

1 **SSYS Q4 2016 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' fourth  
8 quarter and full year 2016 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 fourth quarter financial  
20 results. 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: any failure to efficiently and successfully integrate the operations of  
36 Stratasys and various entities that it has acquired, including MakerBot, Solid Concepts, Harvest and  
37 GrabCAD, or to successfully establish and execute effective post-acquisition integration plans;  
38 changes in the overall global economic environment; the impact of competition and new  
39 technologies; changes in the general market, political and economic conditions in the countries in  
40 which we operate; any underestimates in projected capital expenditures and liquidity; changes in  
41 our strategy; changes in applicable government regulations and approvals; changes in customers'  
42 budgeting priorities; lower than expected demand for our products and services; reduction in our  
43 profitability due to shifting in our product mix into lower margin products or our shifting in our  
44 revenues mix significantly towards our AM services business; costs and potential liability relating  
45 to litigation and regulatory proceedings; and those factors referred to in Item 3.D "Key Information  
46 - Risk Factors", Item 4, "Information on the Company", and Item 5, "Operating and Financial Review  
47 and Prospects" in our 2015 Annual Report, together with the 2016 Annual Report that we will file  
48 soon, as well as in the 2016 Annual Report generally. Readers are urged to carefully review and  
49 consider the various disclosures made throughout the Form 20-F and in Stratasys' other reports  
50 filed with or furnished to the SEC, which are designed to advise interested parties of the risks and

51 factors that may affect our business, financial condition, results of operations and prospects. Any  
52 guidance provided, and other forward-looking statements made, on this call are made as of the date  
53 hereof, and Stratasy's undertakes no obligation to publicly update or revise any forward-looking  
54 statements, whether as a result of new information, future events or otherwise, except as required  
55 by law.

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

60  
61 Now I would like to turn the call over to our CEO, Ilan Levin. Ilan?

62  
63 **SLIDE 5: OPENING SUMMARY**

64  
65 **SPEAKER: Ilan Levin**

66  
67 Thank you Shane.

68  
69 Good morning everyone, and thank you for joining today's call.

70  
71 Our fourth quarter results reflect our ongoing efforts to focus and improve our customer  
72 engagement and product development.

73  
74 Our level of revenues, combined with our ongoing efforts to better align our cost structure,  
75 contributed to a significant improvement in operating profit and cash generation during the period.

76  
77 We are also making significant progress in transforming our business into a more customer-centric  
78 organization; that emphasizes leveraging our extensive technology and application knowledge into  
79 value-added solutions for users within key vertical markets.

80  
81 This renewed focus is being supported by an increasing number of high profile collaborations we  
82 have recently announced with industry-leading manufacturing companies, such as Siemens, Airbus,  
83 McLaren Racing, and Team Penske.

84  
85 Additionally, we recently launched significant new products, and implemented organization  
86 changes at MakerBot that will better position us to focus on the entry-level professional rapid  
87 prototyping segments of our industry.

88  
89 I will return later in the call to provide you more details on these important initiatives, as well as  
90 other key developments, but first it's a pleasure for me to introduce our new CFO, Lilach Payorski,  
91 who will review the details of our financial results.

92 Lilach?

93  
94 **SLIDE 6&7: FINANCIAL RESULTS SUMMARY**

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96 **SPEAKER: Lilach Payorski**

97

98 Thank you, Ilan, and good morning, everyone. As some of you may know, I've been with the  
99 company for over four years, and it is indeed a pleasure to join the call this morning as the new CFO  
100 of Stratasys.

101  
102 We are pleased with our fourth quarter results, which includes growth in recurring revenues that  
103 demonstrates strong utilization of our installed base of systems.

104  
105 This stable growth in recurring revenue, combined with our ongoing efforts to better align our cost  
106 structure, has resulted in improved operating profit and cash generation.

107  
108 As a result, both our non-GAAP gross margin and non-GAAP operating margin improved  
109 significantly over the same period last year.

110  
111 Total revenue in the fourth quarter was \$175.3 million compared to \$173.4 million for the same  
112 period last year.

113  
114 GAAP operating loss for the fourth quarter was \$29.2 million, compared to a loss of \$187.8 million  
115 for the fourth quarter last year.

116  
117 Non-GAAP operating income was \$11.6 million, compared to a loss of \$8.9 million for the same  
118 period last year.

119  
120 **SLIDE 8: REVENUE**

121  
122 Product revenue in the fourth quarter increased by 2% to \$127 million, as compared to the same  
123 period last year.

124  
125 Within product revenue, system revenue for the quarter declined by 4% over the same period last  
126 year, driven primarily by the level of overall market demand we have discussed previously.

127  
128 However, we observed favorable trends around system utilization, as well as strong demand for our  
129 premium materials, which contributed to consumables revenue increasing by 11% as compared to  
130 the same period last year.

131  
132 The growth in our premium materials supports our focus on specific value-added solutions with  
133 target industry markets.

134  
135 Services revenue in the fourth quarter was relatively flat at \$49 million, as compared to the same  
136 period last year.

137  
138 Within service revenue, customer support revenue, which includes revenue generated mainly by  
139 maintenance contracts on our systems, increased by 8% compared to the same period last year,  
140 driven primarily by growth in our installed base of systems.

141  
142 Our service revenue was negatively impacted by a decline in revenue for conventional  
143 manufacturing services within our Stratasys Direct Manufacturing business; as we put greater  
144 strategic focus on additive manufacturing offerings.

145  
146 **SLIDE 9: GROSS MARGIN**

147

148 GAAP gross margin improved to 47.3% for the fourth quarter, compared to a GAAP gross margin of  
149 30.6% for the same period last year.

150  
151 Non-GAAP gross margin improved to 53.6% for the fourth quarter, compared to 48.1% for the same  
152 period last year.

153  
154 Product gross margin improved significantly, driven by a shift in our sales mix towards high-end  
155 products, cost control efforts in operations, and improved production efficiencies.

156  
157 Service gross margin also improved compared to same period last year, helped by our cost control  
158 efforts.

159

#### 160 **SLIDE 10: OPERATING TRENDS**

161

162 GAAP operating expenses decreased by 53% to \$112 million for the fourth quarter, as compared to  
163 the same period last year.

164

165 Non-GAAP operating expenses decreased by 11% to \$82 million for the fourth quarter, as  
166 compared to the same period last year.

167

168 These favorable trends in operating expenses over the last year reflect the positive impact of our  
169 overall focus on improving efficiencies across the company.

170

171 These cost efficiencies are in line with our long-term growth strategy, which also includes increased  
172 investments in areas we view as critical for long-term growth and productivity.

173

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

175

176 I'm pleased to report that cash flow generated from operations increased significantly over the  
177 year.

178

179 The Company generated \$26.0 million of cash from operations during the fourth quarter, as  
180 compared to \$7.7 million for the fourth quarter last year, and generated \$62.0 million in cash for  
181 the full year 2016 as compared to cash usage of \$21.9 million during 2015.

182

183 We ended the year with \$280.3 million in cash and cash equivalents.

184 Inventory at the end of the fourth quarter decreased to \$117.5 million as compared to \$123.7  
185 million at the end of 2015 as we maintain tight control on inventory levels.

186 Accounts receivable decreased to \$120.4 million, compared to \$123.2 million at the end of 2015  
187 with DSO on 12-month trailing revenue steady at 65.

188

#### 189 **SLIDE 12: SUMMARY**

190

191 In summary,

192

193 1.) In the fourth quarter we improved our operational performance, leading to improvements  
194 in both non-GAAP gross margin and operating income over last year.

- 195 2.) We observed strong growth of our recurring product and service contract revenue, which  
196 represents high system utilization and demand for our premium materials.  
197 3.) Going forward, we will remain focused on investing in value-added solutions within key  
198 target markets, with aligning costs and resources towards achieving our long term goals.  
199 4.) And finally, we are pleased with our cash position, which will enable us to capitalize on  
200 emerging opportunities going forward.  
201

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

204 **SLIDE 13: GUIDANCE**

205

206 **SPEAKER: Shane Glenn**

207

208 Thank you, Lilach.

209

210 Our guidance for 2017 is as follows:

211

- 212 1. Total revenue in the range of \$645 to \$680 million, with non-GAAP net income in the range  
213 of \$10 to \$20 million, or \$0.19 to \$0.37 per diluted share.  
214 2. GAAP net loss of \$53 to \$39 million, or (\$1.00) to (\$0.73) per basic share.  
215 3. Non-GAAP operating margin of 3% to 5%.  
216 4. Capital expenditures projected at \$40 to \$50 million.

217 Non-GAAP earnings guidance excludes \$34 million of projected amortization of intangible assets;  
218 \$18 to \$20 million of share-based compensation expense; \$2 to \$3 million in merger and acquisition  
219 related expense; and \$8 to \$10 million in reorganization and other related costs; and includes \$3 to  
220 \$4 million in tax expenses related to non-GAAP adjustments.

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

225

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

229

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

233

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

235 **SLIDE 14 & 15: DRIVING VALUE THROUGH LEADERSHIP**

236 **SPEAKER: Ilan Levin**

237 Thank you, Shane.

238 In 2017, we are focused on better allocating our resources to achieve our long-term goals.

239 Our industry is continually maturing, and moving beyond general purpose design and engineering  
240 rapid prototyping into use-cases that target specific high value-added applications within key  
241 industry segments, ranging from advanced prototyping, through to production tooling and  
242 production part manufacturing applications.

243  
244 Today, we are reallocating resources from a general purpose, “one size fits all” development  
245 strategy, and further emphasizing key customer engagements, with development projects closely  
246 associated with their needs.

247  
248 By leveraging our extensive technology and application knowledge, with our drive to build deep,  
249 high-quality, and lasting customer relationships, we are able to provide increased value to the  
250 market.

251  
252 As we make this transition, we will continue to make the necessary changes to our organizational  
253 structure that will help us to achieve these long-term goals.

254

255 **SLIDE 16: LEADERSHIP IN APPLICATION DRIVEN PRODUCT DEVELOPMENT**

256

257 As the market matures, Stratasys is focused on investing in products that provide value-added  
258 applications and solutions for our customers.

259

260 We aim to accomplish this by leveraging the core elements of our technology portfolio and  
261 extensive knowledge base within our organization.

262 We believe our core FDM and PolyJet technologies provide some the markets most stable and  
263 proven platforms, that have significant additional potential to unlock and develop.

264 For example, we recently announced our new Nylon 12CF material for our FDM platforms.

265 Nylon 12CF is a new carbon-fiber-filled thermoplastic that is strong enough to replace metal in  
266 many applications. We believe the new material will be valuable to users within the automotive,  
267 aerospace, recreational goods, and industrial manufacturing sectors for applications such as:

- 268
- 269 1. Design engineers that need to rapidly produce strong, light-weight and rigid components  
270 for functional prototyping, thus reducing time-to-market for new products.
  - 271 2. Manufacturing engineers that produce assembly aids, such as jigs and fixtures, where  
272 material stiffness and strength add value and where replacement of metal is desired.
  - 273 3. Manufacturing engineers making low-volume production parts with unique structural  
requirements, where high strength is required.

274 As we prioritize our investments, we are emphasizing product and application development based  
275 on clear customer or segment feedback and insights, specifically within our target markets of  
276 aerospace, automotive, healthcare, and education.

277 We believe that the enhanced value resulting from these investments provides significant  
278 opportunities within these verticals for rapid prototyping, professional design, tooling, and  
279 advanced manufacturing applications.

280 For example, at the newly designated Stratasys-supported Center of Excellence at the Jacobs  
281 Institute, physicians have been utilizing our PolyJet 3D printing solutions to develop treatment  
282 plans for life-threatening vascular issues such as aneurysms, stroke and blood clots.

283  
284 In addition to making exact models to match specific patients, our technology is being used to  
285 create anatomical models for medical training, as well as to develop trial runs for new treatment  
286 protocols – adding significant value by providing physicians a completely new process to address  
287 these applications.

288  
289 We believe these initiatives and renewed focus will improve our quality of revenue going forward,  
290 and better position the company for long-term sustainable growth.

### 291 292 **SLIDE 17: LEVERAGING STRATEGIC COLLABORATIONS**

293  
294 A critical part of our strategy is our ability to collaborate with our customers, particularly for  
295 production tooling and advanced manufacturing applications.

296  
297 We have made several recent announcements regarding exciting initiatives with industry-leading  
298 manufacturing companies.

299  
300 We have expanded our relationship with Siemens to pursue the integration between Siemens’  
301 Digital Factory and Stratasys’ Additive Manufacturing solutions, to create a cohesive, best-of-breed  
302 technology foundation that enables large-scale manufacturers to enjoy the benefits of additive  
303 manufacturing within traditional production environments.

### 304 305 **SLIDE 18: RECOGNIZED LEADERSHIP IN TARGET MARKETS**

306  
307 Within the automotive segment, we announced that Stratasys has been named the Official Supplier  
308 of 3D printing solutions to the McLaren-Honda Formula 1 team to provide our suite of 3D printing  
309 and additive manufacturing solutions for visual and functional prototyping, production and  
310 composite tooling, and customized production of parts.

311  
312 We also entered into a technical collaboration with Team Penske to provide 3D printing solutions  
313 for NASCAR and IndyCar engineering and manufacturing applications.

314  
315 As I hope you can see, we are committed to working with our customers to develop solutions that  
316 can provide value across a wide range of applications and industries.

### 317 318 319 **SLIDE 19: ADVANCED RAPID PROTOTYPING – STRATASYS F123 SERIES**

320  
321 While the rapid prototyping segment of our industry is the most developed, we believe that by  
322 providing enhanced value for this market, we can develop further growth.

323  
324 We believe providing ease-of-use while also providing engineering quality models, together with  
325 enhanced workflow software, are key value components for the professional engineer or designer.

326  
327 To further our leadership position in the rapid prototyping segment, we recently introduced the  
328 Stratasys F123 Series for professional rapid prototyping.  
329  
330 The new series of FDM systems are optimized for the complete prototyping workflow, from initial  
331 concept verification to design validation to functional performance testing.  
332  
333 The new solutions address the needs of the professional workgroup-prototyping market with a  
334 unique combination of office-usability, precision, repeatability and affordability – all without  
335 compromising on the requirements for engineering quality models.  
336  
337 The F123 series benefits from 43 existing patents, leveraging the best of our current and proven  
338 production portfolio, and 15 patents pending, featuring engineering that is exclusive to the F123  
339 series.  
340  
341 For the first time, we are enabling customers to print low-cost concept models in a high-end  
342 professional 3D printer, by offering PLA materials alongside our thermoplastic materials.  
  
343 PLA enables a cost effective and fast draft mode, saving customers up to 10 times the cost per part,  
344 and doubling the print speed compared to other materials.

345 Material change over is significantly faster than our previous models, allowing users to take  
346 advantage of the four material options and ten color choices with reduced downtime.

347  
348 The F123 Series features a streamlined workflow with GrabCAD Print, making 3D printing more  
349 realistic, connected, and accessible.

350  
351 GrabCAD Print eliminates the pain points and time wasted on file conversions by reading native  
352 CAD files and connecting directly to the F123 Series, enabling increased productivity with print  
353 management and remote print monitoring.

354  
355 Overall, we believe the new F123 Series is the most reliable, economical, and intelligent rapid  
356 prototyping solution on the professional market today.

357  
358 **SLIDE 20: SERVING PROFESSIONAL RAPID PROTOTYPING ACROSS CATEGORIES**

359  
360 In addition to continuing to ongoing development of the professional rapid prototyping segment,  
361 we believe that there is strategic value in capturing entry-level users within the desktop segment  
362 where we can provide differentiated value.

363  
364 We believe MakerBot maintains the leading desktop brand, with the most developed software  
365 ecosystem within the industry.

366  
367 We recently implemented organizational changes at MakerBot that we believe will narrow our  
368 focus on development efforts for the entry-level professional.

369  
370 We remain confident in the long-term opportunity in the desktop segment, and will continue to  
371 invest in products that serve the entry-level professional and education markets.

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373 **SLIDE 21: SUMMARY & OUTLOOK**

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In summary:

1. We are making significant progress in transforming our business into a more customer-centric organization providing value-added solutions for users within our key vertical markets.
2. We are focused on leveraging our extensive knowledge and capabilities to build deep, high-quality, and lasting relationships where we are able to provide value to our customers.
3. We are pleased with the initial reception to the F123 Series and believe that the rapid prototyping space remains an attractive opportunity, from entry-level to professional users.
4. We will continue to expand our collaborative relationships with key global manufacturing companies that can help advance our overall strategy.
5. Moving forward, we are focused on better allocating our resources to achieve our long-term goals, and we remain excited about the company's future and the long-term growth potential within our industry.

Operator, please open the call for questions.

**SLIDE 22: Q&A**

SPEAKER: Ilan Levin

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

**SLIDE 22: FINANCIAL RECONCILIATION TABLES**