

1 **SSYS Q1 2019 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 Stratasy's first
8 quarter 2019 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**

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17 **SPEAKER: Yonah Lloyd**

18
19 Good morning, everyone, and thank you for joining us to discuss our 2019 first quarter financial
20 results. On the call with us today are Elan Jaglom, Interim CEO, David Reis, Vice-Chairman and
21 member of our Board's Oversight Committee, and Lilach Payorski, CFO. David is joining us
22 remotely by phone.

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

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

29
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 performance,
33 and our expectations for our business outlook. All statements that speak to future performance,

34 events, expectations or results are forward-looking statements. Actual results or trends could differ
35 materially from our forecast. For risks that could cause actual results to be materially different
36 from those set forth in forward-looking statements, please refer to the risk factors discussed in
37 Stratasys' annual report on Form 20-F for the 2018 year, as well as our report on Form 6-K and the
38 related press release concerning our earnings for the first quarter of 2019, the latter two of which
39 we are filing with, or furnishing to the SEC today. Stratasys assumes no obligation to update any
40 forward-looking statements or information which speak as of their respective dates.

41

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

46 Now I would like to turn the call over to our Interim CEO, Elan Jaglom. Elan?

47

48 **SLIDE 5: OPENING SUMMARY**

49

50 **SPEAKER: Elan Jaglom**

51

52 Thank you Yonah.

53

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

55

56 We are pleased with our first quarter top line results, and particularly encouraged by the
57 continuation of the strong performance we have been seeing in North America over the last several
58 quarters, demonstrating steady and continuing adoption of our systems and materials in our largest
59 market. Overall, revenue was unfavorably impacted relative to the corresponding prior period by
60 unfavorable changes to foreign exchange rates.

61 We are also pleased with our non-GAAP profitability in the first quarter, as we continue to show our
62 commitment to control expenses and deliver shareholder value.

63

64 We are excited about our recent new product introductions, such as the F120 and V650 printers,
65 which we believe will expand our addressable markets, and we look forward to sharing more about
66 our portfolio roadmap later in the year.

67

68 I will return later in the call to provide an update on our search for a new Chief Executive Officer,
69 and David will provide more details regarding the quarter and recent product announcements, but
70 first I will turn the call over to our CFO, Lilach Payorski, who will review the details of our financial
71 results.

72 Lilach?

73

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

75 **SPEAKER: Lilach Payorski**

76

77 Thank you, Elan, and good morning, everyone.

78

79 Total revenue in the first quarter was \$155.3 million compared to \$153.8 million for the same
80 period last year.

81 After adjusting for the sale of our divested entities during 2018, on a like-for-like basis total
82 revenue was up 3% for the first quarter, and 5% after also adjusting for foreign-currency exchange
83 rate changes.

84 GAAP operating loss for the first quarter was \$3.3 million, compared to a loss of \$6.5 million for the
85 same period last year.

86

87 Non-GAAP operating income for the first quarter was \$6.8 million, compared to non-GAAP
88 operating income of \$4.9 million for the same period last year.

89

90 GAAP net loss for the quarter was \$2.3 million, or (\$0.04) per diluted share, compared to a net loss
91 of \$13.0 million, or (\$0.24) per diluted share, for the same period last year.

92

93 Non-GAAP net income for the quarter was \$5.7 million, or \$0.10 per diluted share, compared to
94 non-GAAP net income of \$2.7 million, or \$0.05 per diluted share, reported for the same period last
95 year.

96

97 **SLIDE 8: REVENUE**

98

99 Product revenue in the first quarter was \$105.1 million, an increase of 1% compared to the same
100 period last year. Excluding the divested entities, product revenue increased by 4%.

101

102 Within product revenue, system revenue for the quarter was up 1%, and increased by 4% after
103 adjusting for the divested entities, compared to the same period last year.

104 Consumables revenue for the quarter increased by 1% compared to the same period last year and
105 increased by 3% after excluding the divested entities.

106

107 Services revenue in the first quarter was \$50.2 million, an increase of 1% compared to the same
108 period last year. The exclusion of the divested entities had no meaningful impact on the overall
109 services revenue growth rate.

110

111 Within services revenue, customer support revenue, increased by 1% compared to the same period
112 last year, and 2% excluding divested entities.

113

114 **SLIDE 9: GROSS MARGIN TRENDS**

115

116 GAAP gross margin was 49.2% for the quarter, unchanged from the same period last year.

117

118 Non-GAAP gross margin was 52.0% for the first quarter, compared to 52.8% for the same period
119 last year, driven by the mix of revenue sources.

120

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

122

123 GAAP operating expenses decreased by 3% to \$79.7 million for the first quarter, as compared to the
124 same period last year, primarily due to the exclusion of our divested entities.

125

126 Non-GAAP operating expenses decreased by 3% to \$73.9 million for the first quarter as compared
127 to the same period last year, driven by a continued focus on administrative cost controls, R&D
128 project timing and the impact of divestments.

129

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

131

132 The Company generated \$4.6 million of cash from operations during the first quarter, as compared
133 to \$27.1 million of cash generated in the first quarter last year. The reduced cash generation
134 compared to last year is primarily due to timing of tax payments, and proactive steps to increase
135 inventory levels in order to improve fulfillment time and support product demand.

136

137 We ended the first quarter with \$367.8 million in cash and cash equivalents, compared to \$393.2
138 million at the end of the fourth quarter of 2018. The decrease in our cash balance relative to the
139 prior quarter is primarily due to a mortgage repayment.

140

141 **SLIDE 12: FINANCIAL SUMMARY**

142

143 To recap:

144

- 145 1. We are pleased with our first quarter results and encouraged by the continuation of the
146 strong performance we have been seeing in North America over the last several quarters in
147 both systems and materials.
- 148 2. Our results reflect a continuation of strong non-GAAP earnings, demonstrating the success
149 of our ongoing effort to maintain operational discipline and expense management.
- 150 3. We continue to enjoy a healthy balance sheet and are well positioned to take advantage of
151 opportunities moving forward.

152

153 I would now like to turn the call back over to Elan.

154

155 **SLIDE 13: UPDATE ON CEO SEARCH / CEO ANNOUNCEMENT**

156

157 Thank you, Lilach.

158

159 Our search for a new CEO is moving ahead and we continue our dialogue with candidates.

160

161 While we had hoped to finalize the process by now, we are happy to have a strong, experienced
162 oversight committee reporting to me that has done an excellent job advising our team during the
163 interim period.

164

165 We believe that the diligence and careful consideration we are taking during the search process will
166 be well-rewarded once we make a decision and we look forward to completing the process and
167 announcing our new CEO.

168

169 I would now like to ask David to provide more detailed information regarding the results of the
170 quarter, David?

171

172 **SLIDE 14 - 15: Q1 2019 UPDATE**

173

174 Thank you, Elan.

175

176 Our first quarter results reflect a continuation of the trends we observed in the fourth quarter of
177 last year, with strong hardware and consumables growth in the US, our largest market.

178

179 In the US we had a very good quarter for our high-end Fortus FDM production systems, driven in
180 part through continued adoption by aerospace OEMs. As we have mentioned before, our high-end
181 platforms generate more utilization per unit, which we believe will lead to accelerated future
182 annuity streams from materials and services.

183

184 The US also saw a strong quarter for our F123 platform, with continued interest in our new
185 Elastomer TPU material-enabled edition.

186

187 Overall, we continue to see increased adoption in our target verticals of aerospace, automotive, and
188 healthcare and dental.

189

190 We are pleased with the early traction we are seeing from our new products launched last year,
191 including the F380 Carbon Fiber Edition, and the previously mentioned Elastomer TPU-enabled

192 version of our F123 Printer. We also began shipping the new MakerBot Method at the end of the
193 first quarter, after showing strong pre-order demand.

194

195 **SLIDE 16: NEW PRODUCT INTRODUCTIONS**

196

197 Recently, at the Additive Manufacturing User Group conference, we made several announcements:

198

- 199 1. We introduced the new F120 3D Printer – an industrial-grade system targeting customers
200 new to additive manufacturing. The F120 offers the benefits of our F123 platform at an
201 affordable price, and provides reliable, accurate, and quality 3D printing specifically
202 designed for designers, engineers and educators. The market response has been very
203 positive, and we look forward to shipping the F120 later this year.
- 204 2. We also showcased our new V650 Flex Stereolithography 3D Printer – our first
205 commercially-available entry into this marketplace that combines the power of a large-scale
206 system with an open, configurable environment that is fine-tunable across a broad range of
207 available resins. The V650 gives customers greater accuracy, choice, and lower costs for 3D
208 printed prototyping and part development. Select DSM resins tailored for specific
209 applications will be commercially available directly from Stratasys. Interest has been
210 strong, and we expect to place units at customer sites throughout the year and beyond.
- 211 3. Finally, we announced our collaboration with Pantone – the authority on professional color
212 standards and digital solutions across the design industry. The Stratasys J750 and J735
213 Printers are now the first and only 3D printing systems with technology officially
214 recognized as “Pantone-Validated” – allowing for synchronized color communication
215 between designers, modelers and manufacturers. We expect to continue to see demand for
216 our high-end PolyJet solutions from industries that require high levels of realism, including
217 the consumer-packaged goods (CPG) and medical segments.

218

219 These represent just the beginning of a series of product launches and announcements that we plan
220 to make over the next 18 months and beyond, that we believe, collectively will meaningfully expand
221 our portfolio and contribute to accelerated growth beginning in 2020.

222

223 In addition to upcoming new innovations for our FDM and PolyJet portfolios, we expect to increase
224 our manufacturing-focused materials offerings, add additional technologies that expand our

225 addressable markets, and pursue collaborations that enhance our abilities to enter into high
226 requirement industries and applications.

227

228 **SLIDE 17: AEROSPACE**

229

230 I would like to briefly mention a significant milestone that we achieved in our key vertical segment
231 of aerospace.

232

233 Recently, the National Institute of Aviation Research, or NIAR, published a National Center for
234 Advanced Materials Performance (NCAMP) material specification, process specification and
235 extensive test and analysis reports, which document the performance, or the design allowables,
236 achievable with a Fortus 900mc and ULTEM 9085 in our Aircraft Interior Solution configuration.

237

238 While aerospace companies often develop their own processes and standards, this specification
239 document makes it easier for others in industry and supply chain to leverage our technology with a
240 fraction of the testing, qualification and investment needed previously, and without the risk of an
241 unknown outcome. The only way to meet this standard is to run ULTEM from Stratasys on a
242 qualified Fortus production system.

243

244 We are extremely excited about reaching this milestone and look forward to the continued
245 adoption of our technology for advanced manufacturing applications in aerospace.

246

247 I would now like to turn the call over to our VP of Investor Relations, Yonah Lloyd, who will provide
248 greater details on our 2019 financial guidance. Yonah?

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

250

251 **SPEAKER: Yonah Lloyd**

252

253 Thank you, David.

254

255 We are providing full year guidance for 2019 as follows:

256

257 1. Revenue guidance of \$670 to \$700 million.

- 258 2. GAAP net loss of \$22 to \$12 million, or (\$0.40) to (\$0.22) per diluted share.
259 3. Non-GAAP net income of \$30 to \$38 million, or \$0.55 to \$0.70 per diluted share.
260 4. Non-GAAP operating margin of 5.5% to 6.5%.
261 5. Capital expenditures projected at \$45 to \$60 million.

262

263 Our guidance reflects growth combined with a continued showing of operational efficiency, as our
264 profitability will increase relative to the top-line.

265

266 Non-GAAP earnings guidance excludes \$32 million of projected amortization of intangible assets;
267 \$20 to \$22 million of share-based compensation expense; reorganization related and other
268 expenses of \$1 to \$2 million; and includes tax adjustments of (\$3) to (\$4) million on the above non-
269 GAAP items.

270

271 The estimated non-GAAP tax rate for 2019 is impacted by the ongoing non-cash valuation
272 allowance on deferred tax assets that we expect to record throughout the year on U.S. losses.

273 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our
274 net income, as well as significant quarter to quarter variability in our non-GAAP tax rate, the
275 Company believes non-GAAP operating income is the best measure of our performance.

276

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

280

281 Operator, please open the call for questions.

282

283 **SLIDE 19: Q&A**

284

285 **SPEAKER: Elan Jaglom**

286

287 Thank you for joining today's call. We look forward to meeting those of you that will attend the
288 Rapid TCT conference later this month in Detroit, and to speaking with all of you again next quarter.

289

290 **SLIDE 20: FINANCIAL RECONCILIATION TABLES**