

1 **SSYS Q2 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 second
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 second 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.

22
23 I remind you that access to today's call, including the prepared slide presentation, is available
24 online at the web address provided in our press release.

25
26 In addition, a replay of today's call, including access to the slide presentation, will also be available,
27 and can be accessed through the investor relations section of our website.

28
29 Please note that some of the information you will hear during our discussion today will consist of
30 forward-looking statements, including, without limitation, those regarding our expectations as to
31 our future revenue, gross margin, operating expenses, taxes and other future financial performance,
32 and our expectations for our business outlook. All statements that speak to future performance,
33 events, expectations or results are forward-looking statements. Actual results or trends could differ

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

40

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

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

46

47 **SLIDE 5: OPENING SUMMARY**

48

49 **SPEAKER: Elan Jaglom**

50

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

52

53 Our second quarter results reflect continued strong performance in the Americas, our largest
54 market, where we saw revenue growth across systems, consumables, and services.

55

56 In-line with our long-term strategy, we continue to invest in developing new products that we
57 believe will expand our addressable markets and generate accelerated growth beginning in 2020.

58

59 Over the coming two years, we anticipate multiple major product introductions of new systems,
60 platforms and technologies, subject to R&D timelines.

61

62 Our focus on operational efficiency has allowed us to continue generating earnings and profitability
63 even as overall revenue growth remains relatively flat, after excluding divestments.

64

65 We believe we are well positioned to continue expanding in manufacturing, rapid prototyping, and
66 photo-realism design as well as in our target verticals of aerospace, automotive, healthcare, and
67 dental.

68
69 Additionally, our emphasis on innovation and select partnerships over the last several years is
70 opening new, incremental opportunities that, along with our healthy balance sheet, will support our
71 accelerated growth plan beginning in 2020.

72
73 We are excited about the market response to the new products that we have recently launched, and
74 about several additional announcements we plan to make later this year and in 2020.

75
76 Our positive Americas top-line results in the second quarter were offset by our disappointing
77 performance in EMEA. We believe that our sales are being affected primarily by the significant
78 economic weakness in Europe that is impacting capital investments and general spending in the
79 European automotive and industrial machinery markets. Our results were also unfavorably
80 impacted by foreign exchange rates in Europe and Asia Pacific.

81
82 Despite the revenue weakness we are experiencing in Europe, we continue to see high levels of
83 customer engagement and are encouraged by the interest in deploying our solutions there. We
84 believe that we are well positioned to return to growth in that region once conditions improve.

85
86 I will return later in the call to provide an update on our search for a new CEO, and David will
87 provide more details regarding the quarter and other items, but first I will turn the call over to our
88 CFO, Lilach Payorski, who will review the details of our financial results.

89

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

91 **SPEAKER: Lilach Payorski**

92

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

94

95 Total revenue in the second quarter was \$163.2 million compared to \$170.2 million for the same
96 period last year.

97 After adjusting for the sale of our divested entities during 2018, total revenue decreased 2% for the
98 quarter and decreased 1% after also adjusting for constant currency.

99 GAAP operating income for the second quarter was \$0.8 million, compared to a loss of \$1.9 million
100 for the same period last year.

101

102 Non-GAAP operating income for the quarter was \$9.1 million, compared to non-GAAP operating
103 income of \$10.6 million for the same period last year.

104

105 GAAP net income for the quarter was \$1.2 million, or \$0.02 per diluted share, compared to a net
106 loss of \$3.6 million, or (\$0.08) per diluted share, for the same period last year.

107

108 Non-GAAP net income for the quarter was \$8.5 million, or \$0.16 per diluted share, compared to
109 non-GAAP net income of \$8.1 million, or \$0.15 per diluted share, for the same period last year.

110

111 **SLIDE 8: REVENUE**

112

113 Product revenue in the second quarter was \$110.3 million, a decrease of 7% compared to the same
114 period last year. Excluding the divested entities and on a constant currency basis, product revenue
115 decreased by 3%.

116

117 Within product revenue, system revenue for the quarter decreased 10%, and decreased by 6% after
118 adjusting for the divested entities and on a constant currency basis, compared to the same period
119 last year.

120 Consumables revenue for the quarter decreased by 4% compared to the same period last year and
121 decreased by 1% after excluding the divested entities and on a constant currency basis.

122

123 Services revenue in the second quarter was \$52.8 million, an increase of 2% compared to the same
124 period last year, and an increase of 3% after excluding divested entities and on a constant currency
125 basis.

126

127 Within services revenue, customer support revenue increased by 2% compared to the same period
128 last year, and by 4% after excluding divested entities and on a constant currency basis.

129

130 **SLIDE 9: GROSS MARGIN TRENDS**

131

132 GAAP gross margin was 49.7% for the quarter, compared to 49.1% for the same period last year.

133

134 Non-GAAP gross margin was 52.5% for the quarter, with no change compared to the same period
135 last year.

136

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

138

139 GAAP operating expenses decreased by 6% to \$80.4 million for the second quarter, as compared to
140 the same period last year, primarily due to the impact of divestments.

141

142 Non-GAAP operating expenses decreased by 3% to \$76.6 million for the second quarter as
143 compared to the same period last year, driven by a continued focus on administrative cost controls
144 and the impact of divestments.

145

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

147

148 The Company used \$3.8 million of cash from operations during the second quarter, as compared to
149 \$13.0 million of cash generated in the second quarter last year, primarily due to proactive steps to
150 increase inventory levels in order to improve fulfillment time and support product demand.

151

152 We ended the second quarter with \$366.3 million in cash and cash equivalents, compared to \$367.8
153 million at the end of the first quarter of 2019.

154

155 **SLIDE 12: FINANCIAL SUMMARY**

156

157 To recap:

158

- 159 1. We are pleased with year-over-year growth in Americas systems, consumables, and services
160 revenues, which were offset primarily by the impact of economic conditions in EMEA.

- 161 2. Our results reflect a continuation of strong non-GAAP earnings, demonstrating the success
162 of our ongoing effort to maintain operational discipline and expense management as we
163 continue to improve profitability.
- 164 3. We continue to enjoy a healthy balance sheet and are well positioned to take advantage of
165 opportunities moving forward.

166
167 I will now turn the call back over to Elan.

168
169 **SLIDE 13: UPDATE ON CEO SEARCH**

170
171 Thank you, Lilach.

172
173 Our search for a new CEO is moving ahead and we continue to meet with excellent candidates
174 around the world, from various industries and backgrounds. These candidates have the requisite
175 experience as public company leaders with strong track records of growing their businesses and
176 delivering shareholder value, and we are being duly deliberate in our decision-making process.

177
178 As a reminder, our current Oversight Committee consisting of our board members, David Reis, Dov
179 Ofer, and Scott Crump, continues to work closely with me and with our management team. I look
180 forward to bringing this process to its conclusion and advising you of our decision at that time.

181
182 I would now like to ask David to provide more detailed information regarding the results of the
183 quarter, David?

184
185 **SLIDE 14 - 15: Q2 2019 UPDATE**

186
187 Thank you, Elan.

188
189 Our second quarter results reflect a continuation of the trends we observed in the last several
190 quarters, with systems, consumables and services growth in the Americas, our largest market,
191 where we continue to observe increased adoption in our target verticals of aerospace, automotive,
192 healthcare, and dental.

193

194 For example, in our North American aerospace segment, we are seeing strong sales of our
195 production-focused 3D printers and materials, as well as encouraging early adoption of our recently
196 launched Aircraft Interiors Solution.

197

198 We believe that our ability to meet the strict requirements of the aerospace industry is clearly
199 demonstrated by our NCAMP qualification from NIAR which we discussed on our last call.

200

201 As the aerospace industry in general increases its investments into additive manufacturing, we
202 believe that Stratasys is uniquely positioned to provide the OEM's and their entire supply chain
203 with our solutions.

204

205 In addition to large deals with several top aerospace OEMs in Q2, we are seeing increased adoption
206 by Tier 1 and Tier 2 suppliers, specifically for jigs, fixtures, and tooling applications.

207

208 We made several announcements at the Paris Airshow further demonstrating our focus and
209 traction in the aerospace segment.

210

211 After two years of rapid adoption for both RP and tooling applications, we extended the Boom
212 Supersonic partnership by seven years to span well into their development program, and also
213 showcased tooling and end-use part applications that Marshall Aerospace and Defense is
214 addressing with our FDM technology.

215

216 Additionally, at the Aircraft Interiors Expo in April, Diehl Aviation highlighted their adoption of
217 Stratasys FDM technology, specifically showing a printed curtain header for the Airbus A350 XWB,
218 which is reportedly the largest 3D printed part to be made for a passenger aircraft.

219

220 **SLIDE 16: INNOVATION AND NEW PRODUCT INTRODUCTIONS**

221

222 As we noted at the beginning of the year, we are focused on bringing to market innovative new
223 systems, materials, software, and application-specific solutions that leverage our deep knowledge
224 of additive manufacturing and customer requirements to create new, incremental revenue
225 opportunities.

226

227 The new systems being developed include major developments across our existing technology
228 portfolio of FDM and PolyJet, our upcoming Layered Powder Metallurgy metal platform, or LPM, as
229 well as new offerings that will broaden the range of solutions we bring to the market. As a brief
230 update, we have shipped two Early Bird LPM systems, one to a large metal-focused service bureau
231 and the other to a world leading automotive OEM.

232

233 We are pleased with the early market interest in the new products we introduced this year,
234 including the F120 and V650, and expect to see the impact ramping in H2 2019.

235

236 Additionally, in the back half of 2019 and into 2020 we intend to make several additional
237 announcements, including more details on the LPM metal platform, progress on the High-Speed
238 Sintering platform developed in partnership with Xaar, as well as exciting new advancements in
239 both FDM and PolyJet.

240

241 We continue to expect that beginning in fiscal year 2020, on the strength of our R&D and sales and
242 marketing efforts we will begin seeing accelerated revenue growth.

243

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

246 **SLIDE 17: REVENUE & EARNINGS GUIDANCE**

247

248 **SPEAKER: Yonah Lloyd**

249

250 Thank you, David.

251

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

- 253 1. Revenue guidance of \$670 to \$700 million. We currently believe that revenue will be
254 closer to the low end of the range, depending primarily on economic conditions in
255 Europe.
- 256 2. GAAP net loss of \$17 to \$3 million, or (\$0.31) to (\$0.05) per diluted share, compared to
257 previous guidance of a GAAP net loss of \$22 to \$12 million, or (\$0.40) to (\$0.22) per
258 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 \$30 to \$45 million, compared to previous guidance of
262 \$45 to \$60 million.

263

264 Non-GAAP earnings guidance excludes \$23 to \$24 million of projected amortization of intangible
265 assets; \$22 to \$24 million of share-based compensation expense; reorganization expenses and
266 other of \$1 to (\$1) million; and includes tax adjustments of (\$2) to (\$3) million on the above non-
267 GAAP items.

268

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

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

274

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

278

279 Operator, please open the call for questions.

280

281 **SLIDE 18: Q&A**

282

283 **SPEAKER: Elan Jaglom**

284

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

286

287 **SLIDE 19: FINANCIAL RECONCILIATION TABLES**

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