

1 **SSYS Q1 2018 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 Stratasy's first  
8 quarter 2018 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 first quarter financial results.  
20 On the call with us today are Ilan Levin, CEO, and Lilach Payorski, CFO of Stratasy.

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 Please note that some of the information you will hear during our discussion today will consist of  
29 forward-looking statements including, without limitation, those regarding revenue, gross margin,  
30 operating expenses, taxes and future business outlook. Actual results or trends could differ  
31 materially from our forecast. For more information, please refer to the risk factors discussed in  
32 Stratasy's annual report on Form 20-F and report on Form 6-K, along with the associated press

33 release concerning our earnings for the 1<sup>st</sup> quarter of 2018. Stratasys assumes no obligation to  
34 update any forward-looking statements or information which speak as of their respective dates.

35  
36 As in previous quarters, today's call will include GAAP and non-GAAP financial measures. The non-  
37 GAAP financial measures should be read in combination with our GAAP metrics to evaluate our  
38 performance. Certain non-GAAP to GAAP reconciliations are provided in the table contained in our  
39 slide presentation and in today's press release.

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

41

42

43 **SLIDE 5: OPENING SUMMARY**

44

45 **SPEAKER: Ilan Levin**

46

47 Thank you Yonah.

48

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

50

51 We are disappointed with our revenue for the first quarter, primarily driven by underperformance  
52 in North America high end system orders, specifically from customers in government and other key  
53 verticals such as aerospace and automotive.

54

55 Other parts of our business performed in-line with expectations, and we continue to maintain a  
56 strong pipeline of opportunities.

57

58 As such, we do not believe that our first quarter revenue represents a fundamental change in the  
59 demand environment in North America, and we are not modifying the full year guidance we issued  
60 earlier this year.

61

62 We are addressing the underperformance in North America by working closer with our channel  
63 partners in providing vertical market expertise and tools to better convert on our available  
64 opportunities.

65

66 Despite our revenue results in the period, we continued our positive trend of operational discipline  
67 and cash generation.

68

69 We remain committed to our investments in long-term initiatives that include advancements in our  
70 core FDM and PolyJet technologies, our new metal additive manufacturing platform, advanced  
71 composite materials, and software and application development.

72

73 We continue to see progress being made in the additive manufacturing adoption cycle as customers  
74 move through the qualification and validation stage towards a transition into production.

75

76 And we are excited about the recent new products and significant hardware and software upgrades,  
77 announced last week at RAPID, that we believe further expand our addressable markets for both  
78 prototyping and manufacturing applications.

79

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

83 Lilach?

84

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

86

87 **SPEAKER: Lilach Payorski**

88

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

90

91 Total revenue in the first quarter was \$153.8 million compared to \$163.2 million for the same  
92 period last year, driven by the previously mentioned reduction in high end system sales in North  
93 America, and lower revenues from customers in government and key verticals.

94 GAAP operating loss for the first quarter was \$6.5 million, compared to a loss of \$12.6 million for  
95 the same period last year.

96

97 Non-GAAP operating income for the first quarter was \$4.9 million, compared to \$4.0 million for the  
98 same period last year.

99

100 **SLIDE 8: REVENUE**

101

102 Product revenue in the first quarter decreased by 9.7% to \$103.9 million, as compared to the same  
103 period last year.

104

105 Within product revenue, system revenue for the quarter decreased by 20.7% compared to the same  
106 period last year, driven by the underperformance in North American high end system sales.

107 Consumables revenue increased modestly by 1.7% compared to the same period last year,  
108 reflecting the impact of the reduction in system sales in North America and the associated point of  
109 sale consumable purchases typically made.

110

111 Services revenue in the first quarter was \$49.9 million, an increase of 3.8% compared to the same  
112 period last year.

113

114 Within services revenue, customer support revenue, which includes revenue generated mainly by  
115 maintenance contracts on our systems, increased by 7.3% compared to the same period last year  
116 driven primarily by growth in our installed base of systems and improvement in our service  
117 contract attach rate.

118

119 **SLIDE 9: GROSS MARGIN TRENDS**

120

121 GAAP gross margin increased to 49.2% for the first quarter, compared to 47.1% for the same period  
122 last year.

123

124 Non-GAAP gross margin increased to 52.8% for the first quarter, compared to 51.2% for the same  
125 period last year.

126

127 Non-GAAP product gross margin increased to 61.7%, compared to 57.9% for the same period last  
128 year, driven by product mix.

129

130 Non-GAAP services gross margin decreased to 34.4%, compared to 35.0% for same period last year.

131

132 **SLIDE 10: OPERATING EXPENSES & OPERATING INCOME**

133

134 GAAP operating expenses decreased by 8.3% to \$82.1million for the first quarter, as compared to  
135 the same period last year.

136

137 Non-GAAP operating expenses decreased by 3.9% to \$76.3 million for the first quarter as compared  
138 to the same period last year, continuing our trend of operational discipline.

139

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

141

142 The Company generated \$27.1 million cash from operations during the first quarter, as compared  
143 to \$25.7 million of cash generated in the first quarter last year.

144

145 We ended the first quarter with \$346.5 million in cash and cash equivalents, compared to \$328.8  
146 million at the end of the fourth quarter of 2017.

147 Inventory at the end of the first quarter increased to \$120.1 million as compared to \$115.7 million  
148 at the end of the fourth quarter.

149 Accounts receivable decreased to \$119.8 million, compared to \$132.7 million at the end of the  
150 fourth quarter with DSO on 12-month trailing revenue at 66.

151

152 **SLIDE 12: FINANCIAL SUMMARY**

153

154 To recap:

155

156 1.) We are disappointed with our first quarter revenue, which reflects the impact of a reduction  
157 in the sales of high end systems in North America, while other regions performed in-line  
158 with expectations.

159 2.) We are pleased with our operational performance despite lower than expected revenues,  
160 and are committed to our investments in long-term initiatives to expand our addressable  
161 markets.

162 3.) We continued our trend of positive cash generation from operating activities, and believe  
163 we maintain a healthy balance sheet and are well prepared to take advantage of  
164 opportunities moving forward.

165 4.) We are not modifying the full year guidance that we issued earlier this year.

166

167 I would now like to turn the call back over to Ilan.

168

169 **SLIDE 13 & 14: STRATEGIC OVERVIEW**

170

171 Thank you, Lilach.

172

173 For 30 years Stratasys has been pioneering the development and adoption of 3D printing and  
174 additive manufacturing technologies, including the precise, repeatable, and reliable FDM and  
175 PolyJet 3D printing platforms, which we believe are the most highly proliferated technologies in the  
176 additive manufacturing industry.

177

178 Through the development of our leading go-to-market, as well as our deep customer relationships,  
179 we believe that we are well positioned to assist our customers as they move through validation  
180 towards production applications, which we believe are characterized by long term, sustainable  
181 revenue.

182

183 As we discussed on our last call, throughout 2018 we are ramping up investment activity to  
184 accelerate long term development programs to expand our addressable markets, including our new  
185 metal additive manufacturing platform, advanced composite materials, software and application  
186 development, as well as further advancements of our FDM and PolyJet technologies.

187

188 We believe that our technology roadmap and investment strategy will lead to the development of  
189 products that allow our customers to design and manufacture with confidence, and will ensure  
190 continued leadership for Stratasys as we drive adoption and growth through deeper customer  
191 engagements and partnerships.

192

193 Across our areas of focus, we continue to see strong levels of customer interest in our additive  
194 manufacturing solutions, including high level engagements with leading OEMs in the aerospace,  
195 automotive, healthcare, and consumer goods verticals.

196  
197 The level of engagement reflects the long-term and deep customer relationships we have cultivated  
198 in our target verticals, and we are encouraged that key customers increasingly view the adoption of  
199 additive manufacturing technologies as a strategic priority - both for the creation of innovative new  
200 products through the use of personal printing platforms that empower the individual designer and  
201 engineer, and for the identification and qualification of specific end-use part applications in  
202 production environments.

203  
204 While just over half of our systems are going to existing customers as repeat sales, from a revenue  
205 perspective, these repeat customers are spending a higher dollar amount than new customers, as  
206 they are increasingly making larger orders, for more advanced systems, and in some cases, multiple  
207 units per order.

208  
209 We believe that these repeat orders represent customers increasing capacity as they accelerate  
210 their validation efforts and move into higher usage, production applications.

211

## 212 **SLIDE 15: ADOPTION CYCLE**

213

214 As more of our customers progress from a period of early adoption into one of validation and  
215 qualification, we are encouraged by the growing number of companies that are making significant  
216 progress in pursuing certifications for specific high value applications.

217

218 With the largest installed base of professional and industrial systems globally, and a consistent pace  
219 of innovative new product introductions that expand our addressable markets, we continue to  
220 benefit from the early adoption of our technology platforms, as our customers explore our  
221 technology and develop new applications and use cases.

222

223 Encouragingly, we are now seeing future-ready organizations pursue independent testing and  
224 qualifications by 3<sup>rd</sup> parties, as they seek to apply our technologies to specific, high value  
225 applications.

226

227 This is a critical stage as customers await certification before expanding adoption, and Stratasys is  
228 accelerating this process with solutions developed for specific applications, for example our F900  
229 Aircraft Interiors Certification Solution, and our new GrabCAD Print Jigs and Fixtures software  
230 package.

231

232 Recent examples of such future-ready customers that have validated our technology for a specific  
233 application or set of parts include Phoenix Analysis & Design Technologies and Lockheed Martin,  
234 who are producing 3D printed production parts for NASA's upcoming Orion manned space vehicle,  
235 and a growing number of dental labs that rely on the Stratasys J700 Dental 3D Printer for the  
236 production of clear aligner molds.

237

238 Additionally, we have established a joint venture with SIA Engineering to create a Singapore-based  
239 service center targeting the aerospace MRO market, and have entered into an exclusive three-year  
240 agreement with Eckhart to develop tooling solutions.

241

242 These relationships seed and foster the validation and subsequent transition to production  
243 applications, and we believe are indicative of long-term, sustainable growth opportunities.

244

245 **SLIDE 16: PORTFOLIO UPDATES**

246

247 Last week at RAPID, and earlier in the year at AMUG, we made multiple exciting new product  
248 announcements addressing prototyping and manufacturing applications, and shared new details  
249 around our new metal additive manufacturing platform.

250

251 Further extending our capabilities and broadening our product lines for the prototyping segment,  
252 we showcased several new products that further push the envelope of what's possible with 3D  
253 printed prototypes.

254

255 They include several recent enhancements to our PolyJet portfolio that include an upgraded version  
256 of our unique multi-material, full-color J750 3D printing platform that adds increased reliability via  
257 hardware and software upgrades, and the new J735 multi-material, full-color 3D printer with a  
258 smaller build size.



259

260 Additionally, GrabCAD Print now includes a new Vivid Colors package for the J750 and J735  
261 featuring over 500,000 color combinations, highly accurate color matching, and advanced clear  
262 materials with texture functionality. We also have extended GrabCAD Print support to our Connex3  
263 line of multi-material 3D printers.

264

265 To address production applications and enhance our ability to provide our customers with high  
266 value solutions that target specific applications, we made the following announcements.

267

268 The new F900 Production 3D Printer is the third generation of our flagship FDM solution for rapid  
269 tooling and production applications, with enhancements that include MTConnect-readiness for data  
270 collection and monitoring, and support for Carbon Fiber Filled Nylon 12 material.

271

272 The F900 Production 3D Printer is available in two specialized versions that extend the platform to  
273 support a wide range of applications.

274

275 The first is the F900 Aircraft Interiors Certification Solution (AICS), delivering the performance and  
276 traceability required for producing flight-worthy parts using ULTEM 9085 and achieving the  
277 highest FDM repeatability, complete material-and-process traceability, and a robust statistical data  
278 set.

279

280 The second is the F900 Pro production-grade system, which includes the benefits and value of the  
281 AICS product to extend the high repeatability developed for AICS to all industries.

282

283 Additionally, we are now increasing the accessibility of our Carbon Fiber Filled Nylon 12 high  
284 performance material via a new specialized F380 Production 3D Printer.

285

286 This newly configured system provides users with the high strength and stiffness of Stratasys' FDM  
287 Nylon 12CF on a proven platform with soluble supporting material, consistent quality, yield, and  
288 throughput of an industrial solution at a competitive price point.

289 Expanding our production-focused materials offerings, we introduced Antero 800NA, a PEKK-based  
290 thermoplastic that allows aerospace and other high-performance vehicle makers to move to  
291 additive manufacturing for high-temperature, chemical-exposed parts.

292 Software is a critical driver of adoption for production applications, and we are pleased to have  
293 announced GrabCAD Print Jigs & Fixtures, a new solution package for the GrabCAD Print platform  
294 that significantly improves the production of jigs, fixtures, and other manufacturing tooling by  
295 embedding application expertise, automating several complicated and time-consuming processing  
296 steps, and eliminating the need for multiple software programs.

297

298 **SLIDE 17: NEW METAL PLATFORM UPDATE**

299

300 Also at RAPID, we disclosed further details around our metal additive manufacturing technology,  
301 including the applications we are targeting with our new metal solution, and for the first time,  
302 showed sample parts and described the mechanical properties.

303

304 There are many market verticals around the world using complex geometry metal parts made  
305 through high volume production processes such as die-casting, powder injection molding, metal  
306 injection molding and investment casting.

307

308 Often these parts are made using low cost, lightweight alloys such as aluminum, rather than  
309 specialty alloys suited to laser and E-beam technologies.

310

311 To address this significant market opportunity Stratasys has developed a new approach to metal 3D  
312 printing incorporating elements of our proprietary jetting technology, which results in an 80%  
313 reduction in cost per part for aluminum components, compared to other additive manufacturing  
314 methods.

315

316 Using our new technology, we are able to 3D print 'green-state' parts using standard metal powders  
317 with significantly higher density than existing 3DP solutions. These 'green-state' parts can then be  
318 handled and post processed using existing industry standard powder metallurgy processes and  
319 workflows.

320

321 Our solution has been optimized for production rather than prototyping, making it highly efficient  
322 and economically viable for a wide range of applications.

323

324 Moreover, our unique approach produces final parts with density and isotropy that is significantly  
325 higher than existing additive systems, with near identical chemical composition compared to parts  
326 created by conventional methods.

327

328 We are now working directly with select automotive and industrial machining customers to further  
329 align our development programs with their needs and the market requirements.

330

331 At RAPID, we showcased multiple aluminum parts we have printed from these customer's designs,  
332 including flat brackets, LED heat sinks, oil pump housing, and car valve adapters.

333

334 We look forward to sharing more details as we move throughout the year.

335

336 I would now like to turn the call over to our VP of Investor Relations, Yonah Lloyd, who will provide  
337 you greater details on our 2018 financial guidance. Yonah?

338 **SLIDE 18: REVENUE & EARNINGS GUIDANCE**

339

340 **SPEAKER: Yonah Lloyd**

341

342 Thank you, Ilan, and good morning everyone.

343

344 Our guidance for 2018 is as follows:

345

- 346 1. Total revenue in the range of \$670 to \$700 million, with non-GAAP net income in the range  
347 of \$16 to \$27 million, or \$0.30 to \$0.50 per diluted share.
- 348 2. GAAP net loss of \$41 to \$25 million, or (\$0.75) to (\$0.46) per diluted share.
- 349 3. Non-GAAP operating margin of 4.5% to 6%.
- 350 4. Capital expenditures projected at \$40 to \$50 million.

351

352 Our guidance reflects increased investments in R&D, tools, materials, and additional resources  
353 aimed at expanding our addressable markets by accelerating our development efforts for the new  
354 metal additive manufacturing platform, further advancements based on our FDM and PolyJet  
355 technologies, and specific go-to-market initiatives in order to deepen our customer engagement.

356

357 We believe that this ramp up of operating expenses as guided, will provide the basis for long term  
358 growth.

359  
360 Non-GAAP earnings guidance excludes \$32 to \$34 million of projected amortization of intangible  
361 assets; \$17 to \$19 million of share-based compensation expense; and \$7 to \$9 million in  
362 reorganization and other related costs; and includes \$4 to \$5 million in tax expenses related to non-  
363 GAAP adjustments.

364  
365 The estimated non-GAAP tax rate for 2018 is impacted by the ongoing non-cash valuation  
366 allowance on deferred tax assets we expect to record throughout the year on U.S. losses.

367 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our  
368 net income loss, as well as significant quarter to quarter variability in our non-GAAP tax rate, the  
369 Company believes non-GAAP operating income would be the best measure of our performance in  
370 2018.

371  
372 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a  
373 table at the end of our press release and slide presentation, with itemized detail concerning the  
374 non-GAAP financial measures.

375  
376 Operator, please open the call for questions.

377  
378 **SLIDE 19: Q&A**

379  
380 SPEAKER: Ilan Levin

381  
382 Thank you for joining today's call.

383  
384 We'd like to take this opportunity and invite you to join us at our upcoming analyst and  
385 institutional investor day on June 6, at our North American corporate headquarters in Eden Prairie,  
386 Minnesota. Please contact our investor relations team for more details.

387  
388 We look forward to speaking with you again next quarter.

389

390 Thank you.

391

392

393 **SLIDE 20: FINANCIAL RECONCILIATION TABLES**

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396