

STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2021
(UNAUDITED)

INDEX TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2021
(UNAUDITED)

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STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 421,398	\$ 272,092
Short-term Deposits	109,000	27,000
Accounts receivable, net of allowance for credit losses of \$0.9 million as of March 31, 2021 and December 31, 2020	102,780	106,068
Inventories	124,199	131,672
Prepaid expenses	10,345	6,717
Other current assets	16,745	16,943
Total current assets	784,467	560,492
Non-current assets		
Property, plant and equipment, net	199,382	201,232
Goodwill	38,074	35,694
Other intangible assets, net	131,619	131,569
Operating lease right-of-use assets	19,089	21,298
Other non-current assets	43,299	39,717
Total non-current assets	431,463	429,510
Total assets	\$ 1,215,930	\$ 990,002
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 28,062	\$ 16,987
Accrued expenses and other current liabilities	29,283	31,061
Accrued compensation and related benefits	30,937	25,659
Deferred revenues - short term	49,413	49,165
Operating lease liabilities - short term	8,941	9,282
Total current liabilities	146,636	132,154
Non-current liabilities		
Deferred revenues - long term	14,074	14,227
Operating lease liabilities - long term	10,501	12,567
Contingent consideration	40,234	37,400
Other non-current liabilities	32,470	34,059
Total non-current liabilities	97,279	98,253
Total liabilities	\$ 243,915	\$ 230,407
Contingencies (see note 12)		
Redeemable non-controlling interests	227	227
Equity		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousand shares; 65,218 thousand shares and 56,617 thousand shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	181	155
Additional paid-in capital	2,984,048	2,753,955
Accumulated other comprehensive loss	(7,634)	(8,846)
Accumulated deficit	(2,004,807)	(1,985,896)
Total equity	971,788	759,368
Total liabilities and equity	\$ 1,215,930	\$ 990,002

STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
Consolidated Statements of Operations and Comprehensive Loss

<i>in thousands, except per share data</i>	Three Months Ended March 31,	
	2021	2020
Revenues		
Products	\$ 90,324	\$ 83,172
Services	43,865	49,735
	<u>134,189</u>	<u>132,907</u>
Cost of revenues		
Products	46,920	39,248
Services	31,692	33,789
	<u>78,612</u>	<u>73,037</u>
Gross profit	55,577	59,870
Operating expenses		
Research and development, net	20,601	24,194
Selling, general and administrative	53,334	55,576
	<u>73,935</u>	<u>79,770</u>
Operating loss	(18,358)	(19,900)
Financial expenses, net	(377)	(829)
Loss before income taxes	(18,735)	(20,729)
Income tax expenses (benefit)	(942)	221
Share in losses of associated companies	(1,118)	(838)
Net loss	\$ (18,911)	\$ (21,788)
Net loss attributable to non-controlling interests	-	(85)
Net loss attributable to Stratasys Ltd.	<u>\$ (18,911)</u>	<u>\$ (21,703)</u>
Net loss per ordinary share attributable to Stratasys Ltd. - basic and diluted	\$ (0.32)	\$ (0.40)
Weighted average ordinary shares outstanding. - basic and diluted	58,616	54,544
Comprehensive loss		
Net loss	(18,911)	(21,788)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(961)	(1,954)
Unrealized gains (losses) on derivatives designated as cash flow hedges	2,173	822
Other comprehensive income (loss), net of tax	1,212	(1,132)
Comprehensive loss	(17,699)	(22,920)
Less: comprehensive loss attributable to non-controlling interests	-	(85)
Comprehensive loss attributable to Stratasys Ltd.	<u>\$ (17,699)</u>	<u>\$ (22,835)</u>

STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
Consolidated Statements of Changes in Equity

(in thousands)

Three Months Ended March 31, 2021 and 2020

	Ordinary Shares		Additional Paid-In Capital	Accumulated deficit	Accumulated Other Comprehensive Loss	Total Equity
	Number of shares	Par Value				
Balance as of December 31, 2020	56,617	155	2,753,955	(1,985,896)	(8,846)	759,368
Issuance of shares in connection with stock-based compensation plans	670	2	2,881	-	-	2,883
Stock-based compensation	-	-	7,205	-	-	7,205
Public offering of ordinary shares, net	7,931	24	218,851	-	-	218,875
Deferred tax assets in connection with public offering expenses	-	-	1,156	-	-	1,156
Comprehensive income (loss)	-	-	-	(18,911)	1,212	(17,699)

Balance as of March 31, 2021	\$ 65,218	\$ 181	\$ 2,984,048	\$ (2,004,807)	\$ (7,634)	\$ 971,788
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STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Changes in Equity

(in thousands)

Three Months Ended March 31, 2021 and 2020

	Ordinary Shares		Additional Paid-In Capital	Accumulated deficit	Accumulated Other Comprehensive Loss	Total Equity
	Number of shares	Par Value				
Balance as of December 31, 2019	54,441	148	2,706,894	(1,542,175)	(7,716)	1,157,151
Issuance of shares in connection with stock-based compensation plans	358	1	29	-	-	30
Stock-based compensation	-	-	4,907	-	-	4,907
Comprehensive loss	-	-	-	(21,703)	(1,132)	(22,835)
Balance as of March 31, 2020	\$ 54,799	\$ 149	\$ 2,711,830	\$ (1,563,878)	\$ (8,848)	\$ 1,139,253

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Cash Flows

<i>in thousands</i>	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Net loss	\$ (18,911)	\$ (21,788)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,802	12,457
Stock-based compensation	7,205	4,907
Foreign currency transaction loss	4,181	3,428
Deferred income taxes	(1,774)	(409)
Share in losses of associated companies	1,118	838
Revaluation of investments	(3,670)	-
Other non-cash items, net	193	201
Change in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	2,620	16,541
Inventories	7,046	(5,659)
Other current assets and prepaid expenses	(3,775)	3,519
Other non-current assets	1,595	902
Accounts payable	10,197	(3,086)
Other current liabilities	6,453	9,047
Deferred revenues	(433)	(2,154)
Other non-current liabilities	(3,096)	(7,470)
Net cash provided by operating activities	22,751	11,274
Cash flows from investing activities		
Cash paid for acquisitions, net of cash acquired	(6,356)	-
Purchase of property and equipment	(4,012)	(6,291)
Investments in short-term bank deposits	(109,000)	-
Proceeds from short-term bank deposits	27,000	-
Net proceeds from divestitures of subsidiaries and associated companies	-	1,000
Purchase of intangible assets	(278)	(413)
Other investing activities	(98)	206
Net cash used in investing activities	(92,744)	(5,498)
Cash flows from financing activities		
Proceeds from public offering, net of issuance costs	218,875	-
Proceeds from exercise of stock options	2,883	30
Other financing activities	407	-
Net cash provided by financing activities	222,165	30
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,872)	(2,116)
Net change in cash, cash equivalents and restricted cash	149,300	3,690

Cash, cash equivalents and restricted cash, beginning of period	272,216	293,597
Cash, cash equivalents and restricted cash, end of period	\$ 421,516	\$ 297,287
Supplemental disclosures of cash flow information:		
Transfer of inventory to fixed assets	884	832
Transfer of fixed assets to inventory	210	5

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business Description and Basis of Presentation

Stratasys Ltd. (collectively with its subsidiaries, the “Company” or “Stratasys”) is a global leader in connected, polymer-based 3D printing solutions, across the entire manufacturing value chain. The Company leverages its competitive advantages, which include a broad set of best-in-class 3D printing platforms, software, a materials and technology partner ecosystem, innovative leadership, and global GTM infrastructure, in order to position itself to capture share in a significant and growing global marketplace, with a focus on manufacturing. The Company’s approximately 1,600 granted and pending additive technology patents to date have been used to create models, prototypes, manufacturing tools, and production parts for a multitude of industries including aerospace, automotive, transportation, healthcare, consumer products, dental, medical, and education. Stratasys’ products and comprehensive solutions improve product quality, development time, cost, and time-to-market. The Company’s 3D ecosystem of solutions and expertise includes 3D printers, materials, software, expert services, and on-demand parts production.

The condensed consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. The condensed consolidated interim financial statements include the accounts of Stratasys Ltd. and its subsidiaries. All intercompany accounts and transactions, including profits from intercompany sales not yet realized outside the Company, have been eliminated in consolidation.

The Company’s financial statements are prepared in conformity with U.S. generally accepted accounting principles (“GAAP”), which requires the Company to make estimates based on assumptions about current and, for some estimates, future economic and market conditions which affect reported amounts and related disclosures in its financial statements. Although the Company current estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual conditions could differ from the Company expectations, which could materially affect its results of operations and financial position.

In particular, a number of estimates have been and will continue to be affected by the ongoing COVID-19 pandemic. The severity, magnitude and duration of, and recovery from, as well as the economic consequences of, the COVID-19 pandemic, remain uncertain, rapidly changing and difficult to predict. As a result, the accounting estimates and assumptions may change over time in response to COVID-19. Such changes could have an additional impact on the Company’s long-lived asset and intangible asset valuation; inventory valuation; assessment of the annual effective tax rate; and the allowance for expected credit losses and bad debt.

The results of operations for the three months ended March 31, 2021 are not indicative of results that could be expected for the entire fiscal year. Certain financial information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The reader is referred to the audited consolidated financial statements and notes thereto for the year ended December 31, 2020, filed with the U.S. Securities and Exchange Commission (the “SEC”) as part of the Company’s Annual Report on Form 20-F for such year on March 1, 2021.

Note 2. New Accounting Pronouncements

Accounting Pronouncements Adopted in 2021

In December 2019, the FASB issued new guidance to simplify the accounting for income taxes by removing certain exceptions to the general principles and simplification of areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company adopted this guidance effective January 1, 2021, with no material impact on its consolidated financial statements.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 3. Certain Transactions

Origin acquisition

On December 31, 2020 (the “Origin transaction date”) the Company acquired 3D printing start-up Origin Laboratories Inc. (“Origin”) for an aggregate purchase price of \$97.1 million (the “Origin transaction”), including cash and shares. The acquisition enables Stratasys to expand its leadership through innovation in the fast-growing mass production parts market with a next-generation photopolymer platform. Stratasys expects Origin’s proprietary Programmable PhotoPolymerization (P3) technology to be an important growth engine for the Company. The acquisition was aimed at fortifying the Company’s leadership in polymers and production applications of 3D printing in industries such as dental, medical, tooling, and select industrial, defense, and consumer goods markets.

In exchange for 100% of the outstanding shares of Origin the Company issued 1,488 thousand ordinary shares, paid cash upon closing, and is obligated to pay additional payments (combination of cash and shares) subject to performance-based earn-outs over 3 years.

The Origin transaction is reflected in accordance with ASC Topic 805, “Business Combinations”, using the acquisition method of accounting with the Company as the acquirer.

The following table summarizes the fair value of the consideration transferred to Origin stockholders for the Origin transaction:

	U.S. \$ in thousands
Cash payments	\$ 33,025
Issuance of ordinary shares to Origin stockholders	26,636
Contingent consideration at estimated fair value	37,400

The fair value of the ordinary shares issued was determined based on the closing market price of the Company's ordinary shares on the Origin transaction date.

In accordance with ASC Topic 805, the estimated contingent consideration as of the Origin transaction date was included in the purchase price. The total contingent payments could reach to a maximum aggregate amount of up to \$40 million. Approximately 50% of the payments shall be settled in cash, and 50% shall be settled through the issuance of ordinary shares. The estimated fair value of the contingent consideration is based on management's assessment of whether, and at what level, the financial metrics will be achieved, and the present value factors associated with the timing of the payments. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. Changes in the fair value of contingent consideration will be recorded in Consolidated Statements of Operations and Comprehensive Loss. Refer to note 9.

An additional payment of \$6 million, which is subject to the founders' retention over 3 years, will be recorded as compensation expense over the retention period. Compensation expenses for the three-month period ended March 31, 2021 were approximately \$1.1 million.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, based on the information that is available as of March 31, 2021. Thus, the measurements of fair value reflected are subject to changes and such changes could be significant. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

	Allocation of Purchase Price (U.S. \$ in thousands)
Cash and cash equivalents	\$ 2,083
Goodwill	36,379
Intangible assets	71,125
Other assets	4,364
Total assets acquired	113,951
Net deferred tax liabilities	14,007
Other liabilities	2,883
Total liabilities assumed	16,890
Net assets acquired	\$ 97,061

The allocation of the purchase price to net assets acquired and liability assumed resulted in the recognition of an intangible asset related to developed technology of \$1 million. This intangible asset has a useful-life of 10 years. The fair value estimate of the developed technology is determined using a variation of the income approach known as the "Multi-Period Excess Earnings Approach". This valuation technique estimates the fair value of an asset based on market participants' expectations of the cash flows an asset would generate over its remaining useful life. The net cash flows were discounted to present value.

Pro forma information giving effect to the acquisition has not been provided as the impact of the transaction for purposes of Stratasys' consolidation results of operations and financial condition would not be material.

RPS acquisition

On February 16, 2021 the Company acquired RP Support Limited ("RPS"), a provider of industrial stereolithography 3D printers and solutions. In exchange for 100% of the outstanding shares of RPS, the Company paid cash upon closing and is obligated to make additional payments (in cash), subject to performance-based criteria, via earn-out payments over two years.

Marketable equity investment

The Company recognized in the first quarter of 2021 an income of \$3.7 million for revaluation of an equity investment. In prior periods the investment was treated as a non-marketable equity investment without readily determinable FV. The entity has become public during the first quarter and accordingly the investment is now treated as a marketable equity investment.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 4. Revenues

Disaggregation of Revenues

The following table presents the Company's revenues disaggregated by geographical region (based on the Company's customers' locations) and revenue type for the three months ended March 31, 2021 and 2020:

	Three months ended March 31,	
	2021	2020
	(U.S. \$ in thousands)	
Americas		
Products	\$ 49,568	\$ 48,244
Service	32,545	38,329
Total Americas	82,113	86,573

EMEA

Products	22,501	20,747
Service	6,417	6,173
Total EMEA	<u>28,918</u>	<u>26,920</u>
Asia Pacific		
Products	18,255	14,181
Service	4,903	5,233
Total Asia Pacific	<u>23,158</u>	<u>19,414</u>
Total Revenues	<u>\$ 134,189</u>	<u>\$ 132,907</u>

The following table presents the Company's revenues disaggregated based on the timing of revenue recognition (at a specific point in time or over the course of time) for the three months ended March 31, 2021 and 2020:

	Three months ended March 31,	
	2021	2020
	(U.S. \$ in thousands)	
Revenues recognized in point in time from:		
Products	\$ 90,324	\$ 83,172
Services	10,601	10,644
Total revenues recognized in point in time	<u>100,925</u>	<u>93,816</u>
Revenues recognized over time from:		
Services	33,264	39,091
Total revenues recognized over time	<u>33,264</u>	<u>39,091</u>
Total Revenues	<u>\$ 134,189</u>	<u>\$ 132,907</u>

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Contract Assets and Contract Liabilities

Contract assets are recorded when the Company's right to consideration is conditional on constraints other than the passage of time. The Company had no material contract assets as of March 31, 2021 and December 31, 2020.

Contract liabilities include advance payments and billings in excess of revenue recognized, which are primarily related to advanced billings for service type warranty. Contract liabilities are presented under deferred revenues. The Company's deferred revenues as of March 31, 2021 and December 31, 2020 were as follows:

	March 31,	December 31,
	2021	2020
	U.S. \$ in thousands	
Deferred revenue*	63,487	63,392

*Includes \$14.1 million and \$14.2 million under long term deferred revenue in the Company's consolidated balance sheets as of March 31, 2021 and December 31, 2020, respectively.

Revenue recognized in 2021 that was included in deferred revenue balance as of December 31, 2020 was \$18.4 million for the three months ended March 31, 2021.

Remaining Performance Obligations

Remaining Performance Obligations ("RPO") represent contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of March 31, 2021, the total RPO amounted to \$89.7 million. The Company expects to recognize \$74.9 million of this RPO during the next 12 months, \$9.2 million over the subsequent 12 months and the remaining \$5.6 million thereafter.

Incremental Costs of Obtaining a Contract

Sales commissions earned mainly by the Company's sales agents are considered incremental costs of obtaining a contract with a customer, as the Company expects the benefit of those commissions to be longer than one year. The majority of the sales commissions are not subject to capitalization, as the commission expense is recognized as the related revenue is recognized. Sales commissions for initial contracts related to the service type warranty are deferred and then amortized on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. Amortization expense is included in selling, general and administrative expenses in the consolidated statements of operations. As of March 31, 2021 and December 31, 2020, the deferred commissions amounted to \$5.3 million and \$5.0 million, respectively.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Inventories

Inventories consisted of the following:

	March 31,	December 31,
	2021	2020
	U.S. \$ in thousands	
Finished goods	\$ 52,845	\$ 61,297
Work-in-process	3,739	3,163
Raw materials	67,615	67,212
	<u>\$ 124,199</u>	<u>\$ 131,672</u>

Note 6. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company's goodwill for the three months ended March 31, 2021 were as follows:

	U.S. \$ in thousands	
Goodwill as of January 1, 2021	\$	35,694
Goodwill acquired*		1,716
Foreign currency translation adjustments and other		664
Goodwill as of March 31, 2021	\$	38,074

*The goodwill was acquired as part of RPS acquisition. See Note 3.

During the third quarter of 2020, the Company had noted that indicators of potential impairment existed which required an interim goodwill impairment analysis for Stratasys-Objet reporting unit. These indicators included longer and deeper than expected reduction in the business, refinement to the company's business focus into additional inorganic technologies and sustained decline in the Company's market capitalization during the past two quarters, all, primarily as a result of the COVID-19 impact on the global economy and the Company's business.

As a result of the factors discussed above, the Company revisited its assumptions supporting the cash flow projections for its Stratasys-Objet reporting unit, including: (i) the expected duration and depth of revenue reduction and certain revenue growth assumptions; (ii) the associated operating profit margins; and (iii) the long term growth rate. In estimating the discounted cash flow, the Company used the following key assumptions: the Company currently expects it will take approximately two years to regain the loss of revenue and return to its pre COVID-19 activity levels considering the impact of both volume and price with a similar effect on profitability. Following such period, the Company expects to return to similar growth rates as estimated in prior valuations. The Company assumes a long term terminal growth rate of 2.5%, which is lower than the 3.1% used in prior valuations. In addition, changes in business focus due to introduction of new technologies is expected to lower the total revenues related to the Stratasys-Objet reporting unit. The resulting cash flow amounts were discounted using the same discount rate of 13.5%.

Based on the revised cash flow projections, the value of the reporting unit had decreased below its carrying value, and the Company recorded in the third quarter of 2020, goodwill impairment charge of \$386.2 million, the entire reporting unit's goodwill.

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STRATASYS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Other Intangible Assets

Other intangible assets consisted of the following:

	March 31, 2021			December 31, 2020		
	Carrying Amount, Net of Impairment	Accumulated Amortization	Net Book Value	Carrying Amount, Net of Impairment	Accumulated Amortization	Net Book Value
	U.S. \$ in thousands					
Developed technology	\$ 365,207	\$ (265,352)	\$ 99,855	\$ 357,863	\$ (260,123)	\$ 97,740
Patents	17,894	(8,812)	9,082	17,699	(8,487)	9,212
Trademarks and trade names	26,031	(21,397)	4,634	26,036	(21,114)	4,922
Customer relationships	100,883	(82,835)	18,048	101,107	(81,413)	19,695
Capitalized software development costs	7,410	(7,410)	-	7,410	(7,410)	-
	<u>\$ 517,425</u>	<u>\$ (385,806)</u>	<u>\$ 131,619</u>	<u>\$ 510,115</u>	<u>\$ (378,547)</u>	<u>\$ 131,569</u>

Amortization expenses relating to intangible assets for the three-month period ended March 31, 2021 and 2020 were approximately \$5 million and \$6.2 million, respectively.

As of March 31, 2021, the estimated amortization expenses relating to intangible assets for each of the following future periods were as follows:

	Estimated amortization expense (U.S. \$ in thousands)
Remaining 9 months of 2021	\$ 22,840
2022	28,662
2023	14,081
2024	10,185
2025 and thereafter	55,851
Total	<u>131,619</u>

Note 7. Net Loss Per Share

The following table presents the numerator and denominator of the basic and diluted net loss per share computations for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	2020
	In thousands, except per share amounts	
Numerator:		
Net loss attributable to Stratasys Ltd. for basic and diluted loss per share	(18,911)	(21,703)

Denominator:

Weighted average shares - for basic and diluted net loss per share 58,616 54,544

Net loss per share attributable to Stratasys Ltd.

Basic and diluted \$ (0.32) \$ (0.40)

The computation of diluted net loss per share excluded share awards of 5.4 million shares and 5.3 million shares for the three months ended March 31, 2021 and 2020, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

Note 8. Income Taxes

The Company had income tax benefit of \$0.9 million for the three-month period ended March 31, 2021 compared to income tax expenses of \$0.2 million for the three-month period ended March 31, 2020. The Company's effective tax rate as of March 31, 2021 was primarily impacted by the geographic mix of its earnings and losses, as well as a valuation allowance on losses of the Company's US subsidiaries.

**STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Note 9. Fair Value Measurements

Financial instruments measured at fair value

The following table summarizes the Company's financial assets and liabilities that are carried at fair value on a recurring basis, in its consolidated balance sheets:

	March 31, 2021		December 31, 2020	
	Level 2	Level 3	Level 2	Level 3
(U.S. \$ in thousands)				
Assets:				
Foreign exchange forward contracts not designated as hedging instruments	\$ 41	-	\$ 56	-
Foreign exchange forward contracts designated as hedging instruments	754	-	793	-
Liabilities:				
Foreign exchange forward contracts not designated as hedging instruments	(252)	-	(1,098)	-
Foreign exchange forward contracts designated as hedging instruments	(140)	-	(1,584)	-
Contingent consideration	-	40,234	-	37,400
	<u>\$ 403</u>	<u>\$ 40,234</u>	<u>\$ (1,833)</u>	<u>\$ 37,400</u>

The Company's foreign exchange forward contracts are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs, including interest rate curves and both forward and spot prices for currencies (Level 2 inputs).

Contingent consideration represents liabilities recorded at fair value in connection with acquisitions, and thus represents a Level 3 measurement within the fair value hierarchy (refer to Note 3).

Other financial instruments consist mainly of cash and cash equivalents, short-term deposits, current and non-current receivables, accounts payable and other current liabilities. The fair value of these financial instruments approximates their carrying values.

**STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Note 10. Derivative instruments and hedging activities

Since the Company conducts its operations globally, it is exposed to global market risks and to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign currency exchange rates. The Company enters into transactions involving foreign currency exchange derivative financial instruments. The Company manages its foreign currency exposures on a consolidated basis, which allows the Company to net exposures and take advantage of any natural hedging. The transactions are designed to manage the Company's net exposure to foreign currency exchange rates and to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The Company does not enter into derivative transactions for trading purposes.

The Company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and forecasted transactions denominated in the New Israeli Shekel ("NIS"), Euro, GBP, Korean Won, Chinese Yuan and the Japanese Yen. The gains and losses on the hedging instruments partially offset losses and gains on the hedged items. Financial markets and currency volatility may limit the Company's ability to hedge these exposures. These contracts mature through December 2021.

The following table summarizes the consolidated balance sheets classification and fair values of the Company's derivative instruments:

	Balance sheet location	Fair Value		Notional Amount	
		March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 41	\$ 56	\$ 10,981	\$ 36,882
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	754	793	50,316	10,417
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(252)	(1,098)	44,078	37,999
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	Accrued expenses and other current liabilities	(140)	(1,584)	18,473	50,186

Foreign exchange contracts not designated as hedging instruments

As of March 31, 2021, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$55.1 million, and were used to reduce foreign currency exposures. With respect to such derivatives, gains of \$2.2 million and of \$1.5 million were recognized under financial income (expenses), net for the three-month period ended March 31, 2021 and 2020, respectively. Such gains or losses partially offset the foreign currency revaluation changes of the balance sheet items. These foreign currencies revaluation changes are also recognized under financial income (expenses), net.

Cash Flow Hedging - Hedges of forecasted foreign currency payroll and other operating expenses

As of March 31, 2021, the Company had in effect foreign exchange forward contracts, designated as cash flow hedges for accounting purposes, for the conversion of \$29.3 million into NIS. The Company uses short-term cash flow hedge contracts to reduce its exposure to variability in expected future cash flows resulting mainly from payroll costs and other operating expenses denominated in NIS. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss.

Cash Flow Hedging - Hedges of forecasted foreign currency revenue

As of March 31, 2021, the Company had in effect foreign exchange forward contracts, designated as cash flow hedges for accounting purposes, for the conversion of 33.0 million Euro into U.S. dollars. The Company transacts business in U.S. dollars and in various other currencies. The Company may use foreign exchange or forward contracts to hedge certain cash flow exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities of up to twelve months. The Company enters into these foreign exchange contracts to hedge a portion of its forecasted foreign currency denominated revenue in the normal course of business and accordingly, they are not speculative in nature.

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STRATASYS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Equity

a. Stock-based compensation plans

Stock-based compensation expenses for equity-classified stock options, restricted share units ("RSUs") and performance-based restricted share units ("PSUs") were allocated as follows:

	Three Months Ended March 31,	
	2021	2020
	U.S \$ in thousands	
Cost of sales	\$ 634	\$ 402
Research and development, net	1,424	1,556
Selling, general and administrative	5,147	2,949
Total stock-based compensation expenses	<u>\$ 7,205</u>	<u>\$ 4,907</u>

A summary of the Company's stock option activity for the three months ended March 31, 2021 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2021	\$ 2,102,529	\$ 28.06
Granted	46,366	3.15
Exercised	(137,220)	21.01
Forfeited	(13,439)	36.26
Options outstanding as of March 31, 2021	1,998,236	27.91
Options exercisable as of March 31, 2021	<u>\$ 1,619,049</u>	<u>\$ 30.82</u>

As of March 31, 2021, the unrecognized compensation cost of \$3.4 million related to all unvested, equity-classified stock options is expected to be recognized as an expense over a weighted-average period of 3.3 years.

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STRATASYS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

A summary of the Company's RSUs and PSUs activity for the three months ended March 31, 2021 is as follows:

	Number of RSUs and PSUs	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2021	\$ 2,801,116	\$ 21.08
Granted	1,201,186	34.62
Vested	(533,533)	22.56
Forfeited	(110,731)	20.69
Unvested as of March 31, 2021	<u>\$ 3,358,038</u>	<u>\$ 25.70</u>

The fair value of RSUs and PSUs is determined based on the quoted price of the Company's ordinary shares on the date of the grant.

As of March 31, 2021, the unrecognized compensation cost of \$76 million related to all unvested, equity-classified RSUs and PSUs is expected to be recognized as expense over a weighted-average period of 2.7 years.

b. Accumulated other comprehensive loss

The following tables present the changes in the components of accumulated other comprehensive income (loss), net of taxes, for the three months ended March 31, 2021 and 2020, respectively:

	Three Months Ended March 31, 2021		
	Net Unrealized Gain (Loss) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2021	\$ (1,673)	\$ (7,173)	\$ (8,846)
Other comprehensive income (loss) before reclassifications	1,607	(961)	646
Amounts reclassified from accumulated other comprehensive loss	566	-	566
Other comprehensive income (loss)	2,173	(961)	1,212
Balance as of March 31, 2020	<u>\$ 500</u>	<u>\$ (8,134)</u>	<u>\$ (7,634)</u>

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**STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

	Three Months Ended March 31, 2020		
	Net Unrealized Gain (Loss) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2020	\$ (10)	\$ (7,706)	\$ (7,716)
Other comprehensive income (loss) before reclassifications	849	(1,954)	(1,105)
Amounts reclassified from accumulated other comprehensive loss	(27)	-	(27)
Other comprehensive income (loss)	822	(1,954)	(1,132)
Balance as of March 31, 2020	<u>\$ 812</u>	<u>\$ (9,660)</u>	<u>\$ (8,848)</u>

c. Public offering of ordinary shares

During March 2021, the Company completed a capital raise of \$218.9 million, net of underwriting discounts and offering expenses. The total number of shares sold by the Company in the public offering was 7,931,034.

A deferred tax asset in an amount of \$1.2 million was recorded in respect of a tax benefit, arising from the underwriting discounts and offering expenses, as an increase to Additional Paid-In Capital.

Note 12. Contingencies

Legal proceedings

The Company is a party to various legal proceedings from time to time, the outcome of which, in the opinion of management, will not have a significant effect on the financial position, profitability or cash flows of the Company.

STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2021
(UNAUDITED)

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FOR THE THREE MONTHS ENDED MARCH 31, 2021
(UNAUDITED)

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STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 421,398	\$ 272,092
Short-term Deposits	109,000	27,000
Accounts receivable, net of allowance for credit losses of \$0.9 million as of March 31, 2021 and December 31, 2020	102,780	106,068
Inventories	124,199	131,672
Prepaid expenses	10,345	6,717
Other current assets	16,745	16,943
Total current assets	784,467	560,492
Non-current assets		
Property, plant and equipment, net	199,382	201,232
Goodwill	38,074	35,694
Other intangible assets, net	131,619	131,569
Operating lease right-of-use assets	19,089	21,298
Other non-current assets	43,299	39,717
Total non-current assets	431,463	429,510
Total assets	\$ 1,215,930	\$ 990,002
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 28,062	\$ 16,987
Accrued expenses and other current liabilities	29,283	31,061
Accrued compensation and related benefits	30,937	25,659
Deferred revenues - short term	49,413	49,165
Operating lease liabilities - short term	8,941	9,282
Total current liabilities	146,636	132,154
Non-current liabilities		
Deferred revenues - long term	14,074	14,227
Operating lease liabilities - long term	10,501	12,567
Contingent consideration	40,234	37,400
Other non-current liabilities	32,470	34,059
Total non-current liabilities	97,279	98,253
Total liabilities	\$ 243,915	\$ 230,407
Contingencies (see note 12)		
Redeemable non-controlling interests	227	227
Equity		
Ordinary shares, NIS 0.01 nominal value, authorized 180,000 thousand shares; 65,218 thousand shares and 56,617 thousand shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	181	155
Additional paid-in capital	2,984,048	2,753,955
Accumulated other comprehensive loss	(7,634)	(8,846)
Accumulated deficit	(2,004,807)	(1,985,896)
Total equity	971,788	759,368
Total liabilities and equity	\$ 1,215,930	\$ 990,002

STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
Consolidated Statements of Operations and Comprehensive Loss

<i>in thousands, except per share data</i>	Three Months Ended March 31,	
	2021	2020
Revenues		
Products	\$ 90,324	\$ 83,172
Services	43,865	49,735
	<u>134,189</u>	<u>132,907</u>
Cost of revenues		
Products	46,920	39,248
Services	31,692	33,789
	<u>78,612</u>	<u>73,037</u>
Gross profit	55,577	59,870
Operating expenses		
Research and development, net	20,601	24,194
Selling, general and administrative	53,334	55,576
	<u>73,935</u>	<u>79,770</u>
Operating loss	(18,358)	(19,900)
Financial expenses, net	(377)	(829)
Loss before income taxes	(18,735)	(20,729)
Income tax expenses (benefit)	(942)	221
Share in losses of associated companies	(1,118)	(838)
Net loss	\$ (18,911)	\$ (21,788)
Net loss attributable to non-controlling interests	-	(85)
Net loss attributable to Stratasys Ltd.	<u>\$ (18,911)</u>	<u>\$ (21,703)</u>
Net loss per ordinary share attributable to Stratasys Ltd. - basic and diluted	\$ (0.32)	\$ (0.40)
Weighted average ordinary shares outstanding. - basic and diluted	58,616	54,544
Comprehensive loss		
Net loss	(18,911)	(21,788)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(961)	(1,954)
Unrealized gains (losses) on derivatives designated as cash flow hedges	2,173	822
Other comprehensive income (loss), net of tax	1,212	(1,132)
Comprehensive loss	(17,699)	(22,920)
Less: comprehensive loss attributable to non-controlling interests	-	(85)
Comprehensive loss attributable to Stratasys Ltd.	<u>\$ (17,699)</u>	<u>\$ (22,835)</u>

STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
Consolidated Statements of Changes in Equity

(in thousands)

Three Months Ended March 31, 2021 and 2020

	Ordinary Shares Number of shares	Par Value	Additional Paid-In Capital	Accumulated deficit	Accumulated Other Comprehensive Loss	Total Equity
Balance as of December 31, 2020	56,617	155	2,753,955	(1,985,896)	(8,846)	759,368
Issuance of shares in connection with stock-based compensation plans	670	2	2,881	-	-	2,883
Stock-based compensation	-	-	7,205	-	-	7,205
Public offering of ordinary shares, net	7,931	24	218,851	-	-	218,875
Deferred tax assets in connection with public offering expenses	-	-	1,156	-	-	1,156
Comprehensive income (loss)	-	-	-	(18,911)	1,212	(17,699)

Balance as of March 31, 2021	\$ 65,218	\$ 181	\$ 2,984,048	\$ (2,004,807)	\$ (7,634)	\$ 971,788
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STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Changes in Equity

(in thousands)

Three Months Ended March 31, 2021 and 2020

	Ordinary Shares		Additional Paid-In Capital	Accumulated deficit	Accumulated Other Comprehensive Loss	Total Equity
	Number of shares	Par Value				
Balance as of December 31, 2019	54,441	148	2,706,894	(1,542,175)	(7,716)	1,157,151
Issuance of shares in connection with stock-based compensation plans	358	1	29	-	-	30
Stock-based compensation	-	-	4,907	-	-	4,907
Comprehensive loss	-	-	-	(21,703)	(1,132)	(22,835)
Balance as of March 31, 2020	\$ 54,799	\$ 149	\$ 2,711,830	\$ (1,563,878)	\$ (8,848)	\$ 1,139,253

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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STRATASYS LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Consolidated Statements of Cash Flows

<i>in thousands</i>	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Net loss	\$ (18,911)	\$ (21,788)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,802	12,457
Stock-based compensation	7,205	4,907
Foreign currency transaction loss	4,181	3,428
Deferred income taxes	(1,774)	(409)
Share in losses of associated companies	1,118	838
Revaluation of investments	(3,670)	-
Other non-cash items, net	193	201
Change in cash attributable to changes in operating assets and liabilities:		
Accounts receivable, net	2,620	16,541
Inventories	7,046	(5,659)
Other current assets and prepaid expenses	(3,775)	3,519
Other non-current assets	1,595	902
Accounts payable	10,197	(3,086)
Other current liabilities	6,453	9,047
Deferred revenues	(433)	(2,154)
Other non-current liabilities	(3,096)	(7,470)
Net cash provided by operating activities	22,751	11,274
Cash flows from investing activities		
Cash paid for acquisitions, net of cash acquired	(6,356)	-
Purchase of property and equipment	(4,012)	(6,291)
Investments in short-term bank deposits	(109,000)	-
Proceeds from short-term bank deposits	27,000	-
Net proceeds from divestitures of subsidiaries and associated companies	-	1,000
Purchase of intangible assets	(278)	(413)
Other investing activities	(98)	206
Net cash used in investing activities	(92,744)	(5,498)
Cash flows from financing activities		
Proceeds from public offering, net of issuance costs	218,875	-
Proceeds from exercise of stock options	2,883	30
Other financing activities	407	-
Net cash provided by financing activities	222,165	30
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,872)	(2,116)
Net change in cash, cash equivalents and restricted cash	149,300	3,690

Cash, cash equivalents and restricted cash, beginning of period	272,216	293,597
Cash, cash equivalents and restricted cash, end of period	\$ 421,516	\$ 297,287
Supplemental disclosures of cash flow information:		
Transfer of inventory to fixed assets	884	832
Transfer of fixed assets to inventory	210	5

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business Description and Basis of Presentation

Stratasys Ltd. (collectively with its subsidiaries, the “Company” or “Stratasys”) is a global leader in connected, polymer-based 3D printing solutions, across the entire manufacturing value chain. The Company leverages its competitive advantages, which include a broad set of best-in-class 3D printing platforms, software, a materials and technology partner ecosystem, innovative leadership, and global GTM infrastructure, in order to position itself to capture share in a significant and growing global marketplace, with a focus on manufacturing. The Company’s approximately 1,600 granted and pending additive technology patents to date have been used to create models, prototypes, manufacturing tools, and production parts for a multitude of industries including aerospace, automotive, transportation, healthcare, consumer products, dental, medical, and education. Stratasys’ products and comprehensive solutions improve product quality, development time, cost, and time-to-market. The Company’s 3D ecosystem of solutions and expertise includes 3D printers, materials, software, expert services, and on-demand parts production.

The condensed consolidated interim financial information herein is unaudited; however, such information reflects all adjustments (consisting of normal, recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim period. The condensed consolidated interim financial statements include the accounts of Stratasys Ltd. and its subsidiaries. All intercompany accounts and transactions, including profits from intercompany sales not yet realized outside the Company, have been eliminated in consolidation.

The Company’s financial statements are prepared in conformity with U.S. generally accepted accounting principles (“GAAP”), which requires the Company to make estimates based on assumptions about current and, for some estimates, future economic and market conditions which affect reported amounts and related disclosures in its financial statements. Although the Company current estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual conditions could differ from the Company expectations, which could materially affect its results of operations and financial position.

In particular, a number of estimates have been and will continue to be affected by the ongoing COVID-19 pandemic. The severity, magnitude and duration of, and recovery from, as well as the economic consequences of, the COVID-19 pandemic, remain uncertain, rapidly changing and difficult to predict. As a result, the accounting estimates and assumptions may change over time in response to COVID-19. Such changes could have an additional impact on the Company’s long-lived asset and intangible asset valuation; inventory valuation; assessment of the annual effective tax rate; and the allowance for expected credit losses and bad debt.

The results of operations for the three months ended March 31, 2021 are not indicative of results that could be expected for the entire fiscal year. Certain financial information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The reader is referred to the audited consolidated financial statements and notes thereto for the year ended December 31, 2020, filed with the U.S. Securities and Exchange Commission (the “SEC”) as part of the Company’s Annual Report on Form 20-F for such year on March 1, 2021.

Note 2. New Accounting Pronouncements

Accounting Pronouncements Adopted in 2021

In December 2019, the FASB issued new guidance to simplify the accounting for income taxes by removing certain exceptions to the general principles and simplification of areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company adopted this guidance effective January 1, 2021, with no material impact on its consolidated financial statements.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 3. Certain Transactions

Origin acquisition

On December 31, 2020 (the “Origin transaction date”) the Company acquired 3D printing start-up Origin Laboratories Inc. (“Origin”) for an aggregate purchase price of \$97.1 million (the “Origin transaction”), including cash and shares. The acquisition enables Stratasys to expand its leadership through innovation in the fast-growing mass production parts market with a next-generation photopolymer platform. Stratasys expects Origin’s proprietary Programmable PhotoPolymerization (P3) technology to be an important growth engine for the Company. The acquisition was aimed at fortifying the Company’s leadership in polymers and production applications of 3D printing in industries such as dental, medical, tooling, and select industrial, defense, and consumer goods markets.

In exchange for 100% of the outstanding shares of Origin the Company issued 1,488 thousand ordinary shares, paid cash upon closing, and is obligated to pay additional payments (combination of cash and shares) subject to performance-based earn-outs over 3 years.

The Origin transaction is reflected in accordance with ASC Topic 805, “Business Combinations”, using the acquisition method of accounting with the Company as the acquirer.

The following table summarizes the fair value of the consideration transferred to Origin stockholders for the Origin transaction:

	U.S. \$ in thousands	
Cash payments	\$	33,025
Issuance of ordinary shares to Origin stockholders		26,636
Contingent consideration at estimated fair value		37,400

The fair value of the ordinary shares issued was determined based on the closing market price of the Company's ordinary shares on the Origin transaction date.

In accordance with ASC Topic 805, the estimated contingent consideration as of the Origin transaction date was included in the purchase price. The total contingent payments could reach to a maximum aggregate amount of up to \$40 million. Approximately 50% of the payments shall be settled in cash, and 50% shall be settled through the issuance of ordinary shares. The estimated fair value of the contingent consideration is based on management's assessment of whether, and at what level, the financial metrics will be achieved, and the present value factors associated with the timing of the payments. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. Changes in the fair value of contingent consideration will be recorded in Consolidated Statements of Operations and Comprehensive Loss. Refer to note 9.

An additional payment of \$6 million, which is subject to the founders' retention over 3 years, will be recorded as compensation expense over the retention period. Compensation expenses for the three-month period ended March 31, 2021 were approximately \$1.1 million.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, based on the information that is available as of March 31, 2021. Thus, the measurements of fair value reflected are subject to changes and such changes could be significant. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

	Allocation of Purchase Price (U.S. \$ in thousands)
Cash and cash equivalents	\$ 2,083
Goodwill	36,379
Intangible assets	71,125
Other assets	4,364
Total assets acquired	113,951
Net deferred tax liabilities	14,007
Other liabilities	2,883
Total liabilities assumed	16,890
Net assets acquired	\$ 97,061

The allocation of the purchase price to net assets acquired and liability assumed resulted in the recognition of an intangible asset related to developed technology of \$71 million. This intangible asset has a useful-life of 10 years. The fair value estimate of the developed technology is determined using a variation of the income approach known as the "Multi-Period Excess Earnings Approach". This valuation technique estimates the fair value of an asset based on market participants' expectations of the cash flows an asset would generate over its remaining useful life. The net cash flows were discounted to present value.

Pro forma information giving effect to the acquisition has not been provided as the impact of the transaction for purposes of Stratasy's consolidation results of operations and financial condition would not be material.

RPS acquisition

On February 16, 2021 the Company acquired RP Support Limited ("RPS"), a provider of industrial stereolithography 3D printers and solutions. In exchange for 100% of the outstanding shares of RPS, the Company paid cash upon closing and is obligated to make additional payments (in cash), subject to performance-based criteria, via earn-out payments over two years.

Marketable equity investment

The Company recognized in the first quarter of 2021 an income of \$3.7 million for revaluation of an equity investment. In prior periods the investment was treated as a non-marketable equity investment without readily determinable FV. The entity has become public during the first quarter and accordingly the investment is now treated as a marketable equity investment.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 4. Revenues

Disaggregation of Revenues

The following table presents the Company's revenues disaggregated by geographical region (based on the Company's customers' locations) and revenue type for the three months ended March 31, 2021 and 2020:

	Three months ended March 31,	
	2021	2020
	(U.S. \$ in thousands)	
Americas		
Products	\$ 49,568	\$ 48,244
Service	32,545	38,329
Total Americas	82,113	86,573

EMEA

Products	22,501	20,747
Service	6,417	6,173
Total EMEA	<u>28,918</u>	<u>26,920</u>
Asia Pacific		
Products	18,255	14,181
Service	4,903	5,233
Total Asia Pacific	<u>23,158</u>	<u>19,414</u>
Total Revenues	<u>\$ 134,189</u>	<u>\$ 132,907</u>

The following table presents the Company's revenues disaggregated based on the timing of revenue recognition (at a specific point in time or over the course of time) for the three months ended March 31, 2021 and 2020:

	Three months ended March 31,	
	2021	2020
(U.S. \$ in thousands)		
Revenues recognized in point in time from:		
Products	\$ 90,324	\$ 83,172
Services	10,601	10,644
Total revenues recognized in point in time	<u>100,925</u>	<u>93,816</u>
Revenues recognized over time from:		
Services	33,264	39,091
Total revenues recognized over time	<u>33,264</u>	<u>39,091</u>
Total Revenues	<u>\$ 134,189</u>	<u>\$ 132,907</u>

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Contract Assets and Contract Liabilities

Contract assets are recorded when the Company's right to consideration is conditional on constraints other than the passage of time. The Company had no material contract assets as of March 31, 2021 and December 31, 2020.

Contract liabilities include advance payments and billings in excess of revenue recognized, which are primarily related to advanced billings for service type warranty. Contract liabilities are presented under deferred revenues. The Company's deferred revenues as of March 31, 2021 and December 31, 2020 were as follows:

	March 31,	December 31,
	2021	2020
U.S. \$ in thousands		
Deferred revenue*	63,487	63,392

*Includes \$14.1 million and \$14.2 million under long term deferred revenue in the Company's consolidated balance sheets as of March 31, 2021 and December 31, 2020, respectively.

Revenue recognized in 2021 that was included in deferred revenue balance as of December 31, 2020 was \$1.4 million for the three months ended March 31, 2021.

Remaining Performance Obligations

Remaining Performance Obligations ("RPO") represent contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of March 31, 2021, the total RPO amounted to \$89.7 million. The Company expects to recognize \$74.9 million of this RPO during the next 12 months, \$9.2 million over the subsequent 12 months and the remaining \$5.6 million thereafter.

Incremental Costs of Obtaining a Contract

Sales commissions earned mainly by the Company's sales agents are considered incremental costs of obtaining a contract with a customer, as the Company expects the benefit of those commissions to be longer than one year. The majority of the sales commissions are not subject to capitalization, as the commission expense is recognized as the related revenue is recognized. Sales commissions for initial contracts related to the service type warranty are deferred and then amortized on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. Amortization expense is included in selling, general and administrative expenses in the consolidated statements of operations. As of March 31, 2021 and December 31, 2020, the deferred commissions amounted to \$5.3 million and \$5.0 million, respectively.

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STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Inventories

Inventories consisted of the following:

	March 31,	December 31,
	2021	2020
U.S. \$ in thousands		
Finished goods	\$ 52,845	\$ 61,297
Work-in-process	3,739	3,163
Raw materials	67,615	67,212
	<u>\$ 124,199</u>	<u>\$ 131,672</u>

Note 6. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of the Company's goodwill for the three months ended March 31, 2021 were as follows:

	U.S. \$ in thousands	
Goodwill as of January 1, 2021	\$	35,694
Goodwill acquired*		1,716
Foreign currency translation adjustments and other		664
Goodwill as of March 31, 2021	\$	38,074

*The goodwill was acquired as part of RPS acquisition. See Note 3.

During the third quarter of 2020, the Company had noted that indicators of potential impairment existed which required an interim goodwill impairment analysis for Stratasys-Objet reporting unit. These indicators included longer and deeper than expected reduction in the business, refinement to the company's business focus into additional inorganic technologies and sustained decline in the Company's market capitalization during the past two quarters, all, primarily as a result of the COVID-19 impact on the global economy and the Company's business.

As a result of the factors discussed above, the Company revisited its assumptions supporting the cash flow projections for its Stratasys-Objet reporting unit, including: (i) the expected duration and depth of revenue reduction and certain revenue growth assumptions; (ii) the associated operating profit margins; and (iii) the long term growth rate. In estimating the discounted cash flow, the Company used the following key assumptions: the Company currently expects it will take approximately two years to regain the loss of revenue and return to its pre COVID-19 activity levels considering the impact of both volume and price with a similar effect on profitability. Following such period, the Company expects to return to similar growth rates as estimated in prior valuations. The Company assumes a long term terminal growth rate of 2.5%, which is lower than the 3.1% used in prior valuations. In addition, changes in business focus due to introduction of new technologies is expected to lower the total revenues related to the Stratasys-Objet reporting unit. The resulting cash flow amounts were discounted using the same discount rate of 13.5%.

Based on the revised cash flow projections, the value of the reporting unit had decreased below its carrying value, and the Company recorded in the third quarter of 2020, goodwill impairment charge of \$386.2 million, the entire reporting unit's goodwill.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Other Intangible Assets

Other intangible assets consisted of the following:

	March 31, 2021			December 31, 2020		
	Carrying Amount, Net of Impairment	Accumulated Amortization	Net Book Value	Carrying Amount, Net of Impairment	Accumulated Amortization	Net Book Value
	U.S. \$ in thousands					
Developed technology	\$ 365,207	\$ (265,352)	\$ 99,855	\$ 357,863	\$ (260,123)	\$ 97,740
Patents	17,894	(8,812)	9,082	17,699	(8,487)	9,212
Trademarks and trade names	26,031	(21,397)	4,634	26,036	(21,114)	4,922
Customer relationships	100,883	(82,835)	18,048	101,107	(81,413)	19,695
Capitalized software development costs	7,410	(7,410)	-	7,410	(7,410)	-
	<u>\$ 517,425</u>	<u>\$ (385,806)</u>	<u>\$ 131,619</u>	<u>\$ 510,115</u>	<u>\$ (378,547)</u>	<u>\$ 131,569</u>

Amortization expenses relating to intangible assets for the three-month period ended March 31, 2021 and 2020 were approximately \$7.5 million and \$6.2 million, respectively.

As of March 31, 2021, the estimated amortization expenses relating to intangible assets for each of the following future periods were as follows:

	Estimated amortization expense (U.S. \$ in thousands)
Remaining 9 months of 2021	\$ 22,840
2022	28,662
2023	14,081
2024	10,185
2025 and thereafter	55,851
Total	<u>131,619</u>

Note 7. Net Loss Per Share

The following table presents the numerator and denominator of the basic and diluted net loss per share computations for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	2020
	In thousands, except per share amounts	
Numerator:		
Net loss attributable to Stratasys Ltd. for basic and diluted loss per share	(18,911)	(21,703)

Denominator:

Weighted average shares - for basic and diluted net loss per share 58,616 54,544

Net loss per share attributable to Stratasys Ltd.

Basic and diluted \$ (0.32) \$ (0.40)

The computation of diluted net loss per share excluded share awards of 5.4 million shares and 5.3 million shares for the three months ended March 31, 2021 and 2020, respectively, because their inclusion would have had an anti-dilutive effect on the diluted net loss per share.

Note 8. Income Taxes

The Company had income tax benefit of \$0.9 million for the three-month period ended March 31, 2021 compared to income tax expenses of \$0.2 million for the three-month period ended March 31, 2020. The Company's effective tax rate as of March 31, 2021 was primarily impacted by the geographic mix of its earnings and losses, as well as a valuation allowance on losses of the Company's US subsidiaries.

**STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Note 9. Fair Value Measurements

Financial instruments measured at fair value

The following table summarizes the Company's financial assets and liabilities that are carried at fair value on a recurring basis, in its consolidated balance sheets:

	March 31, 2021		December 31, 2020	
	Level 2	Level 3	Level 2	Level 3
(U.S. \$ in thousands)				
Assets:				
Foreign exchange forward contracts not designated as hedging instruments	\$ 41	-	\$ 56	-
Foreign exchange forward contracts designated as hedging instruments	754	-	793	-
Liabilities:				
Foreign exchange forward contracts not designated as hedging instruments	(252)	-	(1,098)	-
Foreign exchange forward contracts designated as hedging instruments	(140)	-	(1,584)	-
Contingent consideration	-	40,234	-	37,400
	<u>\$ 403</u>	<u>\$ 40,234</u>	<u>\$ (1,833)</u>	<u>\$ 37,400</u>

The Company's foreign exchange forward contracts are classified as Level 2, as they are not actively traded and are valued using pricing models that use observable market inputs, including interest rate curves and both forward and spot prices for currencies (Level 2 inputs).

Contingent consideration represents liabilities recorded at fair value in connection with acquisitions, and thus represents a Level 3 measurement within the fair value hierarchy (refer to Note 3).

Other financial instruments consist mainly of cash and cash equivalents, short-term deposits, current and non-current receivables, accounts payable and other current liabilities. The fair value of these financial instruments approximates their carrying values.

**STRATASYS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

Note 10. Derivative instruments and hedging activities

Since the Company conducts its operations globally, it is exposed to global market risks and to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign currency exchange rates. The Company enters into transactions involving foreign currency exchange derivative financial instruments. The Company manages its foreign currency exposures on a consolidated basis, which allows the Company to net exposures and take advantage of any natural hedging. The transactions are designed to manage the Company's net exposure to foreign currency exchange rates and to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. The Company does not enter into derivative transactions for trading purposes.

The Company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities and forecasted transactions denominated in the New Israeli Shekel ("NIS"), Euro, GBP, Korean Won, Chinese Yuan and the Japanese Yen. The gains and losses on the hedging instruments partially offset losses and gains on the hedged items. Financial markets and currency volatility may limit the Company's ability to hedge these exposures. These contracts mature through December 2021.

The following table summarizes the consolidated balance sheets classification and fair values of the Company's derivative instruments:

	Balance sheet location	Fair Value		Notional Amount	
		March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
U.S. \$ in thousands					
Assets derivatives -Foreign exchange contracts, not designated as hedging instruments	Other current assets	\$ 41	\$ 56	\$ 10,981	\$ 36,882
Assets derivatives -Foreign exchange contracts, designated as cash flow hedge	Other current assets	754	793	50,316	10,417
Liability derivatives -Foreign exchange contracts, not designated as hedging instruments	Accrued expenses and other current liabilities	(252)	(1,098)	44,078	37,999
Liability derivatives -Foreign exchange contracts, designated as hedging instruments	Accrued expenses and other current liabilities	(140)	(1,584)	18,473	50,186

Foreign exchange contracts not designated as hedging instruments

As of March 31, 2021, the notional amounts of the Company's outstanding exchange forward contracts, not designated as hedging instruments, were \$55.1 million, and were used to reduce foreign currency exposures. With respect to such derivatives, gains of \$2.2 million and of \$1.5 million were recognized under financial income (expenses), net for the three-month period ended March 31, 2021 and 2020, respectively. Such gains or losses partially offset the foreign currency revaluation changes of the balance sheet items. These foreign currencies revaluation changes are also recognized under financial income (expenses), net.

Cash Flow Hedging - Hedges of forecasted foreign currency payroll and other operating expenses

As of March 31, 2021, the Company had in effect foreign exchange forward contracts, designated as cash flow hedges for accounting purposes, for the conversion of \$29.3 million into NIS. The Company uses short-term cash flow hedge contracts to reduce its exposure to variability in expected future cash flows resulting mainly from payroll costs and other operating expenses denominated in NIS. The changes in fair value of those contracts are included in the Company's accumulated other comprehensive loss.

Cash Flow Hedging - Hedges of forecasted foreign currency revenue

As of March 31, 2021, the Company had in effect foreign exchange forward contracts, designated as cash flow hedges for accounting purposes, for the conversion of 33.0 million Euro into U.S. dollars. The Company transacts business in U.S. dollars and in various other currencies. The Company may use foreign exchange or forward contracts to hedge certain cash flow exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities of up to twelve months. The Company enters into these foreign exchange contracts to hedge a portion of its forecasted foreign currency denominated revenue in the normal course of business and accordingly, they are not speculative in nature.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Equity

a. Stock-based compensation plans

Stock-based compensation expenses for equity-classified stock options, restricted share units ("RSUs") and performance-based restricted share units ("PSUs") were allocated as follows:

	Three Months Ended	
	March 31,	
	2021	2020
	U.S \$ in thousands	
Cost of sales	\$ 634	\$ 402
Research and development, net	1,424	1,556
Selling, general and administrative	5,147	2,949
Total stock-based compensation expenses	<u>\$ 7,205</u>	<u>\$ 4,907</u>

A summary of the Company's stock option activity for the three months ended March 31, 2021 is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding as of January 1, 2021	\$ 2,102,529	\$ 28.06
Granted	46,366	3.15
Exercised	(137,220)	21.01
Forfeited	(13,439)	36.26
Options outstanding as of March 31, 2021	1,998,236	27.91
Options exercisable as of March 31, 2021	<u>\$ 1,619,049</u>	<u>\$ 30.82</u>

As of March 31, 2021, the unrecognized compensation cost of \$3.4 million related to all unvested, equity-classified stock options is expected to be recognized as an expense over a weighted-average period of 3.3 years.

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

A summary of the Company's RSUs and PSUs activity for the three months ended March 31, 2021 is as follows:

	Number of RSUs and PSUs	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2021	\$ 2,801,116	\$ 21.08
Granted	1,201,186	34.62
Vested	(533,533)	22.56
Forfeited	(110,731)	20.69
Unvested as of March 31, 2021	<u>\$ 3,358,038</u>	<u>\$ 25.70</u>

The fair value of RSUs and PSUs is determined based on the quoted price of the Company's ordinary shares on the date of the grant.

As of March 31, 2021, the unrecognized compensation cost of \$76 million related to all unvested, equity-classified RSUs and PSUs is expected to be recognized as an expense over a weighted-average period of 2.7 years.

b. Accumulated other comprehensive loss

The following tables present the changes in the components of accumulated other comprehensive income (loss), net of taxes, for the three months ended March 31, 2021 and 2020, respectively:

	Three Months Ended March 31, 2021		
	Net Unrealized Gain (Loss) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2021	\$ (1,673)	\$ (7,173)	\$ (8,846)
Other comprehensive income (loss) before reclassifications	1,607	(961)	646
Amounts reclassified from accumulated other comprehensive loss	566	-	566
Other comprehensive income (loss)	2,173	(961)	1,212
Balance as of March 31, 2020	<u>\$ 500</u>	<u>\$ (8,134)</u>	<u>\$ (7,634)</u>

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

	Three Months Ended March 31, 2020		
	Net Unrealized Gain (Loss) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total
	U.S. \$ in thousands		
Balance as of January 1, 2020	\$ (10)	\$ (7,706)	\$ (7,716)
Other comprehensive income (loss) before reclassifications	849	(1,954)	(1,105)
Amounts reclassified from accumulated other comprehensive loss	(27)	-	(27)
Other comprehensive income (loss)	822	(1,954)	(1,132)
Balance as of March 31, 2020	<u>\$ 812</u>	<u>\$ (9,660)</u>	<u>\$ (8,848)</u>

c. Public offering of ordinary shares

During March 2021, the Company completed a capital raise of \$218.9 million, net of underwriting discounts and offering expenses. The total number of shares sold by the Company in the public offering was 7,931,034.

A deferred tax asset in an amount of \$1.2 million was recorded in respect of a tax benefit, arising from the underwriting discounts and offering expenses, as an increase to Additional Paid-In Capital.

Note 12. Contingencies

Legal proceedings

The Company is a party to various legal proceedings from time to time, the outcome of which, in the opinion of management, will not have a significant effect on the financial position, profitability or cash flows of the Company.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes included as Exhibit 99.1 to the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review and Prospects is attached, or the Form 6-K. The discussion below contains forward-looking statements (within the meaning of the United States federal securities laws) that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Forward-Looking Statements and Factors that May Affect Future Results of Operations", below, as well in the "Risk Factors" in Item 3.D of our Annual Report on Form 20-F for the year ended December 31, 2020, filed with the Securities and Exchange Commission, or SEC, on March 1, 2021, or our 2020 Annual Report.

Overview of Business and Trend Information

We are a global leader in connected, polymer-based 3D printing solutions, across the entire manufacturing value chain. Leveraging distinct competitive advantages that include a broad set of best-in-class 3D printing platforms, software, a materials and technology partner ecosystem, innovative leadership, and global GTM infrastructure, we are positioned to capture share in a significant and growing global marketplace, with a focus on manufacturing, which we view as having the largest and fastest growing total addressable market.

Our approximately 1,600 granted and pending additive technology patents to date have been used to create models, prototypes, manufacturing tools, and production parts for a multitude of industries including aerospace, automotive, transportation, healthcare, consumer products, dental, medical, and education. Our products and comprehensive solutions improve product quality, development time, cost, and time-to-market. Our 3D ecosystem of solutions and expertise includes 3D printers, materials, software, expert services, and on-demand parts production.

With our recent acquisition of Origin Laboratories, Inc., or Origin, we have significantly strengthened our leadership in mass production for polymer 3D printing. Origin's pioneering approach to additive manufacturing of end-use parts will enable us to serve a large market with manufacturing-grade 3D printers, utilizing P³ Programmable PhotoPolymerization. This technology precisely controls light, heat, and force, among other variables, to produce parts with exceptional accuracy and consistency.

Our acquisition, in the first quarter of 2021, of UK-based RP Support Ltd., or RPS, a provider of industrial stereolithography 3D printers and solutions, provides us with a complementary technology that further expands our polymer suite of solutions across the product life cycle.

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COVID Impact

As in the preceding quarters, our results of operations for the three month period ended March 31, 2021 should be understood in light of the ongoing global COVID-19 pandemic, which has disrupted businesses on a global scale. Our revenues in the first quarter of 2021 reflected growth on a year-over-year basis relative to the first quarter of 2020, when we first began to experience the impact of the COVID-19 pandemic. This is the first quarter since the outset of the pandemic that we have achieved that year-over-year growth, primarily driven by a 40.9% increase in system revenues.

At the start of the first quarter of 2021, we eliminated our reduced four-day work-week, returning to a full work schedule for the first time since the second quarter of 2020. The proactive resizing measures we took in 2020 continued to succeed in reducing operating expenses during the first quarter, while our revenues have recovered and have returned to growth on a year-over-year basis compared to the first quarter of 2020, when we first began to experience the effects of the pandemic in our operating results. We will continue to monitor and evaluate the need for our cost-control measures over time.

Our cost realignment program is an essential step in our ongoing strategic process, designed to better position the company for sustainable growth. These measures are not expected to affect the progress of our forthcoming product launch plans.

We continue to monitor the situation, assessing implications for our operations, supply chain, liquidity, cash flow and customer orders, and have been acting in an effort to mitigate adverse consequences as needed. We ended the first quarter of 2021 with \$530.4 million in cash, cash equivalents and short-term deposits, following the net capital raise of \$218.9 million. We believe that we are well suited to continue to manage the COVID-19 pandemic with a strong balance sheet and no debt, while focusing on cost controls and cash generation. We selectively applied the R&D cost controls to ensure that our NPI programs were not affected, and we plan to continue investing as needed in order to support our new product development programs.

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Summary of Financial Results

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. In the opinion of our management, all adjustments considered necessary for a fair statement of the unaudited condensed consolidated financial statements have been included herein and are of a normal recurring nature. The following discussion compares the actual results, on a GAAP basis, for the three months ended March 31, 2021 with the corresponding period in 2020.

Results of Operations**Comparison of Three Months Ended March 31, 2021 to Three Months Ended March 31, 2020**

The following table sets forth certain statement of operations data for the periods indicated:

	Three Months Ended March 31,			
	2021		2020	
	U.S. \$ in thousands	% of Revenues	U.S. \$ in thousands	% of Revenues
Revenues	\$ 134,189	100.0%	\$ 132,907	100.0%
Cost of revenues	78,612	58.6%	73,037	55.0%
Gross profit	55,577	41.4%	59,870	45.0%
Research and development, net	20,601	15.4%	24,194	18.2%
Selling, general and administrative	53,334	39.7%	55,576	41.8%
Operating loss	(18,358)	(13.7)%	(19,900)	(15.0)%
Financial expense	(377)	(0.3)%	(829)	(0.6)%
Loss before income taxes	(18,735)	(14.0)%	(20,729)	(15.6)%
Income tax expenses (benefit)	(942)	(0.7)%	221	0.2%
Share in losses of associated companies	(1,118)	(0.8)%	(838)	(0.6)%
Net loss attributable to non-controlling interests	-	0.0%	(85)	(0.1)%
Net loss attributable to Stratasys Ltd.	(18,911)	(14.1)%	(21,703)	(16.3)%

Discussion of Results of Operations

Revenues

Our products and services revenues in the three months ended March 31 2021 and 2020, as well as the percentage change reflected thereby, were as follows:

	Three Months Ended March 31,		
	2021	2020	%
	U.S. \$ in thousands		
Products	\$ 90,324	\$ 83,172	8.6%
Services	43,865	49,735	(11.8)%
	<u>\$ 134,189</u>	<u>\$ 132,907</u>	1.0%

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Products Revenues

Revenues derived from products (including AM systems and consumable materials) increased by \$7.2 million, or 8.6%, for the three months ended March 31, 2021, as compared to the three months ended March 31, 2020.

System revenues for the three months ended March 31, 2021 increased by 40.9% as compared to the three months ended March 31, 2020. Consumables revenues for the three months ended March 31, 2021 decreased by 8.0% as compared to the three months ended March 31, 2020.

Our first quarter revenue results demonstrated continued recovery signs in system revenues. As the market recovers from COVID-19 and usage rates of our systems increases, a sequential growth in consumables should be followed through the balance of the year.

Services Revenues

Services revenues (including SDM, maintenance contracts, time and materials and other services) decreased by \$5.9 million for the three months ended March 31, 2021, or 11.8%, as compared to the three months ended March 31, 2020. Within services revenues, customer support revenue, which includes revenue generated mainly by maintenance contracts on our systems, decreased by 2.2%, reflecting lower printer utilization due to the effects of COVID-19.

Revenues by Region

Revenues and the percentage of revenues by region for the three months ended March 31, 2021 and 2020, as well as the percentage change in revenues in each such region reflected thereby, were as follows:

	Three Months Ended March 31,				% Change
	2021		2020		
	U.S.\$ in thousands	% of Revenues	U.S.\$ in thousands	% of Revenues	
Americas*	\$ 82,113	61.2%	\$ 86,573	65.1%	(5.2)%
EMEA	28,918	21.6%	26,920	20.3%	7.4%
Asia Pacific	23,158	17.2%	19,414	14.6%	19.3%
	<u>\$ 134,189</u>	<u>100.0%</u>	<u>\$ 132,907</u>	<u>100.0%</u>	1.0%

* Represent the United States, Canada and Latin America

Revenues in the Americas region decreased by \$4.5 million, or 5.2%, to \$82.1 million for the three months ended March 31, 2021, compared to \$86.6 million for the three months ended March 31, 2020. The decrease was primarily driven by lower consumables revenues and COVID-19 impact on some of our key industries, such as commercial Aerospace and Government.

Revenues in the EMEA region increased by \$2.0 million, or 7.4%, to \$28.9 million for the three months ended March 31, 2021, compared to \$26.9 million for the three months ended March 31, 2020. The increase was primarily driven by higher products revenues, mainly in Manufacturing and Healthcare industries. On a constant currency basis when using prior period's exchange rates, revenues decreased by \$0.2 million, or 0.6%. The decrease was primarily driven by lower consumables revenues.

Revenues in the Asia Pacific region increased by \$3.7 million, or 19.3%, to \$23.2 million for the three months ended March 31, 2021, compared to \$19.4 million for the three months ended March 31, 2020. The increase was primarily driven by higher products revenues.

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Gross Profit

Gross profit from our products and services, as well as the percentage change reflected thereby, was as follows:

	Three Months Ended March 31,		
	2021	2020	Change in %
	U.S. \$ in thousands		
Gross profit attributable to:			
Products	\$ 43,404	\$ 43,924	(1.2)%
Services	12,173	15,946	(23.7)%
	<u>\$ 55,577</u>	<u>\$ 59,870</u>	(7.2)%

Gross profit as a percentage of revenues from our products and services was as follows:

	Three Months Ended March 31,	
	2021	2020
Gross profit as a percentage of revenues from:		
Products	48.1%	52.8%

Services	27.8%	32.1%
Total gross profit	41.4%	45.0%

Gross profit attributable to products revenues decreased by \$0.5 million, or 1.2%, to \$43.4 million for the three months ended March 31, 2021, compared to gross profit of \$43.9 million for the three months ended March 31, 2020. Gross profit attributable to products revenues as a percentage of products revenues decreased to 48.1% for the three months ended March 31, 2021, compared to 52.8% for the three months ended March 31, 2020. Our gross profit from products revenues was adversely impacted by the mix of revenue sources, partially offset by a favorable impact of foreign currencies translation.

Gross profit attributable to services revenues decreased by \$3.8 million, or 23.7%, to \$12.2 million for the three months ended March 31, 2021, compared to \$15.9 million for the three months ended March 31, 2020. Gross profit attributable to services revenues as a percentage of services revenues in the three months ended March 31, 2021 decreased to 27.8%, as compared to 32.1% for the three months ended March 31, 2020. Our gross profit from services revenues was adversely impacted by softness in our direct manufacturing activity (SDM), which has a relatively high percentage of fixed costs.

The decrease in gross profit was primarily driven by the lower proportion of consumables, lower SDM contribution and an increased logistics costs.

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Operating Expenses

The amount of each type of operating expense for the three months ended March 31, 2021 and 2020, as well as the percentage change reflected thereby, and total operating expenses as a percentage of our total revenues in each such quarter, were as follows:

	Three Months Ended March 31,		
	2021	2020	% Change
	U.S. \$ in thousands		
Research and development, net	\$ 20,601	\$ 24,194	(14.9)%
Selling, general & administrative	53,334	55,576	(4.0)%
	<u>\$ 73,935</u>	<u>\$ 79,770</u>	<u>(7.3)%</u>
Percentage of revenues	55.1%	60.0%	

Operating expenses were \$73.9 million in the first quarter of 2021, compared to operating expenses of \$79.8 million in the first quarter of 2020. The decrease in operating expenses was driven by the resizing plan initiated in 2020.

Research and development expenses, net decreased by \$3.6 million, or 14.9%, to \$20.6 million for the three months ended March 31, 2021, compared to \$24.2 million for the three months ended March 31, 2020. The amount of research and development expenses constituted 15.4% of our revenues for the three months ended March 31, 2021, as compared to 18.2% for the three months ended March 31, 2020.

Our research and development expenses were impacted by the timing of project spending and product launches, based on our portfolio management. We continue to invest in strategic long-term initiatives that include advancements in our core FDM and PolyJet technologies and in our new photopolymer-based P3 technology, advanced composite materials, software and development of new applications which will enhance our current solutions offerings. We selectively applied the R&D cost controls to ensure that our new product introduction programs were not affected, and we plan to continue investing as needed in order to support our new product development programs.

Selling, general and administrative expenses decreased by \$2.2 million, or 4.0%, to \$53.3 million for the three months ended March 31, 2021, compared to \$55.6 million for the three months ended March 31, 2020, driven by the restructuring and proactive cost-cutting measures. The amount of selling, general and administrative expenses constituted 39.7% of our revenues for the three months ended March 31, 2021, as compared to 41.8% for the three months ended March 31, 2020.

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Operating Loss

Operating loss and operating loss as a percentage of our total revenues were as follows:

	Three Months Ended March 31,	
	2021	2020
	U.S. \$ in thousands	
Operating income (loss)	\$ (18,358)	\$ (19,900)
Percentage of revenues	(13.7)%	(15.0)%

Operating loss amounted to \$18.4 million for the three months ended March 31, 2021, compared to an operating loss of \$19.9 million for the three months ended March 31, 2020. The decrease in operating loss was primarily attributable to the lower operating expenses as discussed above, offset, in part, by lower gross profit for the three months ended March 31, 2021 compared to the three months ended March 31, 2020.

Financial Income (Expenses), net

Financial expenses, net, which was primarily comprised of foreign currencies effects, interest income and interest expenses, was \$0.4 million for the three months ended March 31, 2021, compared to financial expense, net of \$0.8 million for the three months ended March 31, 2020.

Income Taxes

Income taxes and income taxes as a percentage of net loss before taxes, as well as the percentage change in each, year over year, reflected thereby, were as follows:

	Three Months Ended March 31,		Change in %
	2021	2020	
	U.S. \$ in thousands		

Income tax expense (benefit)	\$	(942)	\$	221	(526.2)%
As a percent of loss before income taxes		5.0%		(1.1)%	(571.6)%

We had an effective tax rate of 5.0% for the three-month period ended March 31, 2021, compared to a negative effective tax rate of 1.1% for the three-month period ended March 31, 2020. Our effective tax rate was primarily impacted by different geographic mixes of earnings and losses, as well as a valuation allowance on losses of our US subsidiaries.

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Share in Losses of Associated Companies

Share in losses of associated companies reflects our proportionate share of the losses of unconsolidated entities accounted for by using the equity method of accounting. During the three months ended March 31, 2021, the loss from our proportionate share of the losses of our equity method investments was \$1.1 million, compared to a loss of \$0.8 million in the three months ended March 31, 2020.

Net Loss Attributable to Stratasys Ltd. and Net Loss Per Share

Net loss attributable to Stratasys Ltd., and net loss per share were as follows:

	Three Months Ended March 31,	
	2021	2020
	U.S. \$ in thousands	
Net income (loss) attributable to Stratasys Ltd.	\$ (18,911)	\$ (21,703)
Percentage of revenues	(14.1)%	(16.3)%
Diluted net (loss) income per share	\$ (0.32)	\$ (0.40)

Net loss attributable to Stratasys Ltd. was \$18.9 million for the three months ended March 31, 2021 compared to net loss of \$21.7 million for the three months ended March 31, 2020. The decrease in the net loss attributable to Stratasys Ltd. was primarily attributable to the cost-mitigation measures, offset partially by lower gross profit, as described above.

Net loss per share was \$0.32 for the three months ended March 31, 2021 as compared to net loss per share of \$0.40 for the three months ended March 31, 2020. The weighted average fully diluted share count was 58.6 million during the three months ended March 31, 2021, compared to 54.5 million during the three months ended March 31, 2020.

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Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which excludes certain items as described below, are non-GAAP financial measures. Our management believes that these non-GAAP financial measures are useful information for investors and shareholders of our company in gauging our results of operations (i) on an ongoing basis after excluding mergers, acquisitions and divestments related expense or gains and restructuring-related charges or gains, and (ii) excluding non-cash items such as stock-based compensation expenses, acquired intangible assets amortization, including intangible assets amortization related to equity method investments, impairment of long-lived assets and goodwill, revaluation of our investments and the corresponding tax effect of those items. These non-GAAP adjustments either do not reflect actual cash outlays that impact our liquidity and our financial condition or have a non-recurring impact on the statement of operations, as assessed by management. These non-GAAP financial measures are presented to permit investors to more fully understand how management assesses our performance for internal planning and forecasting purposes. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all items indicated above during a period, which may not provide a comparable view of our performance to other companies in our industry. Investors and other readers should consider non-GAAP measures only as supplements to, not as substitutes for or as superior measures to, the measures of financial performance prepared in accordance with GAAP. Reconciliation between results on a GAAP and non-GAAP basis is provided in a table below.

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Reconciliation of GAAP to Non-GAAP Results of Operations

The following tables present the GAAP measures, the corresponding non-GAAP amounts and the related non-GAAP adjustments for the applicable periods:

	Three Months Ended March 31,					
	2021 GAAP	Non-GAAP Adjustments	2021 Non-GAAP	2020 GAAP	Non-GAAP Adjustments	2020 Non-GAAP
	U.S. dollars and shares in thousands (except per share amounts)					
Gross profit (1)	\$ 55,577	\$ 7,069	\$ 62,646	\$ 59,870	\$ 4,414	\$ 64,284
Operating income (loss) (1,2)	(18,358)	15,785	(2,573)	(19,900)	11,491	(8,409)
Net income (loss) attributable to Stratasys Ltd. (1,2,3)	(18,911)	15,111	(3,800)	(21,703)	11,137	(10,566)
Net income (loss) per diluted share attributable to Stratasys Ltd. (4)	\$ (0.32)	\$ 0.26	\$ (0.06)	\$ (0.40)	\$ 0.21	\$ (0.19)
(1) Acquired intangible assets amortization expense		5,356			4,065	
Non-cash stock-based compensation expense		634			402	
Restructuring and other related costs		1,079			(53)	
		7,069			4,414	
(2) Acquired intangible assets amortization expense		2,192			2,142	
Non-cash stock-based compensation expense		6,571			4,503	
Restructuring and other related costs		1,810			31	
Revaluation of investments		(3,670)			-	
Contingent consideration		191			-	
Other expenses		1,622			401	

		8,716		7,077
		15,785		11,491
(3)	Corresponding tax effect	(757)		(431)
	Equity method related amortization, divestments and impairments	83		77
		<u>\$ 15,111</u>		<u>\$ 11,137</u>
(4)	Weighted average number of ordinary shares outstanding- Diluted	58,616	58,616	54,544
				54,544

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Liquidity and Capital Resources

A summary of our statements of cash flows is as follows:

	Three Months Ended March 31,	
	2021	2020
	U.S \$ in thousands	
Net loss	\$ (18,911)	\$ (21,788)
Depreciation and amortization	13,802	12,457
Deferred income taxes	(1,774)	(409)
Stock-based compensation	7,205	4,907
Other non-cash items, net	1,822	4,467
Change in working capital and other items	20,607	11,640
Net cash provided by operating activities	22,751	11,274
Net cash used in investing activities	(92,744)	(5,498)
Net cash provided by financing activities	222,165	30
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,872)	(2,116)
Net change in cash, cash equivalents and restricted cash	149,300	3,690
Cash, cash equivalents and restricted cash, beginning of period	272,216	293,597
Cash, cash equivalents and restricted cash, end of period	<u>421,516</u>	<u>297,287</u>

Our cash, cash equivalents and restricted cash balance increased to \$421.5 million as of March 31, 2021 from \$272.2 million as of December 31, 2020. The increase in cash, cash equivalents and restricted cash in the three months ended March 31, 2021 was primarily due to the public offering of shares in a net amount of \$218.9 million, partially offset by investing activities.

Cash flows from operating activities

We generated \$22.8 million of cash from operating activities during the three months ended March 31, 2021. That cash generation reflects our \$18.9 million net loss, as adjusted upwards to eliminate non-cash charges included in net loss, \$13.8 million of depreciation and amortization and \$7.2 million of stock-based compensation expenses. Favorable changes in our working capital balances were mainly driven by a decrease in our accounts receivable and inventory balances, and an increase in our accounts payable balance.

Cash flows from investing activities

We used \$92.7 million of cash in our investing activities during the three months ended March 31, 2021. Cash was primarily used to invest \$4.3 million to purchase property, equipment and intangibles, and \$82.0 million net investment in short-term bank deposits. Our principal property and equipment purchases were for our new buildings complex under construction in Rehovot, Israel. The new facility in Rehovot, Israel, which will contain two buildings, houses our Israeli headquarters, research and development facilities and certain marketing activities. In addition, we used \$6.4 million of cash for acquisitions, net of cash acquired.

Cash flows from financing activities

We generated \$222.2 million of cash from financing activities during the three months ended March 31, 2021. Our public offering of shares generated proceeds, net of issuance costs of \$218.9 million, and we generated an additional \$2.9 million of proceeds from exercise of stock options.

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Capital resources and capital expenditures

Our total current assets amounted to \$784.5 million as of March 31, 2021, of which \$530.5 million consisted of cash, cash equivalents, short-term deposits and restricted cash. Total current liabilities amounted to \$146.6 million. Most of our cash and cash equivalents are held in banks in Israel and the U.S.

The credit risk related to our accounts receivable is limited due to the relatively large number of customers and their wide geographic distribution. In addition, we seek to reduce the credit exposure related to our accounts receivable by imposing credit limits, conducting ongoing credit evaluation, and by implementing account monitoring procedures, as well as credit insurance for many of our customers.

We believe that we will have adequate cash and cash equivalents to fund our ongoing operations and that these sources of liquidity will be sufficient to satisfy our capital expenditure and working capital needs for the next twelve months.

Critical Accounting Policies

We have prepared our consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America. This has required us to make estimates, judgments, and assumptions that affected the amounts we reported. Actual results may differ from those estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in our 2020 Annual Report. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances.

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Certain information included in or incorporated by reference into the Report of Foreign Private Issuer on Form 6-K to which this Operating and Financial Review is appended, or the Form 6-K, 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 those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “may,” “will,” “could,” “should,” “expect,” “anticipate,” “intend,” “estimate,” “believe,” “project,” “plan,” “assume” or other similar expressions, or negatives of those expressions, although not all forward-looking statements contain these identifying words.

These forward-looking statements may include, but are not limited to, statements regarding our future strategy, future operations, projected financial position, proposed products, estimated future revenues, projected costs, future prospects, the future of our industry and results that might be obtained by pursuing management’s current plans and objectives.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to certain risks, uncertainties and assumptions that are difficult to predict. Our forward-looking statements are based on the information currently available to us and speak only as of the date of the Form 6-K. Over time, our actual results, performance or achievements may differ from those expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our shareholders. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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 extent of our success at introducing new or improved products and solutions that gain market share;
- the extent of growth of the 3D printing market generally;
- the duration and severity of the global COVID-19 pandemic, and the strength of recovery from it, which may continue to have significant consequences for our operations, financial position, cash flows, and those of our customers and suppliers;
- changes in our overall strategy, including as related to any restructuring activities and our capital expenditures;
- the impact of shifts in prices or margins of the products that we sell or services we provide;
- the impact of competition and new technologies;

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- impairments of goodwill or other intangible assets in respect of companies that we acquire;
 - the extent of our success at efficiently and successfully integrating the operations of various companies that we have acquired or may acquire;
 - global market, political and economic conditions, and in the countries in which we operate in particular;
 - government regulations and approvals;
 - litigation and regulatory proceedings;
 - infringement of our intellectual property rights by others (including for replication and sale of consumables for use in our systems), or infringement of others’ intellectual property rights by us;
 - the extent of our success at maintaining our liquidity and financing our operations and capital needs;
 - impact of tax regulations on our results of operations and financial conditions; and
 - those factors referred to in Item 3.D, “Key Information - Risk Factors”, Item 4, “Information on the Company”, and Item 5, “Operating and Financial Review and Prospects” in our 2020 Annual Report, as supplemented herein, as well as in other portions of the 2020 Annual Report

Readers are urged to carefully review and consider the various disclosures made throughout the Form 6-K, our 2020 Annual Report, and in our other reports filed with or furnished to the SEC, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

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QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Reference is made to Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in our 2020 Annual Report.

LEGAL PROCEEDINGS

We are subject to various litigation and other legal proceedings from time to time. For a discussion of our litigation status, see Note 12-“Contingencies” in the notes to our unaudited condensed consolidated interim financial statements attached as Exhibit 99.1 to the Form 6-K.

RISK FACTORS

The global COVID-19 health pandemic has been adversely affecting and could potentially severely adversely affect, our business, results of operations and financial condition due to impacts on the industries in which our customers operate, as well as impacts from actions taken to contain the disease or treat its impact, and due to the unknown speed and extent of the recovery from the disease.

The COVID-19 global pandemic continues to have numerous adverse effects on the global economy. Governmental shutdowns and “shelter-in-place” orders suggested or mandated by governmental authorities or otherwise elected by companies as a preventative measure, continue to adversely affect workforces, customers, consumer sentiment, economies and certain financial markets, and, along with decreased consumer spending, have led to an economic downturn in many of the markets into which we sell our products and services.

Those effects of the pandemic have been adversely impacting our financial results for our operations in all global regions, beginning already in the first quarter of 2020 and continuing through the first quarter of 2021.

While we have imposed counter-measures to try to mitigate the impact of the pandemic on our operating results and our results have shown improvement concurrently with recovery in some of the markets into which we sell, there is no certainty that the success of those measures and that recovery will continue. We continue to monitor the cost-control measures that we first began to implement in February 2020. We have maintained in place certain cost reduction mechanisms, although we have eliminated others, such as our four-day work week, as we returned to a full work week, effective as of the start of 2021.

While we continue to monitor the situation, assessing further implications for our operations, supply chain, liquidity, cash flow and customer orders, and have implemented the foregoing measures in an effort to mitigate adverse consequences, while simultaneously abiding by any government-imposed restrictions, market by market, there is no assurance that we can succeed at doing so.

In addition to the adverse impact of the COVID-19 pandemic on our business and operating results, we furthermore face uncertainty as to the degree and duration of that impact going forward, and as to the degree of recovery from it. We do not know the length of time that the pandemic and related disruptions will continue, the impact of governmental regulations or easing of regulations in response to the strengthening or weakening of the pandemic, and the degree of overall potentially permanent changes in consumer behavior that may be caused by the pandemic. The pandemic may furthermore contribute towards global economic weakness that is more than temporary and that could adversely affect demand for our products and services generally. A future downturn could also have a material adverse impact on our business partners' stability and financial strength. Given the uncertainties associated with COVID-19, it is difficult to fully predict the magnitude of effects on our, and our business partners', business, financial condition and results of operations.

Any limited guidance for 2021 that we may provide will lack the certainty that we once had in providing that guidance, due to the number of variables surrounding the COVID-19 pandemic and recovery.

The COVID-19 pandemic may also have the effect of amplifying many of the other risks described under the caption "Item 3. Key Information— D. Risk Factors" in our 2020 Annual Report.