

1 **SSYS Q2 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 Stratasy's second
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 second quarter financial
20 results. On the call with us today are Elan Jaglom, Interim CEO, David Reis, Vice-Chairman and head
21 of our Board's Oversight Committee, and Lilach Payorski, CFO of Stratasy.

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 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 revenue, gross margin,
31 operating expenses, taxes and future business outlook. Actual results or trends could differ

32 materially from our forecast. For more information, please refer to the risk factors discussed in

33 Stratasy's annual report on Form 20-F for the 2017 year, filed with the SEC on February 28, 2018,

34 and in our report on Form 6-K, along with the associated press release concerning our earnings for
35 the 2nd quarter of 2018, which we are furnishing to the SEC today. Stratasys assumes no obligation
36 to update any forward-looking statements or information which speak as of their respective dates.

37

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

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

43

44

45 **SLIDE 5: OPENING SUMMARY**

46

47 **SPEAKER: Elan Jaglom**

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49 Thank you Yonah.

50

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

52

53 We are pleased with our second quarter results, which were in-line with expectations.

54

55 We observed a recovery in high-end system orders and a return to more typical ordering behavior
56 for our key verticals of aerospace, automotive and government in North America after a slowdown
57 in the first quarter.

58

59 Additionally, we are pleased with the improved growth in consumables and services revenues
60 compared to the prior few quarters.

61

62 I will return later in the call to provide an update on our search for a new Chief Executive Officer, as
63 well as other key developments, and David will provide more details regarding the highlights of the
64 quarter, but first I will turn the call over to our CFO, Lilach Payorski, who will review the details of
65 our financial results.

66 Lilach?

67

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

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70 **SPEAKER: Lilach Payorski**

71

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

73

74 Total revenue in the second quarter was \$170.2 million compared to \$170.0 million for the same
75 period last year.

76 GAAP operating loss for the second quarter was \$1.9 million, compared to operating loss of \$5.0
77 million for the same period last year.

78

79 Non-GAAP operating income for the second quarter was \$10.6 million, compared to operating
80 income of \$11.1 million for the same period last year.

81

82 **SLIDE 8: REVENUE**

83

84 Product revenue in the second quarter was \$118.4 million, a decrease of 2.2% compared to the
85 same period last year.

86

87 Within product revenue, system revenue for the quarter decreased by 8.2% compared to the same
88 period last year.

89 Consumables revenue increased by 4.8% compared to the same period last year, reflecting strong
90 utilization of our installed base of systems.

91

92 Services revenue in the second quarter was \$51.8 million, an increase of 5.8% compared to the
93 same period last year, driven by high growth of customer support revenues and improved
94 performance at Stratasy's Direct Manufacturing.

95

96 Within services revenue, customer support revenue, which includes revenue generated mainly by
97 maintenance contracts on our systems, increased by 9.6% compared to the same period last year,
98 driven primarily by growth in our installed base of systems and improvement in our service
99 contract attach rate.

100

101 **SLIDE 9: GROSS MARGIN TRENDS**

102

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

104

105 Non-GAAP gross margin decreased to 52.5% for the second quarter, compared to 53.0% for the
106 same period last year, driven by product mix.

107

108 Non-GAAP product gross margin decreased to 59.6%, compared to 59.9% for the same period last
109 year, also driven by product mix.

110

111 Non-GAAP services gross margin was 36.2%, flat compared to same period last year.

112

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

114

115 GAAP operating expenses decreased by 3.2% to \$85.6 million for the second quarter, as compared
116 to the same period last year.

117

118 Non-GAAP operating expenses decreased by 0.5% to \$78.7 million for the second quarter as
119 compared to the same period last year.

120

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

122

123 The Company generated \$13.0 million cash from operations during the second quarter, as
124 compared to \$10.6 million of cash generated in the second quarter last year.

125

126 We ended the second quarter with \$346.7 million in cash and cash equivalents, compared to \$346.5
127 million at the end of the first quarter of 2018.

128 Inventory decreased to \$117.0 million, compared to \$120.1 million in first quarter of 2018.

129 Accounts receivable increased to \$123.5 million, compared to \$119.8 million as of the end of the
130 first quarter of 2018, with Days Sales Outstanding, or DSO, on 12-month trailing revenue at 68.

131

132 **SLIDE 12: FINANCIAL SUMMARY**

133

134 To recap:

135

- 136 1.) Revenue results were in-line with expectations, as we began to observe recovery in high-
137 end systems sales in North America.
- 138 2.) We are pleased with the ongoing revenue growth in consumables and services, which
139 demonstrate the strength of the recurring revenue generated by our leading installed base.
- 140 3.) We are committed to our ongoing investments in long-term initiatives to support our
141 technological leadership and expand our addressable markets.
- 142 4.) We continued our trend of positive cash generation from operating activities, and believe
143 we maintain a healthy balance sheet, and are well prepared to take advantage of
144 opportunities moving forward.
- 145 5.) We are reaffirming the full year guidance that we issued earlier this year.

146

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

148

149 **SLIDE 13 & 14: CEO SEARCH UPDATE**

150

151 Thank you, Lilach.

152

153 Having recently assumed the role of interim CEO, I would like to take a moment to thank our
154 outgoing CEO, Ilan Levin, for his contributions over the 18 years that he spent with us, first at Objet,
155 and then at Stratasys.

156

157 The Company's Board of Directors has appointed an Oversight Committee to help support the
158 management of the Company during the interim period, until a successor is appointed. The
159 committee is comprised of the Company's Vice Chairman of the Board, Executive Director and
160 former CEO, David Reis, along with additional Directors Scott Crump, a previous Chairman and

161 Founder, and Dov Ofer, previously a CEO in the printing industry with significant operational
162 experience.

163
164 The Company's Board of Directors has also established an Executive Search Committee, composed
165 of myself and Victor Leventhal, the Chairman of our Compensation Committee, to help identify a
166 new Chief Executive Officer.

167
168 We are in the midst of this process, and look forward to announcing a new CEO when we have
169 completed the search.

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

173
174 **SLIDE 15 & 16: REVIEW OF QUARTER**

175
176 Thank you, Elan.

177
178 As Lilach noted, we were pleased with the performance of our high-end, production focused
179 products in the second quarter, driven by North American customers in Government, Aerospace,
180 and Automotive.

181
182 As we noted on the last call, we saw no change in the overall level of engagement in these verticals,
183 and continue to see an increasing commitment to the adoption of additive manufacturing
184 technology with these key customers.

185
186 In the second quarter, we made several announcements that showcase our continued leadership in
187 additive manufacturing, including significant new product introductions at RAPID that we
188 discussed on our last call.

189
190 We are pleased to share that initial interest in our new solutions has been strong, including multiple
191 global installations of our F900 Pro and F900 Aircraft Interiors Certification Solutions, which
192 delivers the performance and traceability required for producing flight-worthy parts using ULTEM

193 9085 and achieves the highest FDM repeatability, complete material-and-process traceability, and a
194 robust statistical data set.

195
196 Additionally, we saw additional placements of J700 Dental 3D Printers at dental labs to produce
197 clear aligners, addressing an application that has matured out of the qualification phase and now is
198 characterized by incremental unit sales to customer installed bases and steady recurring revenue
199 from consumables.

200
201 We are pleased with the market reaction to our recently announced products, and believe that
202 looking forward, our technology roadmap and investment strategy will accelerate the development
203 of programs to expand our addressable markets, including our new metal additive manufacturing
204 platform, advanced composite materials, software and application development, as well as further
205 advancements of our FDM and PolyJet technologies.

206
207 We believe that these efforts will continue to lead to the development of products that allow our
208 customers to design and manufacture with confidence, and will ensure continued leadership for
209 Stratasys as we drive adoption and growth through deeper customer engagements and
210 partnerships.

211
212 I would now like to turn the call over to our VP of Investor Relations, Yonah Lloyd, who will provide
213 you greater details on our 2018 financial guidance. Yonah?

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

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216 **SPEAKER: Yonah Lloyd**

217
218 Thank you, David.

219
220 Our guidance for 2018 is as follows:

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- 222 1. Total revenue in the range of \$670 to \$700 million, with non-GAAP net income in the range
223 of \$16 to \$27 million, or \$0.30 to \$0.50 per diluted share.
 - 224 2. GAAP net loss of \$41 to \$25 million, or (\$0.75) to (\$0.46) per diluted share.
 - 225 3. Non-GAAP operating margin of 4.5% to 6%.

226 4. Capital expenditures projected at \$30 to \$40 million, reduced from previous guidance of
227 \$40 to \$50 million.

228
229 Our guidance reflects increased investments in R&D, tools, materials, and additional resources
230 aimed at expanding our addressable markets by accelerating our development efforts for the new
231 metal additive manufacturing platform, further advancements based on our FDM and PolyJet
232 technologies, and specific go-to-market initiatives in order to deepen our customer engagement.

233
234 We believe that this ramp-up of operating expenses as guided, will provide the basis for long term
235 growth.

236
237 Non-GAAP earnings guidance excludes \$32 to \$34 million of projected amortization of intangible
238 assets; \$17 to \$19 million of share-based compensation expense; and \$7 to \$9 million in
239 reorganization and other related costs; and includes \$4 to \$5 million in tax expenses related to non-
240 GAAP adjustments.

241
242 The estimated non-GAAP tax rate for 2018 is impacted by the ongoing non-cash valuation
243 allowance on deferred tax assets that we expect to record throughout the year on U.S. losses.

244 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our
245 net income, as well as significant quarter to quarter variability in our non-GAAP tax rate, the
246 Company believes non-GAAP operating income would be the best measure of our performance in
247 2018.

248
249 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a
250 table at the end of our press release and slide presentation, with itemized detail concerning the
251 non-GAAP financial measures.

252
253 Operator, please open the call for questions.

254
255 **SLIDE 18: Q&A**

256
257 SPEAKER: Elan Jaglom

258

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

260

261 **SLIDE 19: FINANCIAL RECONCILIATION TABLES**