

1 **SSYS Q2 2015 Earnings Script**

2
3 **SLIDE 1 & 2: TITLE SLIDES**

4
5 **SPEAKER: OPERATOR**

6
7 Good day, ladies and gentlemen. Welcome to today's conference call to discuss Stratasys' second
8 quarter 2015 financial results.

9
10 My name is [INSERT], and I'm your operator for today's call. [INSERT RELEVANT OPERATOR
11 INSTRUCTIONS].

12
13 And now, I'd like to hand the call over to Shane Glenn, Vice President of Investor Relations for Stratasys.
14 Mr. Glenn, please go ahead.

15
16 **SLIDE 3: FLS**

17
18 **SPEAKER: Shane Glenn**

19
20 Good morning, everyone, and thank you for joining us to discuss our second quarter 2015 financial
21 results. On the call with us today are David Reis, CEO, and Erez Simha, CFO and COO of Stratasys.

22
23 I remind you that access to today's call, including the prepared slide presentation, is available online at
24 the web address provided in our press release. In addition, a replay of today's call, including access to
25 the slide presentation, will also be available and can be accessed through the investor section of our
26 website later today.

27
28 We will begin by reminding everyone that certain statements in this press are "forward-looking
29 statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of
30 the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking
31 statements are characterized by the use of forward-looking terminology such as "will," "expects,"
32 "anticipates," "continues," "believes," "should," "intended," "projected," "guidance," "preliminary,"
33 "future," "planned," "committed," and other similar words. These forward-looking statements include,
34 but are not limited to, statements relating to the company's objectives, plans and strategies, statements
35 of preliminary or projected results of operations or of financial condition and all statements that address
36 activities, events or developments that the company intends, expects, projects, believes or anticipates
37 will or may occur in the future. Forward-looking statements are not guarantees of future performance
38 and are subject to risks and uncertainties. The company has based these forward-looking statements on
39 assumptions and assessments made by its management in light of their experience and their perception
40 of historical trends, current conditions, expected future developments and other factors they believe to
41 be appropriate. Important factors that could cause actual results, developments and business decisions
42 to differ materially from those anticipated in these forward-looking statements include, among other
43 things: the company's ability to efficiently and successfully integrate the operations of Stratasys, Inc. and
44 Objet Ltd. after their merger as well as MakerBot, Solid Concepts, and Harvest Technologies after their
45 acquisitions and to successfully put in place and execute an effective post-merger integration plans; the
46 overall global economic environment; the impact of competition and new technologies; general market,
47 political and economic conditions in the countries in which the company operates; projected capital
48 expenditures and liquidity; changes in the company's strategy; government regulations and approvals;

49 changes in customers' budgeting priorities; litigation and regulatory proceedings; the company's ability
50 to satisfy the financial covenants under its revolving credit facility; and those factors referred to under
51 "Risk Factors", "Information on the Company", "Operating and Financial Review and Prospects", and
52 generally in the company's annual report on Form 20-F for the year ended December 31, 2014 filed with
53 the U.S. Securities and Exchange Commission (the "SEC"), and in other reports that the company has
54 filed with or furnished to the SEC on the date hereof. Readers are urged to carefully review and consider
55 the various disclosures made in the company's SEC reports, which are designed to advise interested
56 parties of the risks and factors that may affect its business, financial condition, results of operations and
57 prospects. Any guidance and other forward-looking statements in this press release are made as of the
58 date hereof, and the company undertakes no obligation to publicly update or revise any forward-looking
59 statements, whether as a result of new information, future events or otherwise, except as required by
60 law.

61
62 As in previous quarters, our focus on today's call will be on non-GAAP financial results. These non-GAAP
63 financial measures should be read in combination with our GAAP metrics to evaluate our performance.
64 We also note that we are not providing any pro forma financial results for acquisitions. Certain non-
65 GAAP to GAAP reconciliations are provided in the table contained in our slide presentation and press
66 release.

67
68 Now I would like to turn the call over to our CEO, David Reis. David?

69
70 **SLIDE 4: OPENING SUMMARY**

71
72 **SPEAKER: David Reis**

73
74 Thank you, Shane, and good morning, everyone. Thank you for joining today's call to discuss our second
75 quarter results.

76
77 The second quarter represented a continuation of the challenging market environment we began to
78 observe in the first quarter.

79
80 We believe that during 2013 and 2014, our company and industry experienced an extraordinary period
81 of growth, driven by the positive synergies that resulted from the merger between Stratasys and Objet
82 in 2012, as well as by the heightened level of mainstream media attention that the industry enjoyed
83 during that period.

84
85 We believe that our industry is now transitioning through a period of slower growth, as users digest
86 their recent investments in 3D printing and expand capacity utilization.

87
88 Despite these headwinds, we are encouraged by areas of sequential improvement in our business and
89 remain convinced of the long-term potential of our industry.

90
91 Supporting our view, we recently completed two events, including one with our channel partners in
92 Europe, and one with our Stratasys Direct Manufacturing customers in North America, where
excitement around our industry's future and the potential of our revolutionary products remains high.

93 Additionally, sales leads within the channel remain strong, and sales of our high-end production systems
94 have shown signs of improvement after a slow first quarter.

95 We are beginning to see tangible results that reaffirm our strategy of developing targeted solutions
96 within key market verticals; and recently announced a major collaboration for our Solidscape product
97 line in China, which presents significant potential for future expansion.

98

99 Short term, we will continue to make adjustments to align expenses with current market conditions.

100

101 However, we remain committed to our longer-term growth initiatives that include enhancing vertical
102 solution capabilities; expanding customer support services; accelerating product development; and
103 enhancing our sales and marketing infrastructure.

104

105 Later in the call, I will return to provide more details on these developments and our strategy moving
106 forward, but first, I will turn the call over to our CFO and COO, Erez Simha, who will review the details of
107 our financial results. Erez?

108

109 **SLIDE 5: FINANCIAL RESULTS SUMMARY**

110

111 **SPEAKER: Erez Simha**

112

113 Thank you, David, and good morning, everyone.

114

115 The growth experienced during the second quarter, compared to Stratasys' historical growth rates, is a
116 reflection of the overall market weakness and a slowdown in sales across most regions and business
117 units when compared to last year.

118

119 After analyzing the results from the first half of this year, we believe we are moving through a period of
120 market stabilization that is marked by slower growth as users expand capacity and utilization.

121

122 Total revenue in the second quarter increased by 2% to \$182.3 million when compared to \$178.5 million
123 for the same period last year, and was up approximately 6% sequentially.

124

125 On an organic basis, which excludes the impact of acquisitions, revenue growth was down 10% when
126 compared to the same period last year, or down approximately 5% on a constant currency basis.

127

128 Our core business revenue, excluding MakerBot and Stratasys Direct Manufacturing, was up 1.3% in the
129 second quarter over last year, and up approximately 8% when compared to the first quarter of this year,
130 as we have begun to observe some recovery in our high-end production systems sales.

131

132 The lower growth experienced in the second quarter was primarily due to a slowdown in hardware
133 sales, as well as negative growth in the Asian-Pacific region and for MakerBot.

134

135 MakerBot product and service revenue declined by 57% in the second quarter over last year, driven by
136 the overall market weakness, as well as by ongoing challenges associated with the restructuring of this
137 business.

138

139 Non-GAAP net income for the second quarter was \$8 million, or \$0.15 per diluted share, compared to
140 non-GAAP net income of \$28 million, or \$0.55 per diluted share, reported for the same period last year.

141

142 **SLIDE 6: REVENUE**

143

144 Product revenue in the second quarter decreased by 13% to \$134.5 million, as compared to the same
145 period last year.

146

147 Within **product** revenue, system revenue decreased by 21% in the second quarter over the same period
148 last year, with the decline driven primarily by weaker MakerBot system sales, as well as the overall
149 market weakness we discussed previously.

150

151 **Consumables** revenue grew by 6% over the same period last year, or 13% on a constant currency basis –
152 in line with our revised expectations for the year.

153

154 **Services** revenue in the second quarter increased by 96% to \$47.8 million, as compared to the same
155 period last year.

156

157 The increase in services revenue was driven primarily by the revenue contribution of Solid Concepts and
158 Harvest Technologies, which were acquired during the third quarter of 2014, and thus not included in
159 the previous year's results.

160

161 Within service revenue, customer support revenue, which includes the revenue generated mainly by
162 maintenance contracts on our systems, increased by 17% compared to the same period last year.

163

164 **SLIDE 7: UNIT SALES**

165

166 The Company sold 6,731 3D printing and additive manufacturing systems during the second quarter, and
167 on a pro-forma combined basis, has sold a total of approximately 136,000 systems worldwide as of June
168 30, 2015.

169

170 Unit sales in the second quarter, relative to prior periods, were impacted by lower MakerBot unit sales,
171 as well as the overall impact of the market factors we have outlined previously.

172

173 We are observing signs of recovery in our high-end production systems, led by a sequential sales
174 improvement in our Fortus line. This includes positive market reception for the new Fortus 450mc,
175 which performed ahead of plan in the second quarter.

176

177 Additionally, we have seen sequential improvement for our recently introduced Connex line of color
178 multi-material 3D printers.

179

180 Most notably, sales of our Solidscape line of 3D printers grew significantly during the quarter, driven by
181 the initial orders for our recently announced collaboration in China, which David will discuss in more
182 detail later in the call.

183

184 **SLIDE 8: GROSS PROFIT**

185

186 Non-GAAP gross margins declined to 54.7% for the second quarter, compared to 59.8% in the same
187 period last year. Non-GAAP gross margins expanded sequentially, when compared to first quarter gross
188 margin of 54.1%.

189
190 The decrease in gross margin over last year resulted primarily from the impact of the inclusion of Solid
191 Concepts and Harvest Technologies.

192
193 Gross margin for product revenue was flat in the second quarter compared to last year, and improved
194 sequentially over the first quarter of this year, driven by a sales mix that favored our higher-end
195 systems.

196
197 **SLIDE 9: OPERATING/NET PROFIT**

198
199 Operating expenses increased by 23% to \$96.1 million, as compared to the same period last year.

200
201 Net R&D expenses increased by 28% to \$22.5 million in the second quarter over last year, driven by the
202 inclusion of GradCad expenses, increased headcount, and an overall acceleration in system and material
203 development.

204
205 Compared to the first quarter of 2015, net R&D expenses declined 8%.

206
207 SG&A expenses increased by 22% to \$73.6 million for the second quarter over last year, primarily due to
208 the inclusion of Solid Concepts and Harvest Technologies operating expenses. Sequentially, SG&A
209 expenses increased 5% compared to the first quarter of 2015

210
211 We received a tax benefit of \$4.8 million in the second quarter compared to an effective tax rate of 3.8%
212 for the same period last year.

213
214 Our tax expenses were impacted by losses incurred in high tax jurisdictions that were offset by taxable
215 income in low tax jurisdictions.

216
217 **SLIDE 10: GEOGRAPHIC MIX**

218
219 The following slide provides you a breakdown of our geographic sales for the quarter, which reflects an
220 emerging recovery trend in North America.

221
222 The outlook for the remainder of the third quarter of 2015 is for continued improvement in North
223 America and Europe, with an expectation of continued market headwinds in the Asia-Pacific-Japan
224 region, driven by tough macro-economic conditions.

225
226 **SLIDE 11: BALANCE SHEET/CASH FLOW**

227
228 Non-GAAP EBITDA for the second quarter amounted to \$12.1 million.

229
230 The Company used \$15.6 million in cash from operations during the second quarter, and currently holds
231 approximately \$502.6 million in cash, cash equivalents, and short term bank deposits. Our cash balance
232 includes cash from a \$175 million drawdown on the Company's revolving credit facility.

233 We incurred significant one-time cash and non-cash charges during the second quarter related to post-
234 merger-integration activities and company reorganization.

235 Capital expenditures amounted to approximately \$30.4 million in facility and equipment investment,
236 primarily driven by new office facilities in Israel.

237
238 Inventory increased to \$137.4 million as compared to \$131 million at the end of the first quarter of 2015
239 representing a 5% increase over the first quarter.

240
241 Accounts receivable decreased to \$137 million, representing a 4% decrease as compared to \$142.4
242 million at the end of the first quarter; while DSO on 12-month trailing revenue was 65, compared to 67
243 at the end of the first quarter.

244
245 **SLIDE 12: SUMMARY**

246
247 In summary,

- 248
249 1.) We observed some signs of sequential improvements versus the first quarter of 2015, although
250 our second quarter results were lower than expected across most geographies and industries
251 compared to growth levels experienced historically.
252 2.) We are observing signs of recovery in certain regions, and are cautiously optimistic about
253 sustained improvement in North America and Europe. However, we expect the Asia-Pacific
254 region, as well as sales at MakerBot, to remain a headwind for the duration of the third quarter.
255 3.) We will continue to make adjustments to our operating expenses to align with changes in the
256 current market environment; longer term, however, we remain committed to our growth
257 initiatives and investment plan.
258 4.) We remain well positioned to respond to an acceleration in demand, or improvements in overall
259 market conditions.
260 5.) We believe that we have a strong balance sheet and are making the appropriate investments in
261 strategic initiatives and building infrastructure to help accelerate our growth moving forward,
262 and that we are on the leading edge of our exciting industry.

263
264 I would now like to turn the call over to our VP of Investor Relations, Shane Glenn, who will provide you
265 greater details on our updated 2015 financial guidance. Shane.

266
267 **SLIDE 13 & 14: GUIDANCE**

268
269 **SPEAKER: Shane Glenn**

270
271 Thank you, Erez.

272
273 Due to the Company's limited visibility regarding the timing of improvements in growth, the Company
274 has withdrawn its previously delivered financial guidance, and instead has provided financial guidance
275 for the third quarter of 2015 as follows:

- 276
277 1. Total revenue in the range of \$175 to \$190 million, with non-GAAP net income in the range of
278 \$1.5 to \$7.0 million, or \$0.03 to \$0.13 per diluted share.
279 2. GAAP net loss of \$27.0 million to \$22.5 million, or (\$0.52) to (\$0.43) per share.

280 3. Non-GAAP earnings guidance excludes \$18 million of projected amortization of intangible
281 assets; \$9.5 million to \$10.0 million of share-based compensation expense; \$7 million to \$8
282 million in non-recurring expenses related to acquisitions; and includes \$6.0 million to \$6.5
283 million in tax expenses related to non-GAAP adjustments.
284

285 Finally, at this time we are not modifying the following long term goals for the Company's operating
286 model, which include:

- 287 • Annual organic revenue growth of at least 25%
- 288 • Non-GAAP operating income as a percentage of sales of 18-23%
- 289 • Non-GAAP effective tax rate of 10-15%
- 290 • Non-GAAP net income as a percentage of sales of 16-21%

291
292 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a table at
293 the end of our press release, providing an itemized detail of the non-GAAP financial measures.
294

295 Now, I'd like to turn the call back over to David Reis. David?
296

297 **SLIDE 15: STRATEGIC OVERVIEW**

298
299 **SPEAKER: David Reis**

300
301 Thank you, Shane.
302

303 As I mentioned in my opening remarks, we believe that the extraordinary growth that Stratasys and our
304 industry enjoyed during 2013 and 2014 was driven in part by the synergies that resulted from the
305 Stratasys and Objet merger in 2012, as well as from the heightened level of media attention observed
306 during that period.
307

308 During this period, our customers' capacity went through a dramatic expansion.
309

310 Now, the industry's near-term growth is likely being impacted as end-markets digest capacity and
311 increase their utilization.
312

313 Despite these near-term challenges, we see no indication of a fundamental change in the attractive
314 market opportunity within our industry, and we are encouraged by the sequential improvements we are
315 observing in areas of our business.
316

317 We continue to believe that our industry is poised to transform manufacturing, engineering and design
318 processes across a wide range of sectors; and will be driven by vertical solution development and
319 further penetration into advanced manufacturing applications.
320

321 With our strong pipeline of potential future opportunities, and our position of leadership within the
322 industry, we believe we are well positioned to capitalize on these opportunities as they develop.
323

324 As mentioned earlier, we are committed to the strategic investment plan that we unveiled early this
325 year, which is designed to support the future growth of our business and sustain our leadership position.
326

327 The multi-year investment plan focuses on enhancing vertical industry solutions; expanding customer
328 support services; building an enhanced sales and marketing infrastructure, and accelerating product
329 development - all designed to support potential annual revenues of \$3 billion in 2020.

330

331 **SLIDE 16: CHANNEL EVENTS**

332

333 To reiterate, we see no change in the long-term opportunity for our industry, and are observing
334 enthusiasm and interest from both our channel partners and customers.

335

336 We recently hosted 239 of our Stratasys Direct Manufacturing customers in Nashville, Tennessee at the
337 first SDM summit to introduce the combined SDM organization as a total solution provider that focuses
338 on applications from prototype to production.

339

340 At the event, the additive manufacturing experts from our SDM group conducted seminars, workshops,
341 and one-on-one meetings with key accounts.

342

343 Additionally, our recent EMEA channel partner event was attended by CEO's and sales executives from
344 41 Stratasys European resellers.

345

346 The event was the first channel partner meeting at our new Stratasys EMEA headquarters in Germany,
347 and featured workshops sharing best practices for vertical markets, marketing, and growing the
348 materials and service business.

349

350 Both of these events were well attended, and the feedback from customers and channel partners was
351 positive, reinforcing our optimistic long-term outlook.

352

353 **SLIDE 17: GO-TO-MARKET**

354

355 We made multiple enhancements to our overall channel and go-to-market strategy during the quarter.

356

357 1) Strengthening our presence in Germany, Switzerland, and Austria through the acquisition of
358 a key German channel partner, RTC Rapid Technologies;

359

360 2) Making enhancements to our North American channel for Stratasys product lines with the
361 addition of W.D. Distributing and WYNIT;

362

363 3) For MakerBot, we announced the expansion of our Sam's Club retail presence to over 600
364 stores, following a successful pilot program;

365

366 4) We reorganized the MakerBot channel in Europe and Asia to better leverage the existing
367 Stratasys go-to-market infrastructure within those regions;

368

369 5) And finally, recently Fisher Unitech, a top Stratasys reseller, announced it is now carrying
370 our MakerBot brand of products.

371

372

373 **SLIDE 18: SOLIDSCAPE**

374

375 In addition to these go-to-market developments, we are beginning to see tangible results with new
376 customers and applications.

377
378 The Chinese government has a multi-decade plan for growing and employing a highly skilled workforce,
379 and has committed publicly to promoting 3D printing as a driving force in China's future manufacturing
380 development.

381
382 This initiative represents a significant opportunity for Stratasys, and we are pleased to have recently
383 announced a collaboration for our Solidscape product line with the Kangshua Group in China to provide
384 Solidscape 3D printers for applications relating primarily to custom jewelry manufacturing.

385 This agreement provides Stratasys with the opportunity to play a major role in creating the largest
386 network of service bureaus and innovation centers in China that will target applications for custom
387 jewelry manufacturing using our Solidscape line of products.

388 Our Solidscape line of high-precision 3D printers produce wax patterns is ideal for lost wax investment
389 casting and mold making applications.

390 These patterns meet high standards in surface finish, accuracy and material castability, while eliminating
391 the need for significant post-processing.

392 The multi-year collaboration includes providing up to 1,000 Solidscape high precision 3D printers to
393 equip multiple new service bureaus and innovation centers within China; as well as the opening of a
394 manufacturing facility, by Kangshua, for the assembly of Solidscape 3D printers for the domestic Chinese
395 market.

396
397 Also included in the agreement is a plan to supply China's 3D printing education initiative with
398 significant quantities of Solidscape 3D printers.

399 We believe this marks the most comprehensive 3D printing collaboration to date in China, and will help
400 drive significant growth for manufacturing applications utilizing our Solidscape product line.

401 **SLIDE 19: VERTICAL ADOPTION TRENDS - DENTAL**

402
403 Another area of recent success is within the dental market, where we are observing growing adoption
404 that we believe validates our strategy to focus on this exciting vertical.

405
406 Our customer, a leading manufacturer of clear orthodontic aligners, recently announced a 30%
407 expansion of its fleet of Objet Eden500V 3D Printers; and prints 100% of its custom-made orthodontic
408 aligners utilizing Stratasys PolyJet 3D printers and VeroDent material.

409 Our PolyJet technology provides our customer with the ability to efficiently manufacture custom
410 aligners on a mass scale with optimized workflows, faster production, and shortened lead times.

411
412 We believe that our customer's adoption of 3D printing technology is indicative of potential significant
413 expansion within the dental vertical, including the further adoption of our Stratasys PolyJet based
414 solutions for the production of custom-made orthodontic products.

415
416 Our Vertical Business Unit strategy is designed to capture these opportunities, and we made significant
417 operational enhancements, including key personnel additions during the second quarter that we believe
418 will further enhance our ability to address dental applications and provide solutions to this vertical
419 moving forward.

420
421 **SLIDE 20: SUMMARY**

422
423 In summary:

- 424
- 425 1.) While we are disappointed with our second quarter results, at this time, we see no indication of
426 a change in the fundamental growth drivers for additive manufacturing, and we believe the
427 long-term opportunity remains very promising.
 - 428 2.) We are encouraged by areas of sequential improvement in our business, and remain optimistic
429 about our longer-term growth prospects.
 - 430 3.) We believe our industry is transitioning through a period of slower growth, as users digest their
431 investments in 3D printing and expand the utilization of recently acquired capacity.
 - 432 4.) While we remain confident in our long-term market prospects, in light of the current growth
433 environment, we are making adjustments to better align expenses with current market
434 conditions.
 - 435 5.) Finally, we are confident that our investment plan and our growth strategy will enable us to put
436 greater focus on long-term vertical and manufacturing-related applications, such as dental and
437 our recently announced Solidscape collaboration; which further position the company to
438 capitalize on future growth opportunities; and help solidify our leading position in additive
439 manufacturing and 3D printing.

440
441 Operator, please open the call for questions.

442
443 **SLIDE 21: Q&A**

444
445 **SPEAKER: David Reis**

446
447 Thank you for joining today's call. We look forward to speaking with you again next quarter.
448 Goodbye.