

May 9th 2014

# Q1-2014 Financial Results Conference Call



## Q4-2013

### Conference and webcast details

#### Speakers

**David  
Reis**

- CEO

**Erez  
Simha**

- CFO & COO

**Shane  
Glenn**

- VP, Investor  
Relations

#### Live Dial-in Information

**PRIMARY DIAL-  
IN: (866) 318-8617**

**INTERNATIONAL  
DIAL-IN:  
(617) 399-5136**

**PARTICIPANT  
PASSCODE:  
37260413**

#### Replay Dial-in Information

**PRIMARY DIAL-IN:  
(866) 318-8617**

**INTERNATIONAL  
DIAL-IN: (617)  
399-5136**

**AVAILABLE FROM:  
5/09/2014 12:30 PM ET**

**AVAILABLE TO:  
5/16/2014 11:59 PM ET**

**PARTICIPANT  
PASSCODE: 87845736**

**ONLINE LIVE WEBCAST AND REPLAY:**  
<http://www.media-server.com/m/p/zig8t74z>

## Stratasys

### Forward looking statement

Certain information included or incorporated by reference in this press may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are often characterized by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue,” “believe,” “should,” “intend,” “project” or other similar words, but are not the only way these statements are identified. These forward-looking statements may include, but are not limited to, statements relating to the company’s objectives, plans and strategies, statements that contain projections of results of operations or of financial condition (including, with respect to acquisitions) and all statements (other than statements of historical facts) that address activities, events or developments that the company intends, expects, projects, believes or anticipates will or may occur in the future. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. The company has based these forward-looking statements on assumptions and assessments made by its management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Important factors that could cause actual results, developments and business decisions to differ materially from those anticipated in these forward-looking statements include, among other things: the company’s ability to efficiently and successfully integrate the operations of Stratasys, Inc. and Objet Ltd. after their merger as well as MakerBot, Solid Concepts, and Harvest Technologies after their acquisitions and to successfully put in place and execute an effective post-merger integration plans; the overall global economic environment; the impact of competition and new technologies; general market, political and economic conditions in the countries in which the company operates; projected capital expenditures and liquidity; changes in the company’s strategy; government regulations and approvals; changes in customers’ budgeting priorities; litigation and regulatory proceedings; and those factors referred to under “Risk Factors”, “Information on the Company”, “Operating and Financial Review and Prospects”, and generally in the company’s annual report on Form 20-F for the year ended December 31, 2013 filed with the U.S. Securities and Exchange Commission and in other reports that the company has filed with the SEC. Readers are urged to carefully review and consider the various disclosures made in the company’s SEC reports, which are designed to advise interested parties of the risks and factors that may affect its business, financial condition, results of operations and prospects. Any forward-looking statements in this press release are made as of the date hereof, and the company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Summary

**Experienced strong revenue growth of 54%, including 33% organic revenue growth, driven by sales of higher-margin products and services**

**Strong growth of our higher-margin products contributed to an impressive gross margin of 61% for the first quarter**

**Impressive contribution from MakerBot of \$20.6 million for the first quarter, as the desktop segment continues rapid expansion**

**Invested aggressively in sales, marketing, and product development projects during the first quarter, with emphasis on MakerBot products**

**Announced a major new initiative with our agreements to acquire Solid Concepts and Harvest Technologies**

**Maintain positive outlook and continue to position the company for future growth through enhancements in our organizational structure**

## Financial Results

Stratasys Ltd.

## Non-GAAP

(\$ in millions unless noted otherwise)

	Q1-13	Q1-14	Change YOY
Unit Sales	1,168	8,802	653.6%
Total Revenue	\$98.2	\$151.2	+53.9%
Revenue/ Employee	0.084	0.079	-6.9%
Gross Profit % margin	57.9 59.0%	92.1 60.9%	+59.1%
Operating Expenses % of sales	37.6 38.3%	69.4 45.9%	+84.5%
Operating Profit % margin	20.3 20.7%	22.8 15.1%	+12.1%
Pre-tax Profit % margin	20.8 21.2%	21.4 14.2%	+2.9%
Tax Rate	15.1%	3.8%	-74.6%
EBITDA	25.1	26.0	+3.5%
Net Income % margin	17.6 17.9%	20.6 13.6%	+17.2%
EPS (Diluted)	\$0.43	\$0.40	-6.5%
Diluted Shares	41.1	51.2	+24.8%

## Quarter Highlights:

- Revenue growth of 54% YOY
- Organic revenue growth of 33% YOY
- Non-GAAP GM rose to 61% from 59%
- Non-GAAP net income growth of 17% YOY

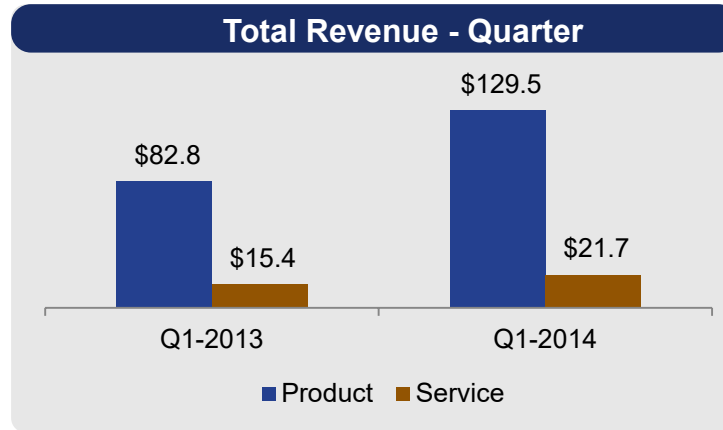
## Financial Results

### Revenue

Stratasys Ltd.

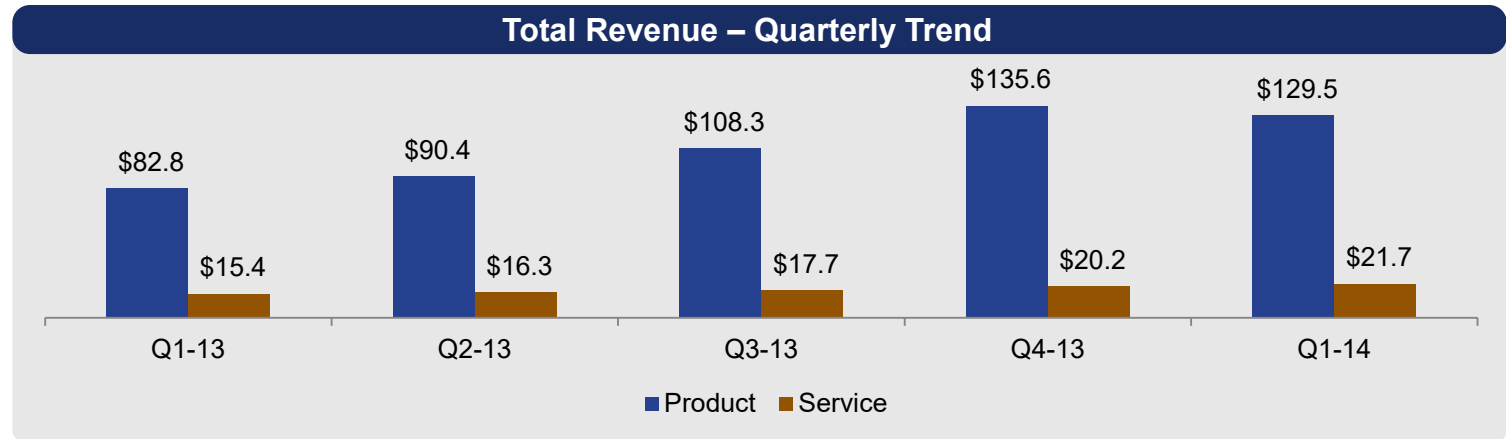
Non-GAAP

(\$ in millions)



### Quarter Highlights:

- System revenue +71% YOY
- Consumable revenue +36% YOY
- Maintenance Revenue and Related Services +64% YOY



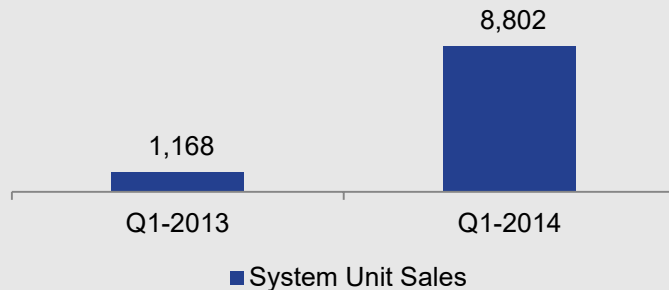
## Financial Results

### System Unit Sales<sup>1</sup>

Stratasys Ltd.

#### Total Units – Quarter

##### System Unit Sales

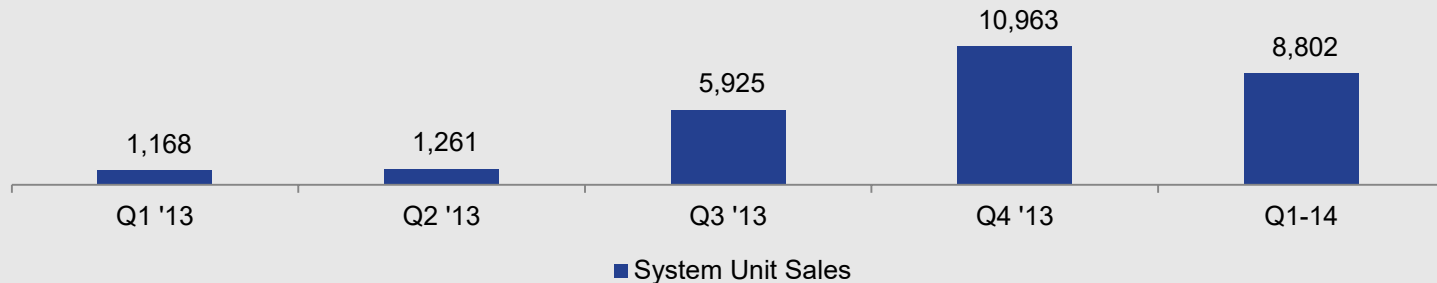


#### Quarter Highlights:

- MakerBot impact
- Launch of the Objet500 Connex3 Color Multi-Material 3D Printer
- Fortus FDM strength

#### Total Units – Quarterly Trend

##### System Unit Sales



## Financial Results

## Gross Profit

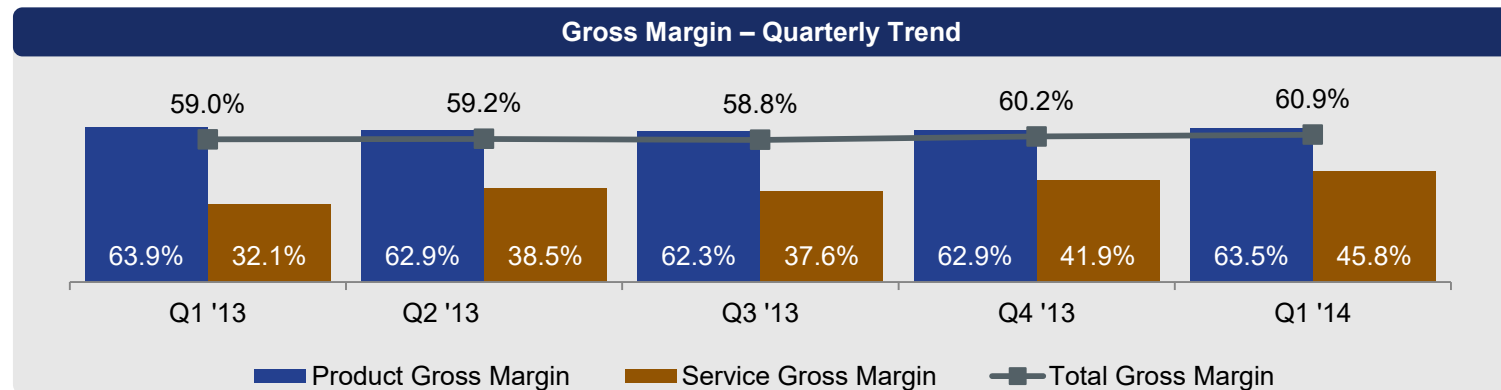
## Stratasys Ltd.

## Non-GAAP

(\$ in millions unless noted otherwise)	Q1-13	Q1-14	% Change YOY
Product Revenue	\$82.8	\$129.5	+56.3%
% of sales	84.3%	85.7%	
Service Revenue	15.4	21.7	+40.9%
% of sales	15.7%	14.3%	
Product Gross Profit % margin	53.0	82.2	+55.2%
	63.9%	63.5%	
Service Gross Profit % margin	4.9	9.9	+100.6%
	32.1%	45.8%	
Total Gross Profit % margin	57.9	92.1	+59.1%
	59.0%	60.9%	

## Quarter Highlights:

- Sales of higher-margin products & services
- Better overhead coverage





## Financial Results

## Operating Profit

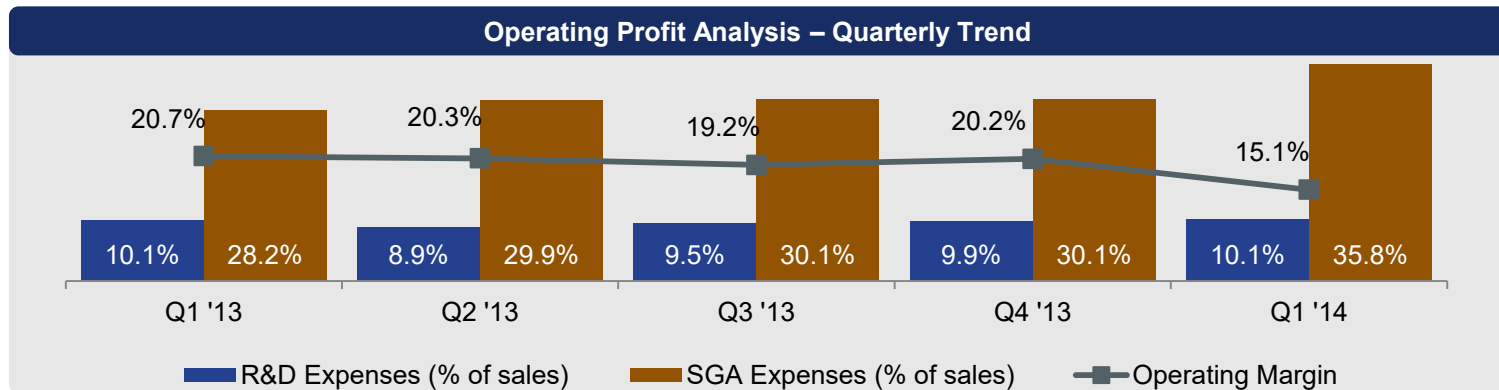
## Stratasys Ltd.

## Non-GAAP

(\$ in millions unless noted otherwise)	Q1-13	Q1-14	% Change YOY
R&D Expense % of sales	9.9 10.1%	15.3 10.1%	+54.4%
SG&A Expense % of sales	27.7 28.2%	54.1 35.8%	+95.2%
Total Operating Exp. % of sales	37.6 38.3%	69.4 45.9%	+84.5%
Total Operating Profit % margin	20.3 20.7%	22.8 15.1%	+12.1%

## Quarter Highlights:

- Significant investments in MakerBot
- Investing for future growth



## Financial Results

## Growth Drivers

## Stratasys Ltd.

## Non-GAAP

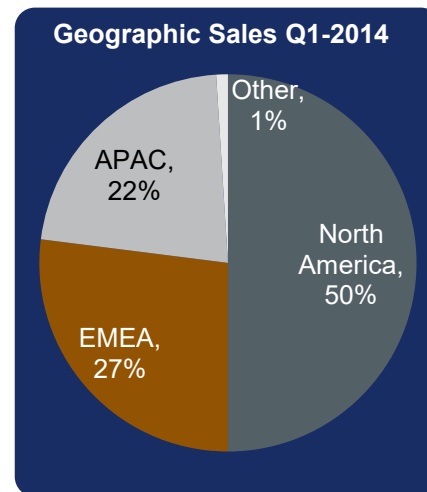
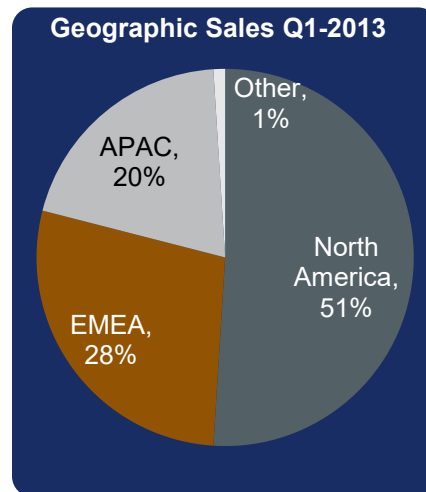
	Q1-2014 (YOY)	
	Units	Dollars
System Revenue	+654%	+71%
Consumables Revenue	--	+36%
Maintenance Revenue and Related Services	--	+64%
RedEye Parts Services	--	+4%

## Financial Results

### Revenue Geographic Mix

Stratasys Ltd.

Non-GAAP



## Financial Results

### Balance Sheet Summary

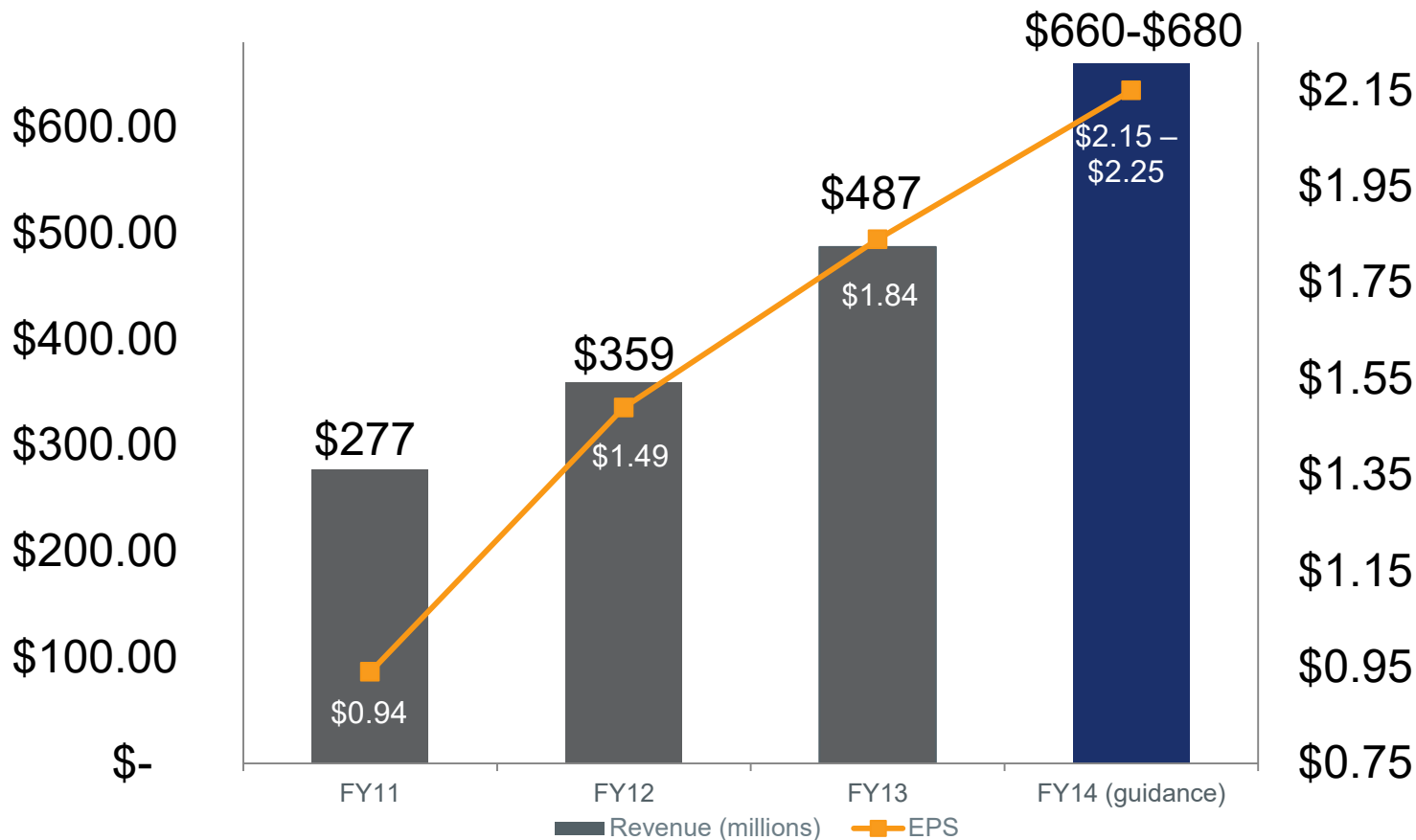
Stratasys Ltd.

(\$ in millions unless noted otherwise)

Selected balance sheet items (\$ in millions)	Q4-13	Q1-14
Cash , Cash Equivalents & Inv.	\$616.1	\$607.5
Accounts Receivable	99.2	106.0
Inventories	88.4	99.8
Net Working Capital	714.4	712.8

## Highlights

- \$607.5 M in cash, cash equivalents and bank deposits
- \$4.9 M in net operating cash flow
- Increased inventory for supply flexibility and new product introductions
- DSO declined to 72 from 74 in Q4

**Financial  
Results &  
Projections****Stratasys Ltd.****Non-GAAP**(\$ in millions  
unless noted  
otherwise)

## Financial Guidance

### Revenue and Earnings Guidance

Stratasys Ltd.

### Non-GAAP

## Fiscal 2014 Financial Guidance

Revenue (M)

**\$660 - 680**

Non-GAAP Diluted EPS

**\$2.15 - \$2.25**

### Reconciliation of GAAP to Non-GAAP Guidance

(\$ in millions unless noted otherwise)

Revenue	\$660 to \$680
Non-GAAP Net Income	\$113.3 to \$118.6
(1) Stock-Based Compensation Exp.	\$25.1 - \$28.2
(2) Amortization of Intangibles	\$64.8
(3) Merger-Related Expenses	\$8.8 - \$9.8
GAAP Net Income	\$10.5 - \$19.9
GAAP Diluted EPS	\$0.20 - \$0.38
Non-GAAP Diluted EPS	\$2.15 - \$2.25

## Financial Guidance

### Long-Term Target Operating Model

Stratasys Ltd.

Non-GAAP

Revenue growth

**+20%**

Operating margin<sup>1</sup>

**20% - 25%**  
of sales

Effective tax rate<sup>1</sup>

**15% - 20%**

Net income margin<sup>1</sup>

**16% - 21%**  
of sales

## Stratasys

### Strategic Imperatives

Lead in Prototyping

Expand the Direct Digital Manufacturing (DDM) Business

Introduce Niche Vertical Applications

Accelerate New Solutions to the Market

Improve 3D Printing Accessibility

Improve Customer Intimacy



# Stratasys

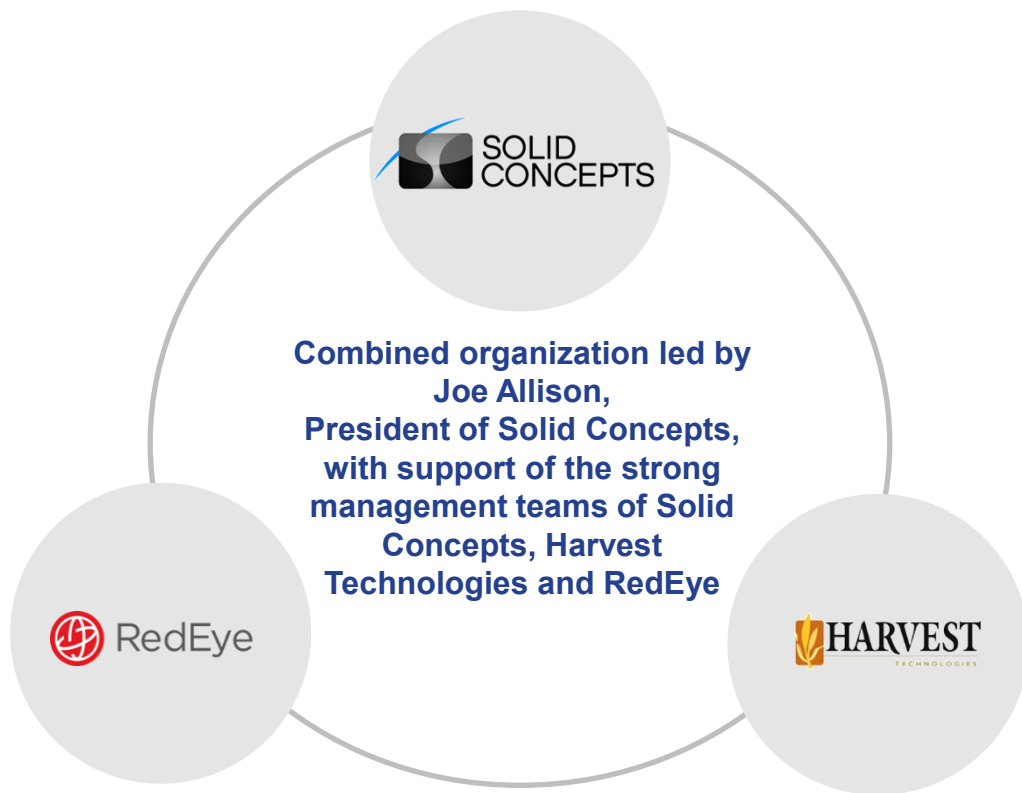
## Platforms to Drive Future Growth



Provides Stratasys with Significant Additive Manufacturing and End-Use Parts Production Capabilities, Infrastructure, Capacity and Process Knowhow

## Stratasys

## Organizational Structure



## Stratasys

Solid  
Concepts,  
Harvest  
Technologies  
& RedEye

Operate as a Growing, Profitable Business Unit Within SSYS



Establish a Fulfillment Platform for Expanding EUP Strategy



Cross Selling Synergies

Parts Sell 3D  
Printers



3D Printers Sell  
Parts

## Stratasys

## Transactions Enhance Shareholder Value

### Creates Leading Strategic Platform

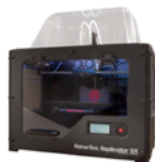
- ✓ Enables Stratasys to Leverage Significant Additive Manufacturing Services Experience
- ✓ Creates Opportunity For Cross-selling Synergies
- ✓ Compelling Financial Benefits
- ✓ Clear path to completion
- ✓ Transactions subject to customary closing conditions and expected to close early in the upcoming third quarter
- ✓ Transactions are expected to be accretive to non-GAAP EPS within the first 12 months after closing



# Stratasys

## Recent New Product Introductions

2013	Q1 2014
<p>Objet30 OrthoDesk 3D Printer</p> <p>Solidscape 3Z MAX</p> <p>MakerBot Replicator 2X</p> <p>MakerBot Digitizer Desktop 3D Scanner</p> <p>MakerBot Flexible Filament</p> <p>MakerBot Dissolvable Filament</p> <p>Nylon 12</p> <p>Digital ABS2</p>	<p>Objet500 Connex3 Color Multi-Material 3D Printer</p> <p>MakerBot Replicator</p> <p>MakerBot Replicator Mini</p> <p>MakerBot Replicator Z18</p> <p>Objet Eden260V Dental Advantage</p> <p>VeroGlaze Dental</p> <p>Endur Simulated Polypropylene</p>



## Impressive Demand for New Products

New Innovative Products to Drive Future Growth

### Connex3 and MakerBot Replicator



## Strong Interest in Upcoming Releases

### MakerBot Replicator Mini and Z18 Shipping in Q2 2014



---

## Acquisition of Certain Assets of Interfacial Solutions: Provides Structure Alignment to Support Future Growth Opportunities

Stratasys

Structure to  
Drive Future  
Growth



- ✓ Strengthens materials R&D skills and bandwidth
- ✓ Enables vertical integration of material development and manufacturing
- ✓ Increases materials production space and capacity
- ✓ Accelerates new materials development, allowing for the introduction of new products to the market faster

## Update on Stratasy's – Objet Integration

### Stratasy's

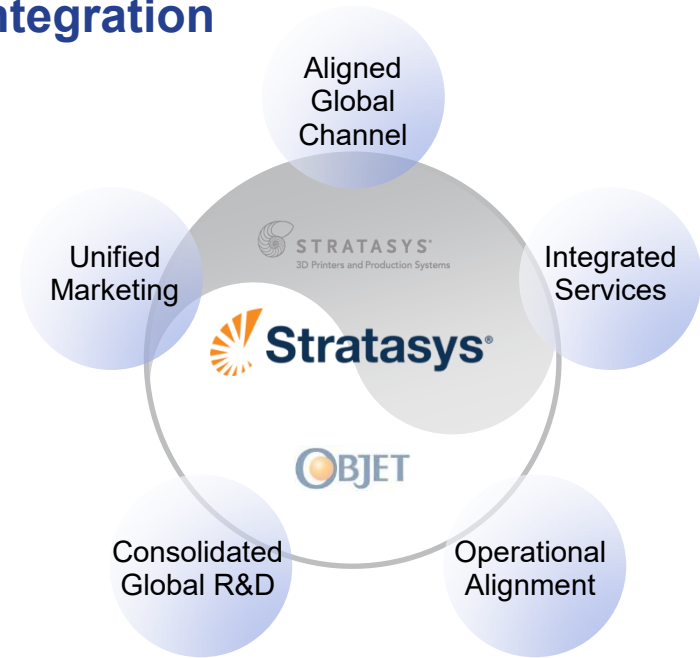
### Structure Alignment to Support Future Growth Opportunities

#### Phase 1

- ✓ Sales & Channel
- ✓ Marketing
- ✓ Services

#### Phase 2

- ✓ R&D
- ✓ Operations





## Summary & Outlook

**Impressive Q1 results as market demand remains strong**

**Sales of higher-margin products and services helped drive strong organic revenue growth and a significant increase in gross margin**

**MakerBot product sales strong as we continue to invest for future growth in the rapidly expanding desktop market**

**Recent acquisitions intended to create comprehensive parts solution for customers and drive incremental growth opportunities**

**Announced and began shipping multiple new systems and materials, with additional systems scheduled for shipment before end of Q2**

**Maintain positive outlook, and positioning the company for growth through structural enhancements and additional potential acquisitions**

# We are Stratasys

*We shape lives by revolutionizing the way things are made*

- ✓ *We are innovation*
- ✓ *We are fearless leaders*
- ✓ *We are customer driven*
- ✓ *Our quality matters*
- ✓ *Our people make the difference*



## Reconciliation of Pro Forma GAAP to Pro Forma Non-GAAP Results of Operations

### Stratasys Ltd. Combined

(\$ in thousands except per share data)

	Q1-13 GAAP	Adjustments	Q1-13 Non-GAAP	Q1-14 GAAP	Adjustments	Q1-14 Non-GAAP
<b>Net sales</b>						
Products	\$ 81,810	\$ 1,015	\$ 82,825	\$ 129,252	\$ 235	\$ 129,487
Services	15,397	-	15,397	21,689	-	21,689
<b>Cost of sales</b>						
Products	49,043	(19,177)	29,866	61,022	(13,728)	47,294
Services	10,790	(343)	10,447	12,191	(433)	11,758
<b>Gross profit</b>	37,374	20,535	57,909	77,728	14,396	92,124
<b>Operating expenses</b>						
Research and development, net	10,789	(899)	9,890	16,771	(1,496)	15,275
Selling, general and administrative	43,325	(15,608)	27,717	67,617	(13,522)	54,095
Change in fair value of earn-out obligations	-	-	-	(7,495)	7,495	-
<b>Operating income (loss)</b>	(16,740)	37,042	20,302	835	21,919	22,754
Other income (expense)	514	-	514	(1,336)	-	(1,336)
<b>Income (loss) before income taxes</b>	(16,226)	37,042	20,816	(501)	21,919	21,418
Income taxes (benefit)	(743)	3,886	3,143	(4,588)	5,408	820
<b>Net income (loss)</b>	(15,483)	33,156	17,673	4,087	16,511	20,598
Net income attributable to non-controlling interest	53	40	93	-	-	-
<b>Net income (loss) attributable to Stratasys Ltd.</b>	\$ (15,536)	\$ 33,116	\$ 17,580	\$ 4,087	\$ 16,511	\$ 20,598
<b>EPS (Diluted)</b>	\$ (0.40)		\$ 0.43	\$ 0.08		\$ 0.40

## Reconciliation of Non-GAAP Adjustments

### Stratasys Ltd. Combined

#### Net sales, products

Deferred revenue purchase price

#### Cost of sales, products

Acquired intangible assets amortization

Non-cash stock-based compensation expense

Merger and acquisition related expense

#### Cost of sales, services

Non-cash stock-based compensation expense

Merger and acquisition related expense

#### Research and development, net

Non-cash stock-based compensation expense

Performance bonus expense

#### Selling, general and administrative

Acquired intangible assets amortization

Non-cash stock-based compensation expense

Merger and acquisition related expense

Performance bonus expense

#### Change in fair value of earn-out obligation

Change in Earn-out obligation

#### Income taxes

Tax expense related to non-GAAP adjustments

#### Net income attributable to non-controlling interest

Depreciation and amortization expense attributable to non-controlling interest

#### Net income

#### Q1-13

\$ 1,015

(18,762)

(318)

(97)

(19,177)

(316)

(27)

(343)

(899)

-

(899)

(5,461)

(3,958)

(6,189)

-

(15,608)

-

3,886

40

\$ 33,116

#### Q1-14

\$ 235

(13,225)

(503)

-

(13,728)

(409)

(24)

(433)

(938)

(558)

(1,496)

(5,364)

(4,886)

(1,484)

(1,788)

(13,522)

7,495

5,408

-

\$ 16,511