

1 **SSYS Q3 2017 Earnings Script**

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

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5 **SPEAKER: Operator**

6  
7 Good day, ladies and gentlemen. Welcome to today's conference call to discuss Stratasys' third  
8 quarter 2017 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 Shane Glenn, Vice President of Investor Relations for  
13 Stratasys. Mr. Glenn, please go ahead.

14  
15 **SLIDE 3&4: FLS & NON-GAAP DISCLOSURE**

16  
17 **SPEAKER: Shane Glenn**

18  
19 Good morning, everyone, and thank you for joining us to discuss our third quarter financial results.  
20 On the call with us today are Ilan Levin, CEO, and Lilach Payorski, CFO of Stratasys.

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 available,  
26 and can be accessed through the investor section of our website.

27  
28 We will begin by reminding everyone that certain statements made on this call regarding Stratasys'  
29 strategy, and the statements regarding its projected future financial performance, including the  
30 financial guidance concerning its expected results for 2017, are forward-looking statements  
31 reflecting management's current expectations and beliefs. These forward-looking statements are  
32 based on current information that is, by its nature, subject to rapid and even abrupt change. Due to  
33 risks and uncertainties associated with Stratasys' business, actual results could differ materially  
34 from those projected or implied by these forward-looking statements. These risks and uncertainties  
35 include, but are not limited to: potential declines in the prices of our products and services, or  
36 volume of our sales, due to decreased demand in the 3D printing market; any failure to adequately  
37 adapt our infrastructure and properly integrate the internal and external sources of our growth to  
38 generate intended benefits (including from the companies that we recently acquired); potential  
39 further charges against earnings that we could be required to take due to impairment of additional  
40 goodwill or other intangible assets; changes in the overall global economic environment; the impact  
41 of competition and new technologies; changes in the general market, political and economic  
42 conditions in the countries in which we operate; any underestimates in projected capital  
43 expenditures and liquidity; changes in our strategy; changes in applicable government regulations  
44 and approvals; changes in customers' budgeting priorities; reduction in our profitability due to  
45 shifting in our product mix into lower margin products or our shifting in our revenues mix  
46 significantly towards our AM services business; costs and potential liability relating to litigation and  
47 regulatory proceedings; and those additional factors referred to in Item 3.D "Key Information - Risk  
48 Factors", Item 4, "Information on the Company", and Item 5, "Operating and Financial Review and  
49 Prospects" in our 2016 Annual Report on Form 20-F, which we filed with the SEC on March 9, 2017,  
50 as well as in the 2016 Annual Report generally. Readers are urged to carefully review and consider

51 the various disclosures made throughout (i) the Report on Form 6-K that attaches Stratasys'  
52 unaudited, condensed consolidated financial statements as of, and for the quarter and nine months  
53 ended, September 30, 2017, and its review of its results of operations and financial condition for  
54 those periods, which has been furnished to the SEC on or about the date hereof, (ii) Stratasys' 2016  
55 Annual Report, and (iii) Stratasys' other reports filed with or furnished to the SEC, which are  
56 designed to advise interested parties of the risks and factors that may affect our business, financial  
57 condition, results of operations and prospects. Any guidance provided, and other forward-looking  
58 statements made, on this call are made as of the date hereof, and Stratasys undertakes no obligation  
59 to publicly update or revise any forward-looking statements, whether as a result of new  
60 information, future events or otherwise, except as required by law.

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

65 Now I would like to turn the call over to our CEO, Ilan Levin. Ilan?

66

67 **SLIDE 5: OPENING SUMMARY**

68

69 **SPEAKER: Ilan Levin**

70

71 Thank you Shane.

72

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

74

75 We are pleased with our organizational focus that is in line with our long-term strategy of  
76 delivering value added additive manufacturing applications within our target markets. Our focus is  
77 also reflected in our reduced operating expenses and improved profitability.

78

79 During the year, we have launched new printing systems, as well as value added enhancements in  
80 the form of materials and software-based capabilities to our existing product lines.

81

82 Our recently launched F123 Series, targeting professional rapid prototyping applications continues  
83 to perform strongly.

84

85 We are experiencing impressive usage growth for our GrabCAD Print software enabling seamless  
86 CAD to print workflow.

87

88 Additionally, we are excited with the latest commercial installation of another H2000 Large Part  
89 FDM 3D Production System, thereby achieving another important milestone with respect to this  
90 product.

91

92 Over time, we are observing a maturing pattern of customer behavior that is characterized by  
93 orders that are made up of multiple systems, as customer adoption accelerates and use cases  
94 develop.

95

96 Although a shift towards larger, more complex orders is a significant opportunity, it does introduce  
97 higher quarter-to-quarter variations in order timing that can impact our revenue in a given period.

98

99 I will return later in the call to provide you more details on these important initiatives, as well as  
100 other key developments, but first I will turn the call over to our CFO, Lilach Payorski, who will  
101 review the details of our financial results.

102 Lilach?

103

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

105

106 **SPEAKER: Lilach Payorski**

107

108 Thank you, Ilan, and good morning, everyone.

109

110 Total revenue in the third quarter was \$155.9 million compared to \$157.2 million for the same  
111 period last year.

112 GAAP operating loss for the third quarter was \$6.9 million, compared to a loss of \$19.4 million for  
113 the same period last year.

114

115 Non-GAAP operating income for the third quarter was \$8.1 million, compared to \$3.3 million for the  
116 same period last year.

117

118 **SLIDE 8: REVENUE**

119

120 Product revenue in the third quarter decreased by 2% to \$108.4 million, as compared to the same  
121 period last year.

122

123 Within product revenue, system revenue for the quarter declined by 6% compared to the same  
124 period last year, driven by product mix, the timing of several large, multi-system orders that shifted  
125 to the fourth quarter, as well as the impact of several incidents of severe weather conditions in  
126 North America during September.

127 As in the previous quarter, it appears that adoption of manufacturing applications in our target  
128 industries is further along in certain regions such as Americas and EMEA.

129 Consumables revenue increased by 3% compared to the same period last year.

130

131 Services revenue in the third quarter was \$47.5 million, an increase of 1% compared to the same  
132 period last year.

133

134 Within services revenue, customer support revenue, which includes revenue generated mainly by  
135 maintenance contracts on our systems, increased by 5% compared to the same period last year,  
136 driven primarily by growth in our installed base of systems.

137

138 **SLIDE 9: GROSS MARGIN**

139

140 GAAP gross margin increased to 48.3% for the third quarter, compared to a GAAP gross margin of  
141 46.9% for the same period last year.

142

143 Non-GAAP gross margin decreased to 52.5% for the third quarter, compared to 54.0% for the same  
144 period last year, driven by a shift in product mix and reflecting the same business trends as last  
145 quarter.

146  
147 Non-GAAP product gross margin decreased slightly to 59.6%, compared to 60.6% for the same  
148 period last year, driven by the same shift in product mix.

149  
150 Non-GAAP services gross margin decreased to 36.3%, compared to 38.7% for same period last year,  
151 driven by the impact of service revenue mix by product, as well as utilization rates from our various  
152 technologies at Stratays Direct Manufacturing.

153  
154 **SLIDE 10: OPERATING TRENDS**

155  
156 GAAP operating expenses decreased by 12% to \$82.1 million for the third quarter, as compared to  
157 the same period last year.

158  
159 Non-GAAP operating expenses decreased by 10% to \$73.8 million for the third quarter as  
160 compared to the same period last year.

161  
162 We are pleased with the results of our efforts to execute on our long-term strategy and deepen  
163 customer engagement in our key verticals while at the same time achieving greater operating  
164 efficiencies.

165  
166 **SLIDE 11: BALANCE SHEET & CASH FLOW FROM OPERATIONS SUMMARY**

167  
168 The Company generated \$4.6 million cash from operations during the third quarter, as compared to  
169 \$2.5 million of cash used in the third quarter last year.

170  
171 We ended the third quarter with \$302.8 million in cash and cash equivalents, compared to \$305.3  
172 million at the end of the second quarter of 2017.

173  
174 The cash from operating activities was negatively impacted by the \$8.4 million final payments  
175 related to previous year's acquisitions.

176  
177 Inventory at the end of the third quarter increased to \$124.1 million as compared \$116.5 million at  
the end of the second quarter.

178  
179 Accounts receivable was flat at \$120.5 million, compared to \$120.3 million at the end of the second  
quarter with DSO on 12-month trailing revenue at 66.

180  
181  
182 **SLIDE 12: SUMMARY**

183  
184 To recap:

- 185  
186 1.) We are pleased with the shift in customer behavior characterized by large, multi-system  
187 orders, although larger orders can introduce higher quarter-to-quarter variations in order  
188 timing.

- 189 2.) Additionally, we reduced operating expenses while increasing our efforts to gain greater  
190 market share by leveraging our purposeful innovation in high value applications around our  
191 technologies. This, in turn, has resulted in an increase in our full year earnings guidance.  
192 3.) We continue to generate cash from operating activities and maintain a strong balance sheet.  
193 We are well positioned to leverage this favorable cash level on emerging opportunities  
194 going forward.

195  
196 I would now like to turn the call over to our VP of Investor Relations, Shane Glenn, who will provide  
197 you greater details on our previously reported 2017 financial guidance. Shane?

198 **SLIDE 13: GUIDANCE**

199  
200 **SPEAKER: Shane Glenn**

201  
202 Thank you, Lilach.

203  
204 We are narrowing the range of our 2017 revenue guidance, and increasing our guidance for 2017  
205 operating margins and earnings per share as follows:

- 206  
207 1. Total revenue in the range of \$655 to \$670 million, compared to previous guidance of \$645  
208 to \$680 million.  
209 2. Non-GAAP net income in the range of \$22 to \$26 million, or \$0.40 to \$0.48 per diluted share,  
210 compared to previous guidance of non-GAAP net income in the range of \$10 to \$20 million,  
211 or \$0.19 to \$0.37 per diluted share.  
212 3. GAAP net loss of \$39 to \$31 million, or (\$0.73) to (\$0.59) per diluted share, compared to  
213 previous guidance of GAAP net loss of \$53 to \$39 million, or (\$1.00) to (\$0.73) per diluted  
214 share.  
215 4. Non-GAAP operating margin of 5% to 6%, compared to previous guidance of non-GAAP  
216 operating margin of 3% to 5%.  
217 5. Capital expenditures projected at \$20 to \$30 million.

218 Non-GAAP earnings guidance excludes \$34 million of projected amortization of intangible assets;  
219 \$17 to \$18 million of share-based compensation expense; \$3 to \$4 million in merger and acquisition  
220 related expense; and \$6 to \$8 million in reorganization and other related costs; and includes \$3 to  
221 \$4 million in tax expenses related to non-GAAP adjustments.

222 We maintain a relatively high estimated non-GAAP tax rate for 2017 given the ongoing non-cash  
223 valuation allowance on deferred tax assets we expect to record throughout the year. These  
224 deferred tax assets have expiration dates many years into the future, and we do anticipate being  
225 able to ultimately recognize their value to offset prospective tax liabilities.

226  
227 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our  
228 net income loss, as well as significant quarter to quarter variability in our non-GAAP tax rate, the  
229 Company believes non-GAAP operating profit would be the best measure of our performance in  
230 2017.

231  
232 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a  
233 table at the end of our press release and slide presentation, with itemized detail concerning the  
234 non-GAAP financial measures.

235  
236 Now, I'd like to turn the call back over to our CEO, Ilan Levin. Ilan?

237 **SLIDE 14: STRATEGY UPDATE**

238 SPEAKER: Ilan Levin

239 Thank you, Shane.

240 As the global leader in applied additive technology solutions, we are focused on supporting our  
241 customers with comprehensive 3D printing expertise, and a complete line of solutions.

242 In line with our strategy, we are focused on launching new printing systems, as well as value-added  
243 enhancements and applications to deliver overall value to customers in our key vertical markets.

244  
245 Our newly announced products are aimed at expanding the addressable market for additive  
246 manufacturing solutions, by offering superior ease of use, versatility and added value that suits a  
247 specific use case within our target markets.

248 **SLIDE 15: H2000**

249  
250 Last year, we began announcing a series of advanced technology demonstration platforms based on  
251 our FDM technology, which are designed to specifically address advanced industrial additive  
252 manufacturing applications, by dramatically improving throughput, part performance and size, as  
253 well as design customization.

254  
255 We are now pleased to announce that we are transitioning into the commercialization phase for the  
256 H2000 Large Part FDM 3D Production System, which was originally introduced in 2016 at IMTS as  
257 the Stratasys Infinite Build 3D Demonstrator.

258 The H2000 was developed in collaboration with leading industrial companies, including the Boeing  
259 Company and the Ford Motor Company, and is designed to target manufacturing applications by  
260 lowering the constraints associated with part size and build speed.

261  
262 After positive feedback from our development partners, we have now expanded our outreach to  
263 select customers, and are happy to announce that we recently achieved a further milestone with the  
264 commercial deliver of an additional H2000 with a new customer.

265  
266 **SLIDE 16: F123 SERIES & GRABCAD PRINT UPDATE**

267  
268 The F123 Series is quickly becoming one of the most successful Stratasys professional rapid  
269 prototyping product launches, as more companies adopt a workgroup oriented approach to design  
270 and rapid prototyping.

271  
272 The F123 offers a best-in-class professional workgroup experience for design and rapid  
273 prototyping needs with a combination of ease-of-use, precision, repeatability, affordability, and  
274 material options.

275  
276 We believe that this new product allows us to expand our markets as well as further penetrate our  
277 existing customer base with a distributing printing experience.

278

279 As a result, we have observed continued success and strong market reception, including high rates  
280 of adoption by new customers, and in some cases, orders made up of multiple systems.

281  
282 In our continued effort to improve and innovate the file-to-print workflow, we are also pleased to  
283 announce that GrabCAD Print has now been installed by nearly 18,000 users to date, and has been  
284 used to print over 116,000 trays of parts since launch in November 2016.

### 285 **SLIDE 17: GRABCAD VOXEL PRINT**

286  
287 This week at the formnext additive manufacturing conference in Germany, we are making several  
288 announcements, including the launch of GrabCAD Voxel Print.

289  
290 GrabCAD Voxel Print is a new software solution for our J750 full color, multi-material 3D printing  
291 platform, providing industry leading true voxel-level control during the design and 3D printing  
292 process.

293  
294 For the first time, users will be able to manipulate 3D printed material at the voxel level.

295  
296 Leveraging the J750's unique full color, multi-material capability, Voxel Print is designed to afford  
297 users control and freedom to produce entirely new Digital Materials for their specialized needs.

298  
299 GrabCAD Voxel Print provides users the ability to create advanced structures, gradient color  
300 patterns, internal properties and textures with 3D printing to meet precise material requirements  
301 for different applications that include Academic Research, Product Design, and Biomedical as well  
302 as Art, Design & Animation.

### 303 304 **SLIDE 18: MAKERBOT LABS**

305  
306 Recently, MakerBot announced the introduction of MakerBot Labs, an experimental platform for  
307 engineers and developers to create, build, customize, and collaborate as they push the limits of  
308 what is possible with existing MakerBot desktop 3D printing systems.

309  
310 We believe that this platform will expand our addressable market in the desktop segment by  
311 providing advanced users the freedom and ability to experiment with new, innovative materials  
312 and software settings to develop new capabilities and applications while using MakerBot desktop  
313 3D printing systems.

314  
315 The platform includes the MakerBot Experimental Extruder with interchangeable nozzles and  
316 access to custom print modes for experimenting with more advanced materials, the MakerBot Labs  
317 Community on Thingiverse, and access to MakerBot APIs for optimization and customization of  
318 MakerBot hardware.

### 319 320 **SLIDE 19: SUMMARY & OUTLOOK**

321  
322 In summary:

- 323 1. We are pleased with our progress in developing new products and value-added  
324 enhancements and applications that expand our addressable markets by targeting specific  
325 use cases within our target industries.

- 326 2. After successful installations with our development partners, we are transitioning into the  
327 commercialization phase for the H2000 Large Part FDM 3D Production System, and excited  
328 about our recent additional commercial installation of that system.  
329 3. In the third quarter we continued to observe strong demand for our new F123 Series and  
330 impressive adoption of GrabCAD Print, and are pleased to launch GrabCAD Voxel Print and  
331 MakerBot Labs – two products that open up exciting new capabilities for our PolyJet and  
332 FDM desktop platforms.  
333 4. Looking forward, we remain optimistic about our prospects for the remainder of 2017 and  
334 are enthusiastic about our long-term growth potential within our industry.  
335

336 Operator, please open the call for questions.

337

338 **SLIDE 20: Q&A**

339

340 SPEAKER: Ilan Levin

341

342 Thank you for joining today's call. We look forward to speaking with you again next quarter.

343 Goodbye.

344

345 **SLIDE 21: FINANCIAL RECONCILIATION TABLES**