

1 **SSYS Q4 2018 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' fourth
8 quarter and full year 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 Stratasys. 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 2018 fourth quarter and full
20 year financial results. On the call with us today are Elan Jaglom, Interim CEO, David Reis, Vice-
21 Chairman and 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, our report on Form 6-K, along with the
37 related press release concerning our earnings for the fourth quarter of 2018, all of which we are
38 filing with, or 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 Thank you Yonah.

52

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

54

55 Our fourth quarter top line results reflect continued positive traction in high-end system and
56 materials sales for both our PolyJet and FDM technologies, primarily in North America, improved
57 growth at Stratasys Direct Manufacturing, and steady growth in customer support revenues. Late in
58 the quarter our revenues were impacted by the government shutdown in the US, and some
59 weakness in the Automotive sector in Europe which we believe is temporary and not fundamental,
60 as we remain highly engaged with our OEM partners there.

61

62

63 We are pleased to have achieved our profitability expectations both for the fourth quarter and full
64 year, and to have generated a record amount of cash from operations for 2018, demonstrating a
65 continuation of our effort to successfully deliver earnings value to our shareholders.

66

67 Overall, we are pleased with the progress we have made over the last few years to build a strong
68 operational foundation for future growth.

69

70 We are excited about our recent and upcoming new product introductions that expand our
71 addressable markets, and believe we have a portfolio roadmap in place that will result in
72 accelerated growth beginning in 2020.

73

74 I will return later in the call to provide an update on our search for a new Chief Executive Officer,
75 and David will provide more details regarding our strategy and growth prospects, but first I will
76 turn the call over to our CFO, Lilach Payorski, who will review the details of our financial results.

77 Lilach?

78

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

80 **SPEAKER: Lilach Payorski**

81

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

83

84 Total revenue in the fourth quarter was \$177.1 million compared to \$179.3 million for the same
85 period last year. For the full year 2018, total revenue was \$663.2 million compared to \$668.4
86 million for 2017.

87 After adjusting for the sale of our divested entities during 2018, on a like-for-like basis total
88 revenue was up 0.7% for the fourth quarter and was flat for the full year.

89 Non-GAAP operating income for the fourth quarter was \$12.8 million, compared to operating
90 income of \$13.5 million for the same period last year.

91

92 GAAP net income for the quarter was \$6.3 million, or \$0.12 per diluted share, compared to a net
93 loss of \$10.0 million, or (\$0.19) per diluted share, for the same period last year.

94 Non-GAAP net income for the quarter was \$11.3 million, or \$0.21 per diluted share, compared to
95 Non-GAAP net income of \$8.4 million, or \$0.16 per diluted share, reported for the same period last
96 year.

97

98 For full year 2018, GAAP net loss was \$11.0 million, or (\$0.22) per diluted share, compared to a loss
99 of \$40.0 million, or (\$0.75) per diluted share, for fiscal 2017, and non-GAAP net income was \$27.8
100 million, or \$0.52 per diluted share, compared to non-GAAP net income of \$24.2 million, or \$0.45 per
101 diluted share, reported for fiscal 2017.

102

103 **SLIDE 8: REVENUE**

104

105 Product revenue in the fourth quarter was \$124.5 million, a decrease of 4.0% compared to the same
106 period last year, and for the full year 2018, product revenue was \$456.5 million, a decrease of 3.7%
107 compared to 2017. Excluding the divested entities, Q4 product revenue decreased 1.6%, and 2.6%
108 for full year 2018.

109

110 Within product revenue, system revenue for the quarter decreased 6.9%, and 4% after adjusting for
111 the divested entities, compared to the same period last year. On an annual basis, 2018 system
112 revenue decreased 9%, and 7.9% after adjusting for divestments.

113 Consumables revenue for the quarter was flat compared to the same period last year, and up 1.3%
114 excluding the divested entities. On an annual basis, 2018 consumables revenue increased 2.2%, and
115 3.2% after adjusting for the divestments. We are observing strong consumables growth in the US,
116 our largest and most mature geographical market, offset by the previously mentioned partial
117 impact of Automotive in EMEA.

118

119 Services revenue in the fourth quarter was \$52.6 million, an increase of 6.1% compared to the same
120 period last year, and for the full year 2018, services revenue was \$206.7 million, an increase of
121 6.5% compared to 2017. Excluding the divested entities, Q4 services revenue increased 6.7%, and
122 6.9% for full year 2018.

123

124 Within services revenue, customer support revenue, which includes revenue generated mainly by
125 maintenance contracts on our systems, increased by 6.2% compared to the same period last year.
126 For the full year 2018, customer support revenue increased 7.5% compared to 2017.

127

128 **SLIDE 9: GROSS MARGIN TRENDS**

129

130 GAAP gross margin was 49.1% for the quarter, compared to 48.7% for the same period last year.

131

132 Non-GAAP gross margin was 52.2% for the fourth quarter, compared to 52.5% for the same period

133 last year, driven by mix of revenue sources.

134

135 Non-GAAP product gross margin increased to 58.9%, compared to 58.8% for the same period last

136 year, driven by product mix.

137

138 Non-GAAP services gross margin was 36.3%, compared to 35.9% for the same period last year,

139 reflecting improvements in Stratasys Direct Manufacturing performance.

140

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

142

143 GAAP operating expenses decreased by 2.6% to \$90.8 million for the fourth quarter, as compared to

144 the same period last year, primarily due to the exclusion of our divested entities.

145

146 Non-GAAP operating expenses decreased by 1.1% to \$79.7 million for the fourth quarter as

147 compared to the same period last year, driven by administrative cost controls and the impact of

148 divestitures.

149

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

151

152 The Company generated \$18.7 million of cash from operations during the fourth quarter, as

153 compared to \$20.8 million of cash generated in the fourth quarter last year. For 2018 we generated

154 a record \$63.7 million of cash from operations.

155

156 We ended the fourth quarter with \$393.2 million in cash and cash equivalents, compared to \$348.9

157 million at the end of the third quarter of 2018.

158 Inventory increased to \$123.5 million, compared to \$118.1 million in the third quarter of 2018.

159 Accounts receivable increased to \$138.1 million, compared to \$129.5 million as of the end of the

160 third quarter of 2018, with Days Sales Outstanding, or DSO, on 12-month trailing revenue at 76.

161

162 **SLIDE 12: FINANCIAL SUMMARY**

163

164 To recap:

165

- 166 1. We are pleased with our Non-GAAP earnings, demonstrating the success of our continuous
167 effort to improve operational discipline and expense management.
- 168 2. Our revenue results reflect strong performance and increased adoption in North America
169 for our high-end PolyJet and FDM systems, as well as consumables, offset by what we
170 believe is temporary weakness in the Automotive sector in EMEA.
- 171 3. We continue to enjoy a healthy balance sheet and positive cash generation from operating
172 activities, demonstrated by a record \$63.7 million in 2018.

173

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

175

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

177

178 Thank you, Lilach.

179

180 As we noted on the last call, Victor Leventhal, Chairman of our Compensation Committee, and I, as
181 the Company's Executive Search Committee, and have been actively interviewing CEO candidates.

182

183 They are all outstanding leaders, with global operational experience and a strong history of growing
184 large, public companies and delivering significant shareholder value.

185

186 At this time we have not yet finalized a decision, and we look forward to announcing a new CEO
187 when we have completed the process.

188

189 I would now like to ask David to provide more detailed information regarding the results of the
190 quarter and full year 2018, as well as our longer-term growth outlook, David?

191

192 **SLIDE 14 - 16: Q4 AND FY 2018 UPDATE**

193

194 Thank you, Elan.

195

196 We are pleased with the success of our high-end systems in the fourth quarter and full year 2018,
197 which we believe will lead to accelerated future annuity streams from materials and services.

198

199 Our J750 and new J735 full color and multi-material 3D printers are seeing high demand in the CPG
200 segment where adoption has been increasing and systems are seeing high utilization as mission-
201 critical tools in product design and development. This segment represents a significant opportunity
202 for us within the prototyping space.

203

204 On the growing manufacturing side of our business, we had a strong year for our F900 series and
205 our advanced materials, which, to our observation, are increasingly being adopted for tooling and
206 end-use part production in our target verticals. As a result of our work with Aerospace OEMs, there
207 are tens of thousands of FDM production parts already flying, and that number continues to
208 increase.

209

210 Overall, the percentage of our system sales that go into manufacturing environments continues to
211 grow, which we believe will lead to strong recurring revenue from materials and services. Already,
212 we see utilization rates on manufacturing-focused units like the F900 exceeding those of
213 prototyping units like the F123 by a factor of three.

214

215 We are also excited with the early interest we are seeing for our recent product introductions,
216 which include:

217

1. The F380 Carbon Fiber Edition for tooling applications;

218

2. Antero PEKK advanced FDM thermoplastic that meets the strict requirements for aerospace
219 applications;

220

3. Elastomer TPU material for the F123 platform which is seeing strong early interest from
221 Automotive manufacturers and others;

222

4. The MakerBot Method Performance 3D printer that bridges the gap between desktop and
223 industrial systems and is on schedule to begin shipments later this month; and,

224

5. The new J720 Dental 3D Printer that provides multi-color and multi-material capabilities
225 for dental labs.

226

227 **SLIDE 17: GROWTH STRATEGY & OUTLOOK**

228

229 I would like to provide an update on our growth plans.

230

231 Over the last few years, we have improved our organization on multiple levels. Through relentless
232 focus on operational efficiency we have achieved consistent non-GAAP profitability and cash flow
233 generation, building the cash balance that OEMs in our target verticals expect from long-term
234 partners.

235

236 We believe that we are well positioned to move fast and take advantage of opportunities, both
237 internal and external, to improve our technology portfolio, our go-to-market, and ultimately our
238 customer base.

239

240 In the back half of 2019 and into 2020 and beyond, we intend to bring to market innovative new
241 systems, materials, software, and application-specific solutions that leverage our deep knowledge
242 of additive manufacturing and customer requirements to create new, incremental revenue
243 opportunities.

244

245 The new systems include major developments across our existing core technology portfolio of FDM
246 and PolyJet, metal systems that include our upcoming Layered Powder Metallurgy, or LPM
247 platform, as well as new offerings that will broaden the range of solutions we bring to the market.
248 We look forward to sharing more details of our roadmap throughout the year.

249

250 Beginning in fiscal year 2020, on the strength of our R&D and sales and marketing efforts we expect
251 to begin seeing accelerated revenue growth.

252

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

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

256

257 **SPEAKER: Yonah Lloyd**

258

259 Thank you, David.

260

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

262

- 263 1. Revenue guidance of \$670 to \$700 million.
- 264 2. GAAP net loss of \$22 to \$12 million, or (\$0.40) to (\$0.22) per diluted share.
- 265 3. Non-GAAP net income of \$30 to \$38 million, or \$0.55 to \$0.70 per diluted share.
- 266 4. Non-GAAP operating margin of 5.5% to 6.5%.
- 267 5. Capital expenditures projected at \$45 to \$60 million.

268

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

271

272 Non-GAAP earnings guidance excludes \$32 million of projected amortization of intangible assets;
273 \$20 to \$22 million of share-based compensation expense; reorganization related and other
274 expenses of \$1 to \$2 million; and includes (\$3) to (\$4) million in tax expenses (income) related to
275 non-GAAP adjustments.

276

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

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

282

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

286

287 Operator, please open the call for questions.

288

289 **SLIDE 19: Q&A**

290

291 SPEAKER: Elan Jaglom

292

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

294

295 **SLIDE 20: FINANCIAL RECONCILIATION TABLES**