this crisis -
173 help alleviate the problem of a supply chain crunch. We believe that as a result of the way our
174 industry has stepped up during this time, more and more companies and governments will
175 reassess their supply chains and implement decisions that drive increased demand for 3D
176 Printing as a strategic imperative, leading to incremental business opportunities once we emerge
177 from the current situation.

178

179 **SLIDE 13: COVID-19 - MITIGATION MEASURES**

180

181 The decline in Q1 sales and the softness we are seeing now in Q2 are clearly due to a meaningful
182 portion of our customer base being effectively shut down from a purchasing and consumption
183 perspective. As a reminder, our revenue cadence tends to be back-end loaded, with a significant
184 portion of business coming in the final few weeks of the quarter, so the impact on our results was
185 more notable. Furthermore, the unusually low 48.4% margins was not due to special discounts
186 or material ASP reductions, rather it is based on the lower proportion of hardware and
187 consumables out of the total revenue mix. We strongly believe that margins will come back into
188 our usual range in the low 50’s percent when the macro environment recovers.

189

190 Meanwhile, to help mitigate the impact we began to implement cost-control measures at the end
191 of February and continue to closely manage them. All employees were effectively reduced to a 4-
192 day work-week last month, we’ve instituted a non-essential hiring freeze and we’ve adjusted our

193 cost base and production plan accordingly. As a reminder, in 2019 we built inventory in both
194 raw materials and finished goods to help us meet demand in a more efficient way and prepare
195 for our new product launches. While it reduced our operational cash generation last year, it
196 proved to be an even wiser move than anticipated, as we have more finished goods now that are
197 located in their respective regions. While we are facing some minimal supply issues for our new
198 products, we are less exposed for our existing ones. Additionally, our plants are operational, as
199 we continue production to secure our inventory levels to meet demand. And yet, even though
200 the business environment right now is slow, we are encouraged by the discussions we are having
201 and the opportunities that will come once the situation passes.

202

203 **SLIDES 14 & 15: J55 LAUNCH EVENT**

204

205 As an example of the high level of interest, two weeks ago many of you attended our digital
206 launch event featuring the new PolyJet J55, an exciting and highly innovative system that brings
207 most of the features of our premium PolyJet technology right into the office, in a quiet, yet
208 powerful new and patented turntable format. Thousands of people attended the event, including
209 many Fortune 500 companies, a strong indication of interest.

210

211 Our new product development plans are continuing, and to-date we have not reduced our
212 spending for these programs. We had originally planned to launch new products in the back half
213 of this year, primarily in Q4. Due to the current situation it is clear that the return on the
214 investment of marketing, trade shows, travel and other expenses needed to launch would be
215 severely limited in a tempered spending environment. In order to maximize the impact, and to
216 avoid any potential supply chain issues, we believe it makes more sense to wait until the first half
217 of 2021. We are excited about these additions to our product and technology portfolio and look
218 forward to sharing more at the appropriate time.

219

220 I would like to now turn the call over to our CFO, Lilach Payorski, who will review the details of
221 our financial results. Lilach?

222

223

224

225 **SLIDE 16: CFO REMARKS**

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227 **SPEAKER: Lilach Payorski**

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

230

231 **SLIDE 17: FINANCIAL RESULTS SUMMARY**

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233 Total revenue in the first quarter was \$132.9 million compared to \$155.3 million for the same
234 period last year. On a constant currency basis, total revenue declined 13.9%.

235

236 GAAP operating loss for the quarter was \$19.9 million, compared to an operating loss of \$3.3
237 million for the same period last year.

238

239 Non-GAAP operating loss for the quarter was \$8.4 million, compared to operating income of \$6.8
240 million for the same period last year.

241

242 GAAP net loss for the quarter was \$21.7 million, or (\$0.40) per diluted share, compared to a net
243 loss of \$2.3 million, or (\$0.04) per diluted share, for the same period last year.

244

245 Non-GAAP net loss for the quarter was \$10.6 million, or (\$0.19) per diluted share, compared to
246 Non-GAAP net income of \$5.7 million, or \$0.10 per diluted share reported for the same period
247 last year.

248

249 **SLIDE 18: REVENUE**

250

251 Product revenue in the first quarter was \$83.2 million, a decrease of 20.9% compared to the
252 same period last year, or 20.3% on a constant currency basis.

253

254 Within product revenue, system revenue decreased 39.5%, compared to the same period last
255 year, and decreased 39.2% on a constant currency basis.

256

257 Consumables revenue decreased by 5.8% compared to the same period last year and decreased
258 5.1% on a constant currency basis.

259

260 Services revenue was \$49.7 million, a decrease of 0.9% compared to the same period last year
261 and decreased 0.6% on a constant currency basis.

262

263 Within services revenue, customer support revenue increased by 2.2% compared to the same
264 period last year and increased 2.9% on a constant currency basis.

265

266 **SLIDE 19: GROSS MARGINS**

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268 GAAP gross margin was 45.0% for the quarter, compared to 49.2% for the same period last year.

269

270 Non-GAAP gross margin was 48.4% for the quarter, compared to 52.0% for the same period last
271 year. The decline in gross margin is due primarily to the lower proportion of hardware and
272 consumables out of the total revenue mix. We are confident that our gross margins will return to
273 their usual range once the situation passes.

274

275 **SLIDE 20: OPERATING EXPENSES**

276

277 GAAP operating expenses was \$79.8 million, relatively flat compared to the same period last
278 year.

279

280 Non-GAAP operating expenses decreased by 1.6% to \$72.7 million for the quarter as compared
281 to the same period last year, driven by cost-cutting measures in SG&A. Please note that R&D
282 spending this quarter was higher than Q1 of last year, as we remain committed to our long-term
283 strategy and we continue to invest in developing new products that we believe will meaningfully
284 expand our addressable markets.

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286

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289 **SLIDE 21: BALANCE SHEET SUMMARY & CASH FLOW FROM OPERATIONS**

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291 The Company generated \$11.3 million of cash from operations during the first quarter, as
292 compared to \$4.6 million of cash generated in the same quarter last year.

293

294 We ended the quarter with \$325.5 million in cash, cash equivalents and short-term deposits,
295 compared to \$321.8 million at the end of the fourth quarter of 2019. We believe that we are
296 well-prepared to manage the COVID-19 situation with a strong balance sheet and no debt, while
297 focusing on cost-control and cash generation.

298

299 The company is withdrawing its 2020 financial guidance for revenue, GAAP and non-GAAP net
300 income and EPS, non-GAAP operating margins and capital expenditures due to the high level of
301 economic uncertainty and disruption caused by COVID-19.

302

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

306

307 I'd like to turn the call back to Yoav for closing remarks, Yoav?

308

309 **SLIDE 22: CEO CLOSING REMARKS**

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311 **SPEAKER: Yoav Zeif**

312

313 Thank you, Lilach.

314

315 Our communication with the channels and key customers remains highly active, and we have
316 continued to do business during this time, but with the US and other markets still effectively
317 closed, we have little indication regarding the pace of recovery. Therefore, we believe that there
318 is too much uncertainty at this point to provide a reasonable estimate of the full year financial
319 impact related to COVID-19. Directionally speaking, we expect that many if not most of our
320 customers will continue to keep their spending to a minimum in Q2, and given that there will be

321 a full quarter's worth of COVID-19 impact we currently expect a sequential decline of 5%-10%.
322 As for how things look as we emerge and begin to recover, it's clear that this crisis has helped
323 generate significant awareness that 3D printing is becoming essential for accelerating and
324 improving design, speeding up time to market and production, and creating less dependent and
325 more resilient global supply chains, including localized digital inventory and distributed
326 manufacturing. We've heard first-hand from our customers that executives are asking their
327 engineering teams more questions about what 3D printing can do for them. This is important
328 because optimizing value from additive manufacturing is a strategic exercise, and Stratasys is
329 particularly suited to play the role of strategic additive partner for our customers. If economic
330 recovery begins to kick in during H2 we would expect to see a gradual improvement, and we
331 could see a return to sequential growth in the back half of the year. Additionally, we believe that
332 we will be able to capitalize on the improved perspective of many businesses and governments,
333 who, because of this crisis, are recognizing the weak links in their current production flow that
334 we proved can be addressed by incorporating additive manufacturing. Meanwhile, we are being
335 proactive in managing our performance during this challenging time. We built inventory last
336 year to improve efficiencies and limit disruption. We've reprioritized spending to ensure
337 adequate resources to address both COVID-19-related items and those critical for strategic
338 growth. And we continue to monitor the industry for opportunities. Our agile, high-performing
339 team is helping us persevere through it and is simultaneously preparing to seize upon
340 opportunities to support an exciting growth period as we all recover from the current situation.

341

342 As part of my first 100 days as CEO, I have been directing a deep-dive diagnostic and strategic
343 review of the company. Later in the year I plan to share a more extensive view of how Stratasys
344 will look as we lead our industry forward with strong and sustainable growth for many years to
345 come.

346

347 **SLIDE 23: THANK YOU - Q&A**

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349 **SPEAKER: Yonah Lloyd**

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351 Operator, please open the call for questions.

352

353 **SPEAKER: Yoav Zeif**

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355 Thank you for joining us, stay safe and healthy, looking forward to updating you again next
356 quarter.

357

358 **SLIDE 24: FINANCIAL RECONCILIATION TABLES**