

1 **SSYS Q2 2017 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 Stratasys' second
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 second 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: 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); changes in
39 the overall global economic environment; the impact of competition and new technologies; changes
40 in the general market, political and economic conditions in the countries in which we operate; any
41 underestimates in projected capital expenditures and liquidity; changes in our strategy; changes in
42 applicable government regulations and approvals; changes in customers' budgeting priorities;
43 reduction in our profitability due to shifting in our product mix into lower margin products or our
44 shifting in our revenues mix significantly towards our AM services business; costs and potential
45 liability relating to litigation and regulatory proceedings; and those factors referred to in Item 3.D
46 "Key Information - Risk Factors", Item 4, "Information on the Company", and Item 5, "Operating and
47 Financial Review and Prospects" in our 2016 Annual Report on Form 20-F, which we filed with the
48 SEC on March 9, 2017, as well as in the 2016 Annual Report generally. Readers are urged to
49 carefully review and consider the various disclosures made throughout (i) the Report on Form 6-K
50 that attaches Stratasys' unaudited, condensed consolidated financial statements as of, and for the

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

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

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

64

65 **SLIDE 5: OPENING SUMMARY**

66

67 **SPEAKER: Ilan Levin**

68

69 Thank you Shane.

70

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

72

73 We are pleased with our progress as we focus our efforts on customer engagement generating
74 higher quality revenue opportunities during the quarter.

75 We made several announcements during the quarter that showcase our progress, specifically in the
76 aerospace market, and demonstrate our ability to leverage our capabilities to address
77 manufacturing applications.

78 Additionally, we are pleased with the positive market reception to our new F123 Series, launched in
79 February of 2017, which has resulted in orders of over 1,000 systems to date, and is generating
80 significant interest for rapid prototyping applications among professional users.

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

84 Lilach?

85

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

87

88 **SPEAKER: Lilach Payorski**

89

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

91

92 In line with our strategy, we continue to progress as we pursue higher quality revenue
93 opportunities in advanced manufacturing applications for key verticals.

94
95 In the process of better allocating our resources within our plan to develop high value applications
96 for our customer and to support our long term strategy, we have continued to achieve expense
97 reductions.

98
99 Total revenue in the second quarter was \$170.0 million compared to \$172.1 million for the same
100 period last year.

101
102 GAAP operating loss for the second quarter was \$5.0 million, compared to a loss of \$17.1 million for
103 last year.

104
105 Non-GAAP operating income for the second quarter was \$11.1 million, compared to \$10.2 million
106 for the same period last year.

107
108 **SLIDE 8: REVENUE**

109
110 Product revenue in the second quarter decreased by 2% to \$121.0 million, as compared to the same
111 period last year.

112
113 Within product revenue, system revenue for the quarter declined by 6% over last year, driven by a
114 shift in product mix following the positive market reception our lower cost, high value F123
115 offering to the rapid prototyping professional market.

116 We are also seeing initial traction in our application and vertical focus, primarily within Aero and
117 Auto in the Americas and EMEA regions.

118
119 In addition, we are observing positive trends for larger production system and multi-system orders
120 from select customers, both of which reflect our focus on developing tooling and production part
121 applications.

122
123 In areas where the adoption of these use case specific applications within our targeted industries is
124 slower, such as in Asia Pacific, we are observing relatively softer hardware sales.

125
126 Consumable revenue increased 2% compared to the same period last year.

127
128 Services revenue in the second quarter increased by 1% to \$49.0 million, as compared to last year.

129
130 Within service revenue, customer support revenue, which includes revenue generated mainly by
131 maintenance contracts on our systems, increased by 6% compared to the same period last year,
132 driven primarily by growth in our installed base of systems.

133
134
135 **SLIDE 9: GROSS MARGIN**

136
137 GAAP gross margin increased to 49.1% for the second quarter, compared to a GAAP gross margin of
138 46.2% for the same period last year, and 47.1% in the first quarter.

139

140 Non-GAAP gross margin decreased to 53.0% for the second quarter, compared to 55.9% for last
141 year, driven by a shift in product mix, but increased sequentially from 51.2% in the first quarter.

142
143 Product gross margin decreased to 59.9%, compared to 63.5% for the same period last year, driven
144 by the shift in product mix described earlier, while it increased compared to 57.9% in the first
145 quarter.

146
147 Service gross margin decreased to 36.2%, compared to 36.6% for same period last year, and
148 increased compared to 35.0% in the first quarter.

149

150 **SLIDE 10: OPERATING TRENDS**

151

152 GAAP operating expenses decreased by 9% to \$88.4 million for the second quarter, as compared to
153 the same period last year.

154

155 Non-GAAP operating expenses decreased by 8% to \$79.1 million for the second quarter versus last
156 year, as we remain focused on aligning resources with our long-term growth strategy and
157 deepening customer engagement in our key verticals.

158

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

160

161 The Company generated \$10.9 million of cash from operations during the second quarter, as
162 compared to \$6.9 million for the second quarter last year.

163

164 We ended the second quarter with \$305.3 million in cash and cash equivalents, compared to \$297.2
165 million at the end of the first quarter.

166 Inventory at the end of the second quarter was flat at \$116.5 million as compared to the inventory
167 level at the end of the first quarter, reflecting our tight control on those levels.

168 Accounts receivable increased to \$120.3 million, compared to \$115.1 million at the end of the first
169 quarter with DSO on 12-month trailing revenue at 66.

170

171

172 **SLIDE 12: SUMMARY**

173

174 To recap:

175

176 1.) We are pleased with the results of our efforts to generate deeper customer engagement and
177 higher quality revenue opportunities primarily within our targeted industry verticals of
178 aerospace, automotive, and healthcare.

179 2.) In addition, our ongoing alignment of resources and focus on high value applications has
180 resulted in reduced operating expenses.

181 3.) And finally, we are well positioned to leverage our favorable cash position, including cash
182 generation and a strong balance sheet, to capture new opportunities going forward.

183

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

186 **SLIDE 13: GUIDANCE**

187
188 **SPEAKER: Shane Glenn**

189
190 Thank you, Lilach.

191
192 Our guidance for 2017 is as follows:

- 193
- 194 1. Total revenue in the range of \$645 to \$680 million, with non-GAAP net income in the range
 - 195 of \$10 to \$20 million, or \$0.19 to \$0.37 per diluted share.
 - 196 2. GAAP net loss of \$53 to \$39 million, or (\$1.00) to (\$0.73) per basic share.
 - 197 3. Non-GAAP operating margin of 3% to 5%.
 - 198 4. Capital expenditures projected at \$40 to \$50 million.

199 As of the end of the second quarter, we believe that we are tracking towards the higher end of
200 guidance for operating margins and earnings per share.

201 Non-GAAP earnings guidance excludes \$34 million of projected amortization of intangible assets;
202 \$18 to \$20 million of share-based compensation expense; \$2 to \$3 million in merger and acquisition
203 related expense; and \$8 to \$10 million in reorganization and other related costs; and includes \$3 to
204 \$4 million in tax expenses related to non-GAAP adjustments.

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

209
210 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our
211 net income loss, as well as signification quarter to quarter variability in our non-GAAP tax rate, the
212 Company believes non-GAAP operating profit would be the best measure of our performance in
213 2017.

214
215 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a
216 table at the end of our press release and slide presentation, with itemized detail concerning the
217 non-GAAP financial measures.

218
219 Now, I'd like to turn the call back over to our CEO, Ilan Levin. Ilan?

220 **SLIDE 14: STRATEGY UPDATE**

221 **SPEAKER: Ilan Levin**

222 Thank you, Shane.

223 In the second quarter we continued our efforts to deepen customer engagement by pursuing new
224 collaborations, and enhancing and expanding our existing relationships with industry leaders in our
225 key vertical markets.

226 We believe that our continued partnering with industry-leading companies will accelerate the
227 development of high-value added applications, and allow us to bring increased value to the market.

228 We are pleased with the market reaction to our production-focused products and services,
229 demonstrated in part by the multiple announcements we recently made at, and following the Paris
230 Airshow.

231 Additionally, we are excited with the early market adoption of our professional rapid prototyping
232 solutions, specifically the recently introduced F123 Series, and our GrabCAD Print software
233 platform.

234

235 **SLIDE 15: AEROSPACE APPLICATIONS & COLLABORATIONS**

236

237 At the Paris Air Show, we made a number of significant announcements, including our new Fortus
238 900mc Aircraft Interiors Certification Solution for producing certifiable aircraft interior parts which
239 leverages a qualification program underway with the FAA, National Institute of Aviation Research,
240 and America Makes.

241

242 The new solution consists of ULTEM 9085 resin that meets aerospace flame, smoke and toxicity
243 regulations, a new edition of the Fortus 900mc Production 3D Printer with specialized hardware
244 and software designed to deliver highly repeatable mechanical properties appropriate for aircraft
245 interior part applications, and the qualification processes and data to ease the certification process.

246

247 With the new offering, we believe we are removing major obstacles around FAA certification and
248 making it easier to manufacture airworthy parts, with improved repeatability and performance.

249

250 As previously announced, an early adopter of this new application-specific product is Western Tool
251 & Mold, a leading Hong Kong-based parts supplier, for the production certifiable aircraft interior
252 components.

253

254 Additionally, we recently announced that Stratasys Direct Manufacturing has been chosen by
255 Airbus to produce 3D printed polymer parts for use on the A350 XWB aircraft.

256

257 SDM will now print non-structural parts such as brackets and installation fixtures with our
258 Stratasys FDM production 3D Printers using our ULTEM 9085 material, providing tighter
259 turnaround times and lower inventory costs.

260

261 Also at the Paris Airshow, we were pleased to showcase our focus on the aerospace market with the
262 announcements that innovative companies Boom Supersonic and Eviation Aircraft are utilizing
263 Stratasys 3D printing solutions to reduce engineering costs and accelerate design cycles for next-
264 generation aircraft.

265

266 We believe that these developments can help accelerate adoption of our technologies in the
267 aerospace market.

268

269

270 **SLIDE 16: F123 SERIES and GRABCAD**

271

272 Since the launch of the F123 Series in February 2017, we have received orders for over 1,000
273 systems, one of our most successful product launches in our company's history.

274

275 We believe that the positive reaction from the market demonstrates that the prototyping segment
276 remains an attractive and underpenetrated growth opportunity.

277
278 The majority of F123 orders have come from new customers, and we have seen significant interest
279 in multiple system orders.

280
281 We believe that the early success and adoption of the F123 Series is being driven by the product
282 directly addressing the professional workgroup-prototyping market, with a combination of ease-of-
283 use, precision, repeatability and affordability – all without compromising on the requirements for
284 engineering-grade models.

285
286 The F123 Series provides a streamlined workflow, made possible in part by GrabCAD Print, which
287 makes 3D printing more realistic, connected, and accessible.

288
289 With the ability to read and understand CAD files natively, GrabCAD Print offers an efficient
290 workflow that streamlines print management in shared office and model shop environments –
291 greatly enhancing the functionality of the F123 Series.

292
293 Since its launch in November of 2016, the software has been installed on over 13,000 desktops and
294 is being used by over 1,400 customers worldwide.

295
296 Users have printed over 61,000 trays of parts, an impressive number when you consider that
297 GrabCAD Print users still represent a very small portion of our total installed base of systems.

298
299 The GrabCAD Community currently has nearly 4 million members, up 36% in the last year, and the
300 largest collection of mechanical CAD models anywhere on the Internet, with over 2 million CAD files
301 and tutorials.

302
303 We are pleased with the early traction from GrabCAD Print, as well as the growing number of
304 community members, which we believe will help increase accessibility and drive adoption and
305 usage of our products and services.

306
307 **SLIDE 17: MAKERBOT EDU**

308
309 We recently strengthened our leadership in the 3D printing for education market with several
310 announcements from MakerBot.

311
312
313 The first is the new cloud-based platform My MakerBot, which is Chromebook-compatible and
314 connects to networked 3D printers, Thingiverse accounts, and support cases and orders.

315
316 Chromebooks are used extensively in the education segment, and we believe that the ability to
317 upload and prepare files, print, and monitor progress from any device will broaden student access
318 to 3D printers in Chromebook classrooms and makes it easier for educators to manage their use.

319
320 We also announced that My MakerBot will include integration with Autodesk Tinkercad, the
321 popular K-12 design software tool. Students will be able to 3D design in Tinkercad then export
322 designs to My MakerBot and 3D print them without ever leaving their web browsers.

323

324 Finally, we announced the new MakerBot Educators Guidebook to assist educators in learning the
325 basics of 3D printing, best practices, and for finding high quality STEM lesson plans.

326
327 We believe these new offerings further solidify MakerBot's leadership position in education, and
328 will substantially improve student access to 3D printing, make it easier for teachers to implement in
329 their classrooms, and make it simpler than ever to go from a lesson plan to a 3D print.

330

331

332 **SLIDE 18: SUMMARY & OUTLOOK**

333

334 In summary:

335

- 336 1. We believe our recent announcements of aerospace-specific products and high-value
337 collaborations with leading companies demonstrate the value of our customer-centric
338 approach.
- 339 2. We are pleased with the positive customer reaction to the F123 Series, and the excitement
340 the new offering is generating in the general rapid prototyping market.
- 341 3. Looking forward, we remain excited about the Company's future and the long-term growth
342 potential within our industry.

343

344 Operator, please open the call for questions.

345

346 **SLIDE 19: Q&A**

347

348 SPEAKER: Ilan Levin

349

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

352

353 **SLIDE 20: FINANCIAL RECONCILIATION TABLES**