

May 9th 2014

Q1-2014 Financial Results Conference Call



Stratasys

FOR A 3D WORLD™

Q4-2013

Conference and webcast details

Speakers

David
Reis

• CEO

Erez
Simha

• CFO & COO

Shane
Glenn

• VP, Investor
Relations

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

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

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Stratasys

Forward looking statement

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

Summary

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

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

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

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

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

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

Financial Results

Stratasys Ltd.

Non-GAAP

(\$ in millions unless noted otherwise)

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

Quarter Highlights:

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

Financial Results

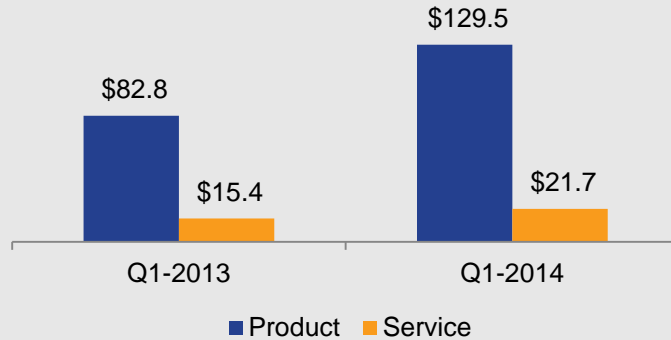
Revenue

Stratasys Ltd.

Non-GAAP

(\$ in millions)

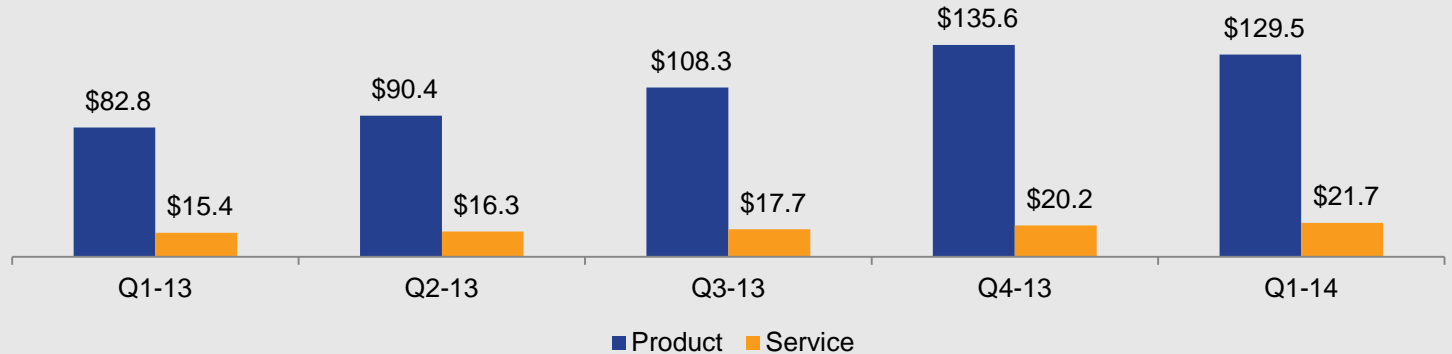
Total Revenue - Quarter



Quarter Highlights:

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

Total Revenue – Quarterly Trend



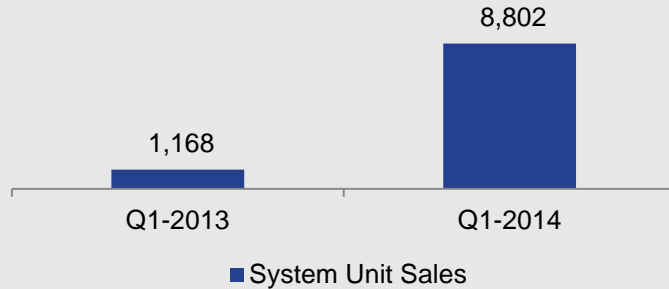
Financial Results

System Unit Sales¹

Stratasys Ltd.

Total Units – Quarter

System Unit Sales

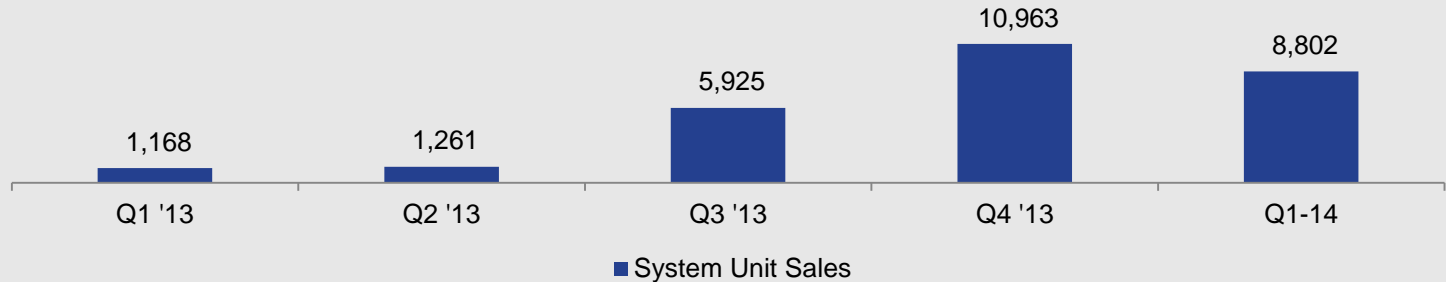


Quarter Highlights:

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

Total Units – Quarterly Trend

System Unit Sales



(1) Includes systems sold by Stratasys, Inc. in all periods; and units for MakerBot starting only on August 15, 2013

Financial Results

Gross Profit

Stratasys Ltd.

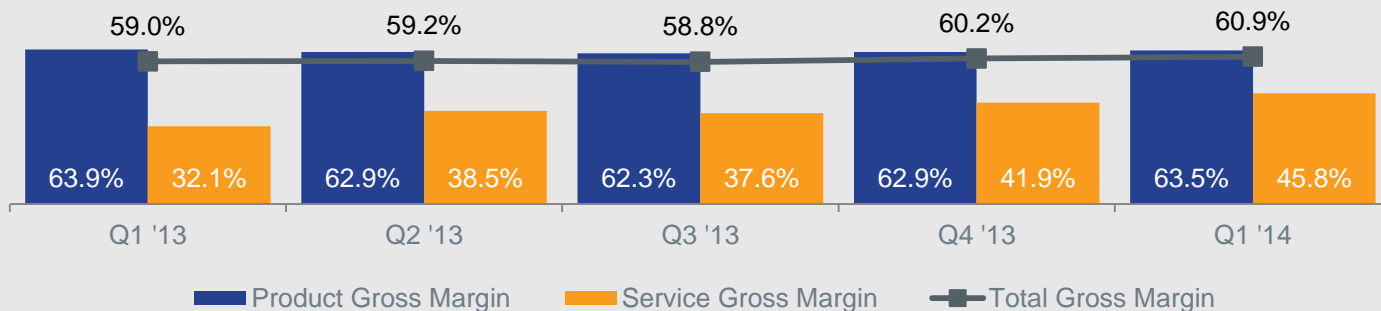
Non-GAAP

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

Quarter Highlights:

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

Gross Margin – Quarterly Trend



Financial Results

Operating Profit

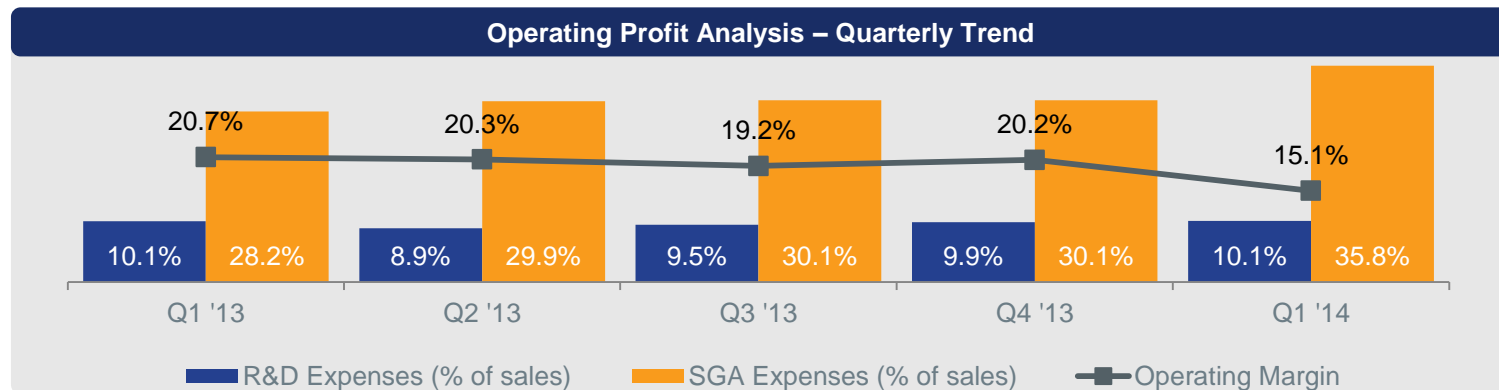
Stratasys Ltd.

Non-GAAP

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

Quarter Highlights:

- Significant investments in MakerBot
- Investing for future growth



Financial Results

Growth Drivers

Stratasys Ltd.

Non-GAAP

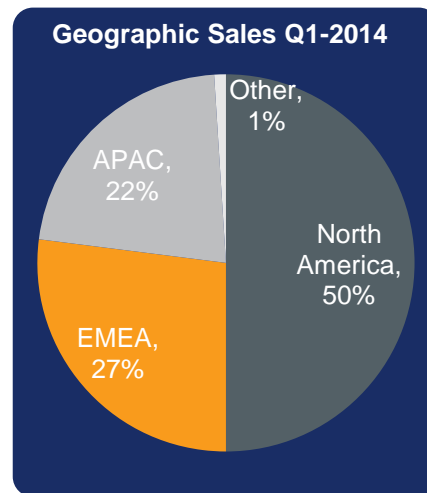
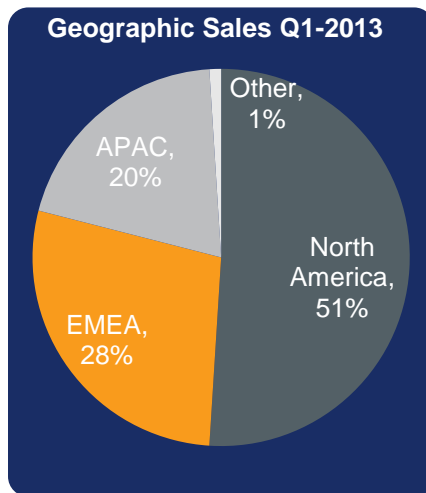
	Q1-2014 (YOY)	
	Units	Dollars
System Revenue	+654%	+71%
Consumables Revenue	--	+36%
Maintenance Revenue and Related Services	--	+64%
RedEye Parts Services	--	+4%

Financial Results

Revenue Geographic Mix

Stratasys Ltd.

Non-GAAP



Financial Results

Balance Sheet Summary

Stratasys Ltd.

(\$ in millions unless noted otherwise)

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

Highlights

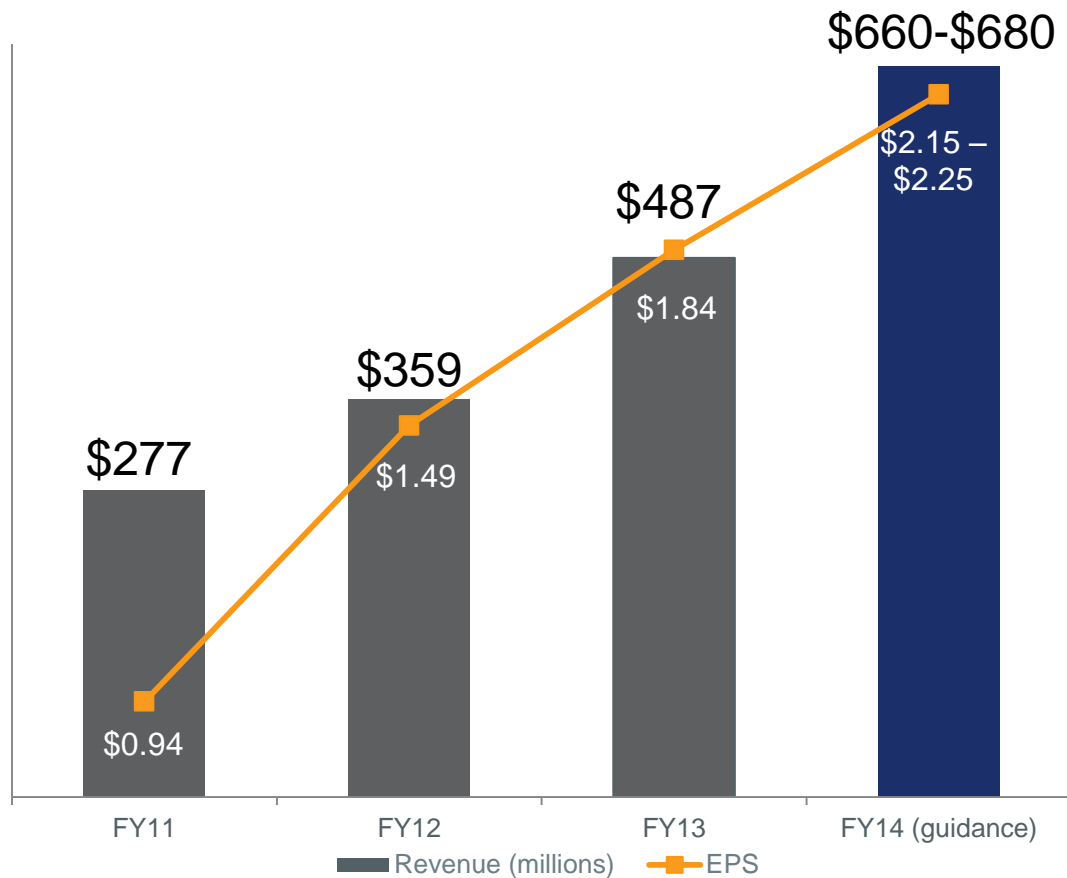
- \$607.5 M in cash, cash equivalents and bank deposits
- \$4.9 M in net operating cash flow
- Increased inventory for supply flexibility and new product introductions
- DSO declined to 72 from 74 in Q4

Financial Results & Projections

Stratasys Ltd.

Non-GAAP

(\$ in millions unless noted otherwise)



Financial Guidance

Fiscal 2014 Financial Guidance

Revenue and Earnings Guidance

Revenue (M)

\$660 - 680

Stratasys Ltd.

Non-GAAP

Non-GAAP Diluted EPS

\$2.15 - \$2.25

Reconciliation of GAAP to Non-GAAP Guidance

(\$ in millions unless noted otherwise)

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

Financial Guidance

Long-Term Target Operating Model

Stratasys Ltd.

Non-GAAP

Revenue growth

+20%

Operating margin¹

20% - 25%
of sales

Effective tax rate¹

15% - 20%

Net income margin¹

16% - 21%
of sales

Stratasys**Strategic
Imperatives**

Lead in Prototyping

Expand the Direct Digital Manufacturing (DDM) Business

Introduce Niche Vertical Applications

Accelerate New Solutions to the Market

Improve 3D Printing Accessibility

Improve Customer Intimacy

Stratasys

Organizational Structure



Stratasys

Solid
Concepts,
Harvest
Technologies
& RedEye

Operate as a Growing, Profitable Business Unit Within SSYS



Establish a Fulfillment Platform for Expanding EUP Strategy



Cross Selling Synergies

Parts Sell 3D
Printers



3D Printers Sell
Parts

Stratasys

Transactions Enhance Shareholder Value

Creates Leading Strategic Platform

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



Stratasys

Recent New Product Introductions

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



New
Innovative
Products to
Drive Future
Growth

Impressive Demand for New Products

Connex3 and MakerBot Replicator



Strong Interest in Upcoming Releases

MakerBot Replicator Mini and Z18 Shipping in Q2 2014



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

Stratasys

Structure to
Drive Future
Growth



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

Update on Stratasy's – Objet Integration

Stratasy's

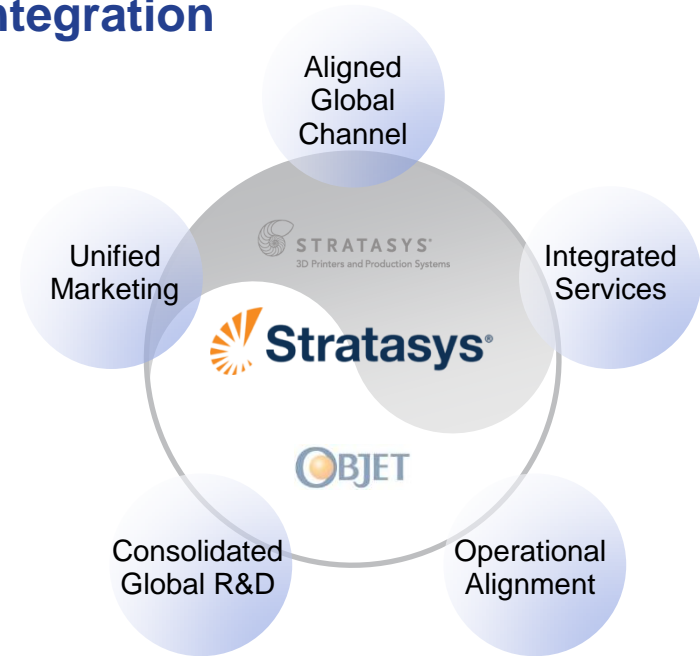
Structure
Alignment to
Support
Future
Growth
Opportunities

Phase 1

- ✓ Sales & Channel
- ✓ Marketing
- ✓ Services

Phase 2

- ✓ R&D
- ✓ Operations



Summary & Outlook

Impressive Q1 results as market demand remains strong

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

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

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

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

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

We are Stratasy

We shape lives by revolutionizing the way things are made

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



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

Stratasys Ltd. Combined

(\$ in thousands except per share data)

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

Reconciliation of Non-GAAP Adjustments

Stratasys Ltd. Combined

Net sales, products

Deferred revenue purchase price

Cost of sales, products

Acquired intangible assets amortization

Non-cash stock-based compensation expense

Merger and acquisition related expense

Cost of sales, services

Non-cash stock-based compensation expense

Merger and acquisition related expense

Research and development, net

Non-cash stock-based compensation expense

Performance bonus expense

Selling, general and administrative

Acquired intangible assets amortization

Non-cash stock-based compensation expense

Merger and acquisition related expense

Performance bonus expense

Change in fair value of earn-out obligation

Change in Earn-out obligation

Income taxes

Tax expense related to non-GAAP adjustments

Net income attributable to non-controlling interest

Depreciation and amortization expense attributable to non-controlling interest

Net income

	Q1-13	Q1-14
	\$ 1,015	\$ 235
	(18,762)	(13,225)
	(318)	(503)
	(97)	-
	(19,177)	(13,728)
	(316)	(409)
	(27)	(24)
	(343)	(433)
	(899)	(938)
	-	(558)
	(899)	(1,496)
	(5,461)	(5,364)
	(3,958)	(4,886)
	(6,189)	(1,484)
	-	(1,788)
	(15,608)	(13,522)
	-	7,495
	3,886	5,408
	40	-
	\$ 33,116	\$ 16,511