

Q4 2014 Financial Results Conference Call



Q4 2014 Conference and webcast details

Speakers

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Live Dial-in Information

Primary Dial-in:
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617-614-3453

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Live webcast and replay:

<http://edge.media-server.com/m/p/fsefp4qi>

Stratasys

Forward looking statement

The statements in this press release regarding Stratasys' business and operating expectations, projections and goals, as well as its financial guidance and projections under the caption "Financial Guidance," are "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 "will," "expect," "anticipate," "continue," "believe," "project" or other similar words, but are not the only way these statements are identified. 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 extent of our success at introducing new or improved products and solutions that gain market share; the extent of our success at efficiently and successfully integrating the operations of various companies that we have acquired or may acquire; the impact of competition and new technologies; general market, political and economic conditions in the countries in which we operate; projected capital expenditures and liquidity; changes in our strategy; government regulations and approvals; changes in customers' budgeting priorities; the overall global economic environment; 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, 2014 to be filed with the U.S. Securities and Exchange Commission (the "SEC") on March 3, 2015, and in other reports that the Company has furnished to, or 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 & Outlook

Core business growth in the fourth quarter driven by design and manufacturing solutions for the enterprise

MakerBot impacted by challenges associated with introduction and scaling of its new product platform and evolving distribution model

Successful launch of 25 major new products in 2014, including 11 new 3D printing systems and materials in the fourth quarter

Completed the alignment of company-wide R&D and operations in 2014, and made significant investments in infrastructure

Expanded channel and go-to-market capabilities, through strategic investments and distribution partnerships

Completed over six strategic acquisitions including Solid Concepts, Harvest Technologies, and GrabCAD

Reached significant milestone in 2014 with over 100,000 cumulative systems shipped on a pro-forma combined company basis

Financial Results

Stratasys Ltd.
Non-GAAP

Quarter Highlights

Revenue Growth  39% YOY

Organic Revenue Growth  26% YOY

Non-GAAP Gross Profit Growth  30%

Non-GAAP Net Income  3% YOY

MakerBot contributed \$26.6M in revenue

	Q4-13	Q4-14	Change YOY
Unit Sales	10,963	11,214	+2.3%
Total Revenue	\$155.8	\$217.1	+39.4%
Revenue/ Employee	0.086	0.073	-15.1%
Gross Profit % margin	93.7 60.2%	121.6 56.0%	+29.7%
Operating Expenses % of sales	62.3 40.0%	96.6 44.5%	+55.2%
Operating Profit % margin	31.4 20.2%	24.9 11.5%	-20.7%
Pre-tax Profit % margin	30.8 19.8%	20.8 9.6%	-32.4%
Tax Rate	16.2%	-19.8%	-222.1%
EBITDA	36.0	29.6	-17.8%
Net Income % margin	25.8 16.6%	24.9 11.5%	-3.3%
EPS (Diluted)	\$0.50	\$0.48	-5.2%
Diluted Shares	51.4	52.5	+2.1%

(\$ in millions unless noted otherwise)

Financial Results

Revenue
Stratasys Ltd.
Non-GAAP

Quarter Highlights

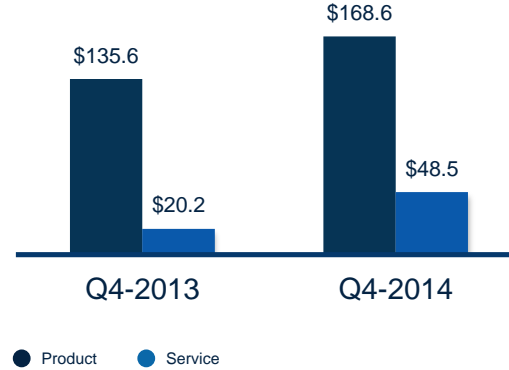
System Revenue  28% YOY

Consumable Revenue  27% YOY

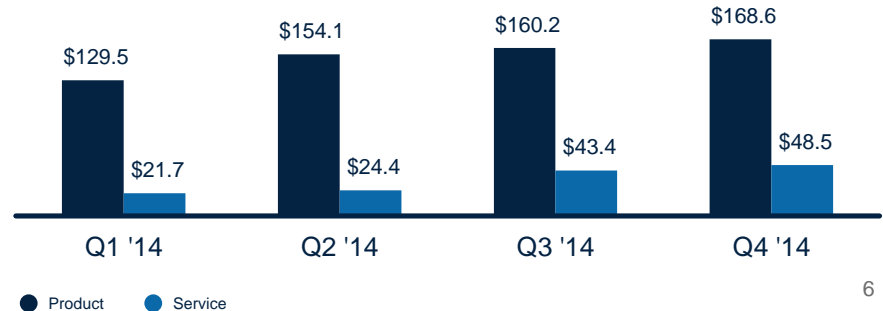
Customer Support Revenue  46% YOY

(\$ in millions unless noted otherwise)

Total Revenue - Quarter



Total Revenue – Quarterly Trend



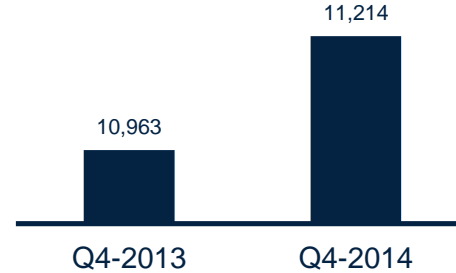
Financial Results

Stratasys Ltd.
System Unit Sales

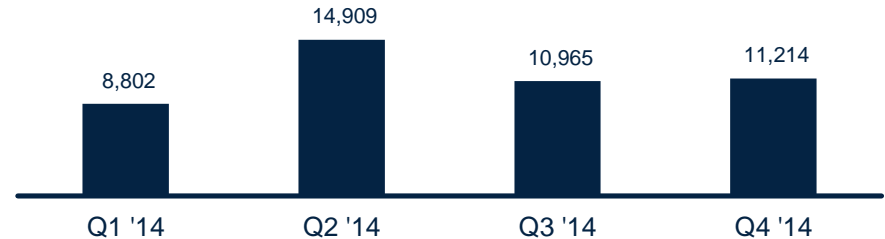
Quarter Highlights

- Demand for design and manufacturing solutions driven by enterprise level prototyping and direct digital manufacturing applications
- New solutions introduced at Euromold 2014 well received by market

Total Units Sold - Quarter



Total Units Sold – Quarterly Trend



Financial Results

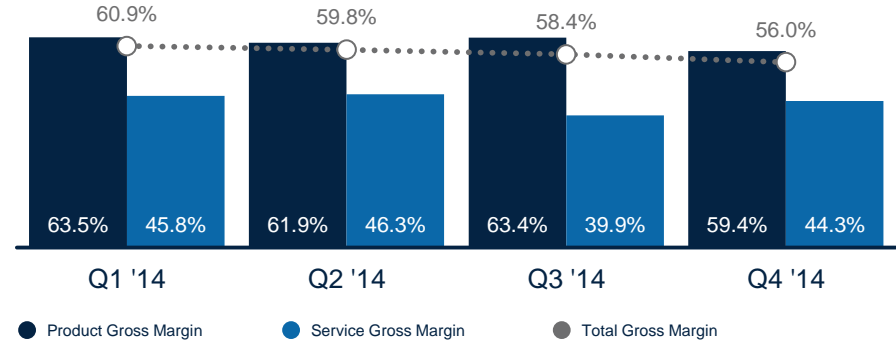
Gross Profit
Stratasys Ltd.
Non-GAAP

Quarter Highlights

- Excluding impact of acquisitions and charges and reserves related to MakerBot, gross margins flat YOY
- Sequential gross margin decline driven by product mix

	Q4-13	Q4-14	% Change YOY
Product Revenue % of sales	\$135.6 87.1%	\$168.6 77.7%	+24.3%
Service Revenue % of sales	20.2 12.9%	48.5 22.3%	+140.9%
Product Gross Profit % margin	85.3 62.9%	100.1 59.4%	+17.4%
Service Gross Profit % margin	8.4 41.9%	21.5 44.3%	+154.5%
Total Gross Profit % margin	93.7 60.2%	121.6 56.0%	+29.7%

Gross Margin – Quarterly Trend



Financial Results

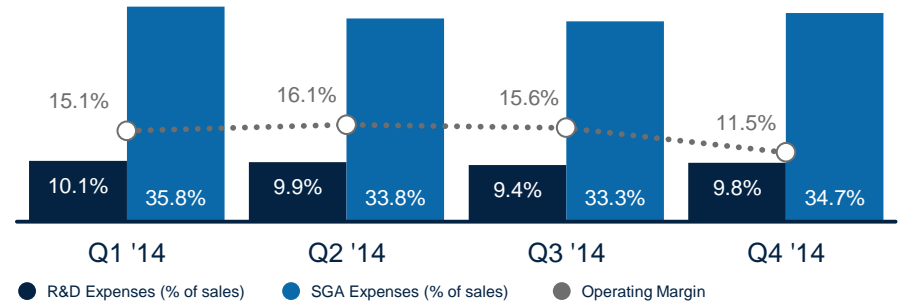
Operating Profit
Stratasys Ltd.
Non-GAAP

Quarter Highlights

- SG&A expansion driven primarily by the inclusion of Solid Concepts and Harvest Technologies, and the expansion of regional go-to-market infrastructure
- R&D expansion primarily driven by increased headcount, and the acceleration of product development initiatives

	Q4-13	Q4-14	% Change YOY
R&D Expense % of sales	15.5 9.9%	21.4 9.8%	+38.2%
SG&A Expense % of sales	46.8 30.1%	75.3 34.7%	+60.8%
Total Operating Exp. % of sales	62.3 40.0%	96.6 44.5%	+55.2%
Total Operating Profit % margin	31.4 20.2%	24.9 11.5%	-20.7%

Operating Profit Analysis – Quarterly Trend



Financial Results

Balance Sheet Summary Stratasys Ltd.

Quarter Highlights

- \$442.7M in cash and cash equivalents & bank deposits
- Generated \$14.9M in cash from operating activities in Q4 2014
- DSO on 12-month trailing revenue was 73, compared to 74 in the third quarter

Selected balance sheet items (\$ in millions)	Q3-14	Q4-14
Cash, Cash Equivalents & Bank Deposits	\$458.9	\$442.7
Accounts Receivable	140.7	150.8
Inventories	119.3	123.4
Net Working Capital	546.6	546.1

Financial Results

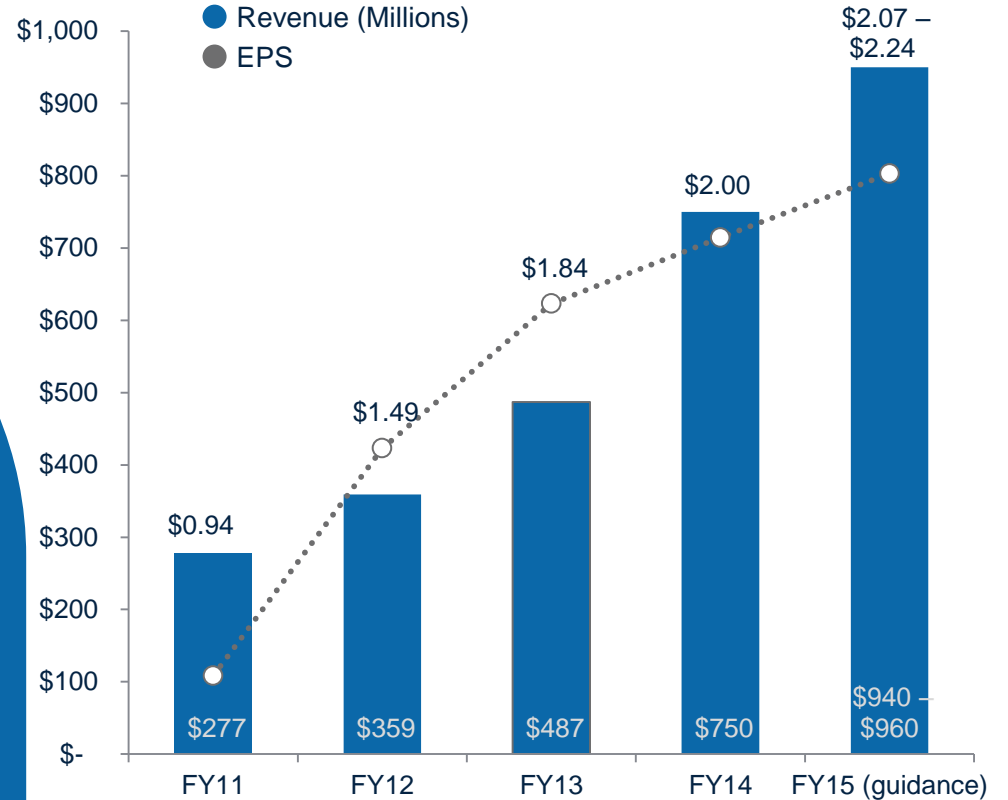
Projections
Stratasys Ltd.
Non-GAAP

Quarter Highlights

- Ongoing organic and inorganic sales growth
- Demand for design and manufacturing enterprise solutions
- Growing install base resulting in strong consumables growth
- Investments in strategic initiatives and infrastructure to drive growth

(\$ in millions unless noted otherwise)

* Periods prior to 2013 are pro forma including Objet, Ltd.



Financial Guidance

Stratasys Ltd.
Revenue & Earnings Guidance
Non-GAAP

Fiscal 2015 Financial Guidance

Revenue (M)

\$940-960

Non-GAAP Diluted EPS

\$2.07-\$2.24

Reconciliation of GAAP to Non-GAAP Guidance

(\$ in millions, except per share data)

Revenue	\$940 to \$960
Non-GAAP Net Income	\$109.0 to \$118.0
(1) Stock-Based Compensation Exp.	\$32.0 to \$35.0
(2) Intangible Assets Amortization Exp.	\$85.0
(3) Merger Related Expenses	\$41.0 to \$43.0
(5) Tax expense related to adjustments	(\$30.0) to (\$31.0)
GAAP Net Loss	(\$23.0) to (\$10.0)
GAAP Loss Per Share	(\$0.45) to (\$0.20)
Non-GAAP Diluted Earnings Per Share	\$2.07 to \$2.24

Financial Guidance

Stratasys Ltd.

Long-Term Target Operating Model

Non-GAAP

Revenue growth

+25%

Operating margin

18%–23%
of sales

Effective tax rate

10%–15%

Net income margin

16%–21%
of sales

MakerBot Update

Impressive Growth Over Last Two Years

- ✓ Sales expanded over 600% from 2012 to 2014
- ✓ Sold approximately 80,000 units to date
- ✓ Market leading brand and ecosystem

MakerBot in the Fourth Quarter

- ✓ Scaling and introduction of new product platform
- ✓ Evolution of distribution model
- ✓ Transitioning to a more mature business model

MakerBot in 2015

- ✓ Continued evolution of business, and investment in product development, sales and marketing and organizational structure
- ✓ We expect MakerBot growth rates to ramp up to, or in excess of, overall company averages by the end of 2016



Strategic Investment Plan

Support \$3 Billion in
revenue by 2020

01

Industry Focus

02

Services

03

Sales and
Marketing
Infrastructure

04

Products

Industry Focus

Accelerate Efforts Around Vertical Applications and Solutions:

- ✓ Aerospace
- ✓ Automotive
- ✓ Healthcare
- ✓ Education

2014 Vertical Business Unit Accomplishments

- ✓ Completed initial phase of three year plan
- ✓ Supported the closure of 50+ manufacturing deals
- ✓ Co-developed industry-specific materials certification processes
- ✓ Supported development of Stratasys Education Curriculum program



Services

Stratasys Direct Manufacturing

Supported by 8 advanced manufacturing facilities throughout United States

Includes complete range of AM manufacturing technologies



Stratasys Direct Manufacturing – 2014 PMI Update

- ✓ Three organizations rebranded as **Stratasys Direct Manufacturing**
- ✓ Single integrated sales team and Salesforce.com deployment
- ✓ Significant progress on unified quoting engine
- ✓ Proceeding with IT architecture integration

Stratasys Direct Manufacturing – 2015 to 2016 PMI Phase 2

- ❑ During H2 2014, develop go-to-market strategies for future generating synergies between SDM and hardware business
- ❑ Leverage VBU and Strategic Accounts Management (SAM) teams to drive synergies in 2016

Services

Stratasys Services Group

- ✓ Professional Services
- ✓ Customer Support Units
- ✓ ***New Stratasys Strategic Consulting Division***

Stratasys Strategic Consulting Division

Econolyst, a UK-based additive manufacturing and 3D printing consultancy and research firm, will join Stratasys to form new consulting division

- ✓ Will offer a broad range of technology-agnostic strategic consulting and support for additive manufacturing adoption, education and innovation
- ✓ Strengthen the breadth and depth of Stratasys' Services expertise and capabilities
- ✓ Provide expert consulting around additive manufacturing strategy development, ideation and innovation and implementation planning across technologies and solutions



ECONOLYST

THE 3D PRINTING & ADDITIVE
MANUFACTURING PEOPLE

Products and Innovation

Increased investments in:

- ✓ New products
- ✓ Long term innovation projects
- ✓ Software development
- ✓ Ecosystem



Acceleration of New Product to Market

- ✓ Euromold product introductions met with strong demand
- ✓ ROI from accelerated investments generally expected in 1-2 year timeframe

Long Term Innovation and Development Projects

- ✓ Multiple new products in pipeline – including collaborations with industry leading manufacturers
- ✓ Potential to create groundbreaking new platforms
- ✓ ROI from investments in accelerated long term innovation products generally expected in at least a 2-4 year timeframe

Software and Ecosystem

- ✓ GrabCAD unique opportunity to develop leading 3D printing ecosystem
- ✓ Driving improved 3D printing accessibility and customer intimacy
- ✓ Early in PMI process

Sales & Marketing Infrastructure

Investments in Go-to-Market & Channel

- ✓ Training
- ✓ Assisting in scaling and hiring
- ✓ Strategic acquisitions

Strategic Accounts Management

- ✓ Initiative to create single point of contact for large, strategic accounts
- ✓ 65 Global Accounts, 35 in North America
- ✓ Fulfillment by channel or direct (varies depending on geography)
- ✓ For top 10 accounts, **revenue growth of 158%** in 2014 compared to 2013

Acquisition of Intelligent CAD/CAM in Hong Kong

- ✓ Strengthens local presence and improves direct access to customers in the Asia Pacific region
- ✓ Expanded local team lays foundation to support growth in key vertical markets
- ✓ Acquisition will help support strong growth in the APAC region

Summary & Outlook

Core business is growing and company is well positioned to maintain industry leadership position

Positive trends emerging from go-to-market investments, including our Vertical Business Unit and Strategic Accounts Management initiatives

Solid Concepts, Harvest Technologies, and RedEye now combined as Stratasys Direct Manufacturing – PMI process on schedule

New product introductions observing strong demand as pace of product development and innovation accelerates

Investment plan positions Stratasys for long term growth and market leadership within rapidly growing market

Company maintains strong balance sheet and is well positioned for strategic investments

We are Stratasys

We are innovation

We are fearless leaders

We are customer driven

Our quality matters

Our people make the difference



Reconciliation of GAAP to Non-GAAP Results of Operations

Stratasys Ltd.

(\$ in thousands except per share data)	Q4-13			Q4-14		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Net sales						
Products	\$134,943	\$668	\$135,611	\$168,595	\$ -	\$168,595
Services	20,142	-	20,142	48,517	-	48,517
Cost of sales						
Products	65,088	(14,765)	50,323	82,985	(14,490)	68,495
Services	12,195	(495)	11,700	28,943	(1,915)	27,028
Gross profit	77,802	15,928	93,730	105,184	16,405	121,589
Operating expenses						
Research and development, net	17,669	(2,207)	15,462	23,189	(1,822)	21,367
Selling, general and administrative	64,462	(17,633)	46,829	95,646	(20,368)	75,278
Goodwill impairment	-	-	-	102,470	(102,470)	-
Change in fair value of earn-out obligations in connection with acquisitions	(853)	853	-	(24,862)	24,862	-
Operating income (loss)	(3,476)	34,915	31,439	(91,259)	116,203	24,944
Financial expenses, net	(650)	-	(650)	(4,145)	-	(4,145)
Income (loss) before income taxes	(4,126)	34,915	30,789	(95,404)	116,203	20,799
Income taxes (benefit)	(2,137)	7,133	4,996	(3,370)	(750)	(4,120)
Net income (loss)	(1,989)	27,782	25,793	(92,034)	116,953	24,919
Net income (loss) attributable to non-controlling interest	-	-	-	(25)	-	(25)
Net income (loss) attributable to Stratasys Ltd.	(1,989)	27,782	25,793	\$ (92,009)	\$115,665	\$24,944
Net income (loss) per ordinary share attributable to Stratasys Ltd. (Diluted)	\$(0.07)		\$0.50	\$(1.81)		\$0.48
Diluted Shares	49,036		51,429	50,912		52,491

Reconciliation of Non-GAAP Adjustments

Stratasys Ltd.

(\$ in thousands)

	Q4-13	Q4-14
Net sales, products		
Deferred revenue purchase price	\$668	\$-
Cost of sales, products		
Acquired intangible assets amortization	(14,233)	(14,654)
Non-cash stock-based compensation expense	(496)	164
Merger related expense	(36)	-
Cost of sales, services		
Acquired intangible assets amortization	-	537
Non-cash stock-based compensation expense	(424)	(1,430)
Merger related expense	(71)	(1,022)
Research and development, net		
Non-cash stock-based compensation expense	(925)	(1,942)
Merger related expense	(1,282)	120
Selling, general and administrative		
Acquired intangible assets amortization	(5,319)	(7,607)
Non-cash stock-based compensation expense	(4,954)	(5,589)
Merger and acquisition related expense	(7,360)	(7,172)
Goodwill impairment		
Goodwill impairment	-	(102,470)
Change in fair value of earn-out obligations in connection with acquisitions		
Change in fair value of earn-out obligations in connection with acquisitions	853	24,862
Income taxes (benefit)		
Tax expense related to non-GAAP adjustments	7,133	(750)
Net income (loss) attributable to Stratasys Ltd.	\$27,782	\$116,953