

# Q1 2015 Financial Results Conference Call



# Q1 2015 Conference and webcast details

## Speakers

David Reis  
CEO

Erez Simha  
COO & CFO

Shane Glenn  
VP, Investor Relations

## Live Dial-in Information

Primary Dial-in:  
800-299-9630

International Dial-in:  
617-786-2904

Participant Passcode:  
43637463

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# Summary & Outlook

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Long-term opportunity remains unchanged – despite disappointing first quarter results

Additive manufacturing remains in early stages of development – focused on strategies to drive adoption and growth

2015 operating plans revisited, with adjustments to operating expenses and capital expenditures made accordingly

Committed to long-term investment plan with attractive pipeline of opportunities

New applications developing, including exciting manufacturing solutions within aerospace

Making necessary organizational enhancements

# Financial Results

Stratasys Ltd.  
Non-GAAP

## Quarter Highlights

Revenue Growth  14% YOY

Organic Revenue Growth  1% YOY

Non-GAAP Gross Profit Growth  1% YOY

Non-GAAP Net Income  90% YOY

	Q1-14	Q1-15	Change YOY
Unit Sales	8,802	7,536	-14.4%
Total Revenue	\$151.2	\$172.7	+14.3%
Revenue/ Employee	0.079	0.056	-28.4%
Gross Profit % margin	92.1 60.9%	93.4 54.1%	+1.4%
Operating Expenses % of sales	69.4 45.9%	94.2 54.5%	+35.8%
Operating Profit (Loss) % margin	22.8 15.1%	(0.8) -0.4%	-103.4%
Pre-tax Profit (Loss) % margin	21.4 14.2%	(5.9) -3.4%	-127.5%
Tax Rate	3.8%	132.3%	3,356.4%
EBITDA	26.0	2.2	-91.4%
Net Income % margin	20.6 13.6%	2.0 1.2%	-90.2%
EPS (Diluted)	\$0.40	\$0.04	-90.4%
Diluted Shares	51.2	52.3	+2.1%

(\$ in millions unless noted otherwise)

# Financial Results

Revenue  
Stratasys Ltd.  
Non-GAAP

## Quarter Highlights

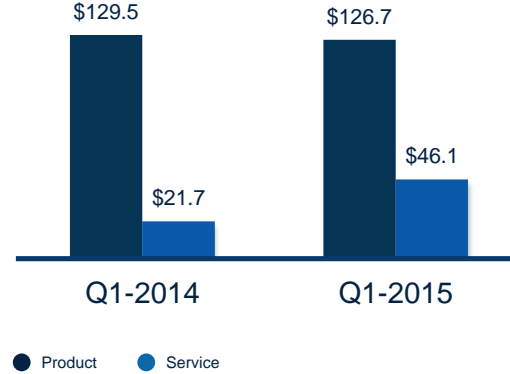
System Revenue ↓ 12% YOY

Consumable Revenue ↑ 18% YOY

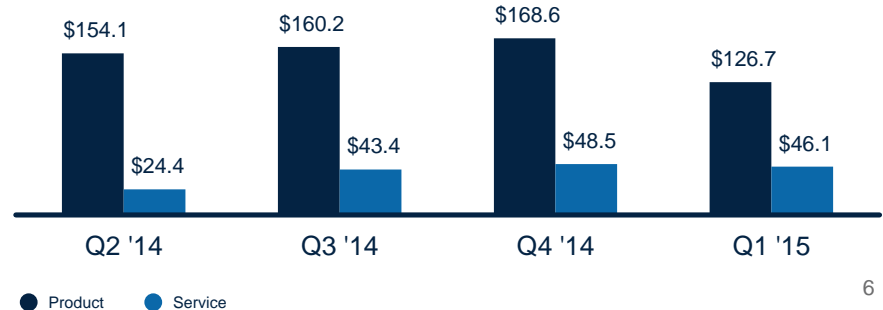
Customer Support Revenue ↑ 28% YOY

(\$ in millions unless noted otherwise)

### Total Revenue - Quarter



### Total Revenue – Quarterly Trend



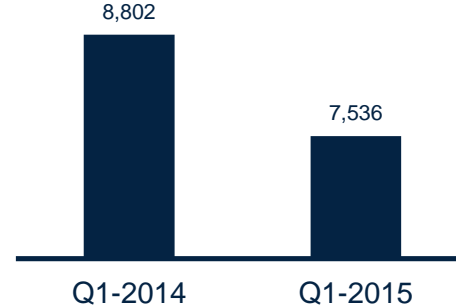
# Financial Results

Stratasys Ltd.  
System Unit Sales

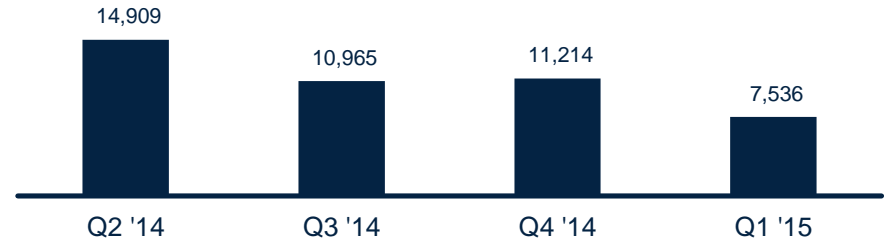
## Quarter Highlights

- Decrease in unit sales relative to prior periods driven by lower than expected MakerBot unit volumes
- Overall system sales negatively impacted by overall market softness in first quarter
- The Company sold 7,536 3D printing and additive manufacturing systems during the quarter, and on a pro forma combined basis, has sold a total of 129,197 systems worldwide as of March 31, 2015.

Total Units Sold - Quarter



Total Units Sold – Quarterly Trend



# Financial Results

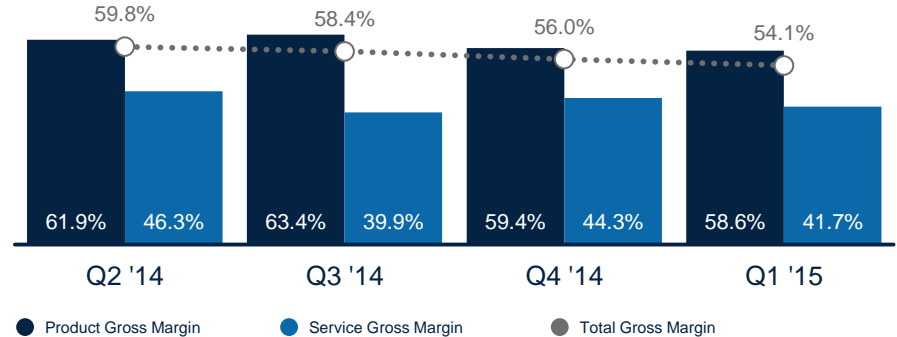
Gross Profit  
Stratasys Ltd.  
Non-GAAP

## Quarter Highlights

- Sequential gross margin decline driven by:
  - product mix
  - impact of acquisitions
  - decline in capacity utilization at MakerBot
- Product mix favored lower margin systems, particularly within the Connex line

	Q1-14	Q1-15	% Change YOY
Product Revenue	\$129.5	\$126.7	-2.2%
% of sales	85.7%	73.3%	
Service Revenue	21.7	46.1	+112.4%
% of sales	14.3%	26.7%	
Product Gross Profit	82.2	74.2	-9.7%
% margin	63.5%	58.6%	
Service Gross Profit	9.9	19.2	+93.3%
% margin	45.8%	41.7%	
Total Gross Profit	92.1	93.4	+1.4%
% margin	60.9%	54.1%	

## Gross Margin – Quarterly Trend





# Financial Results

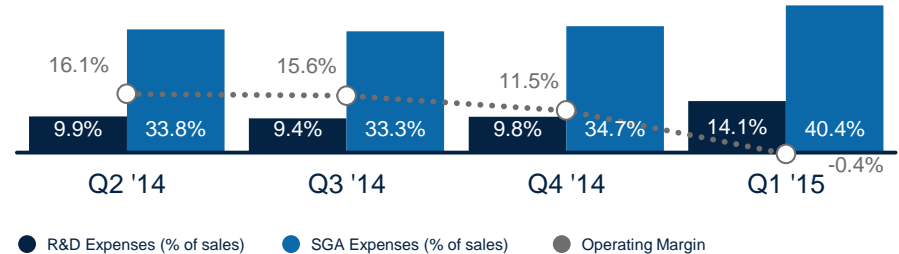
Operating Profit  
Stratasys Ltd.  
Non-GAAP

## Quarter Highlights

- R&D expansion primarily driven by increased headcount, and the acceleration of system and material project development
- SG&A expansion driven primarily by the impact of acquisitions

	Q1-14	Q1-15	% Change YOY
R&D Expense % of sales	15.3 10.1%	24.4 14.1%	+59.9%
SG&A Expense % of sales	54.1 35.8%	69.8 40.4%	+29.0%
Total Operating Exp. % of sales	69.4 45.9%	94.2 54.5%	+35.8%
Total Operating Profit (Loss) % margin	22.8 15.1%	(0.8) -0.4%	-103.4%

## Operating Profit Analysis – Quarterly Trend



# Financial Results

## Balance Sheet Summary

Stratasys Ltd.

### Quarter Highlights

- \$424.9M in cash and cash equivalents & bank deposits
- Generated \$3.9M in cash from operating activities in Q1 2015
- Increased inventory result of lower first quarter sales
- DSO on 12-month trailing revenue was 67, compared to 73 in the fourth quarter 2014

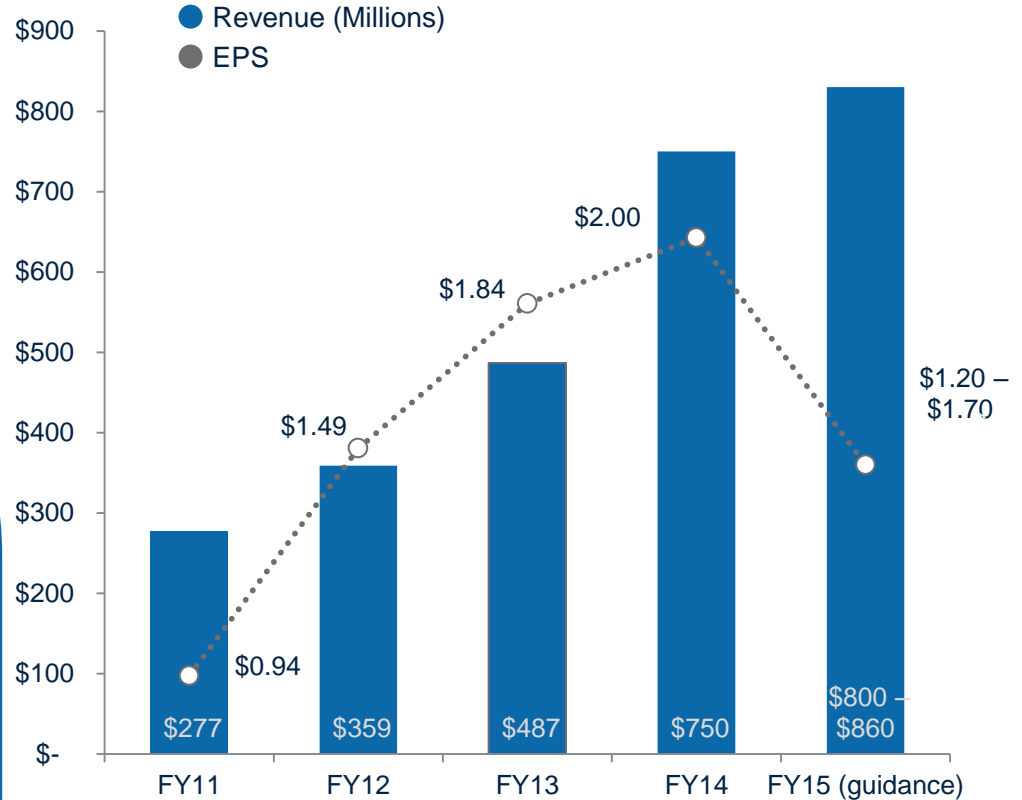
Selected balance sheet items (\$ in millions)	Q4-14	Q1-15
Cash, Cash Equivalents & Bank Deposits	\$442.7	\$424.9
Accounts Receivable	150.8	142.4
Inventories	123.4	131.0
Net Working Capital	546.1	522.3

# Financial Results

Projections  
Stratasys Ltd.  
Non-GAAP

## Quarter Highlights

- Results lower than expected across most geographies and industries
- Revenues for both consumables and customer support grew as expected
- Taking immediate action to adjust near-term operating and capital expenditure plans
- Continue to invest aggressively in critically strategic areas
- MakerBot undergoing reorganization
- Strong balance sheet and well positioned for future 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)

**\$800-860**

Non-GAAP Diluted EPS

**\$1.20-\$1.70**

### Reconciliation of GAAP to Non-GAAP Guidance

(\$ in millions, except per share data)

Revenue	\$800 to \$860
Non-GAAP Net Income	\$63.0 to \$90.0
(1) Stock-Based Compensation Exp.	\$35.0 to \$38.0
(2) Intangible Assets Amortization Exp.	\$78.0
(3) Goodwill and other intangible asset impairment and restructuring charges	\$197 to \$199
(4) Merger Related Expenses	\$28.0 to \$30.0
(5) Tax expense related to non-GAAP adjustments	(\$24.0) to (\$26.0)
GAAP Net Loss	(\$256.0) to (\$224.0)
GAAP Loss Per Share	(\$5.0) to (\$4.38)
Non-GAAP Diluted Earnings Per Share	\$1.20 to \$1.70

# Financial Guidance

Stratasys Ltd.

Long-Term Target Operating Model

Non-GAAP

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Revenue growth

**+25%**

Operating margin

**18%–23%**  
of sales

Effective tax rate

**10%–15%**

Net income margin

**16%–21%**  
of sales

# Strategic Investment Plan

Support \$3 Billion in  
revenue by 2020

01

Industry Focus

02

Services

03

Sales and  
Marketing  
Infrastructure

04

Product  
Development

# Organizational Update

## Enhancing organizational structure for long-term success

- ✓ Stratasys Direct Manufacturing (SDM)
- ✓ Stratasys Strategic Consulting Division

### Stratasys Direct Manufacturing (SDM)

- ✓ Completed the organizational integration of Solid Concepts, Harvest Technologies and RedEye Services to form Stratasys Direct Manufacturing (SDM)
- ✓ Part services employing broad portfolio of technologies and materials for applications ranging from models and prototypes to end-use components and assemblies
- ✓ On track to leverage cross-selling synergies beginning in 2016



### Stratasys Strategic Consulting

- ✓ Provide expert consulting around additive manufacturing strategy development, ideation and innovation and implementation planning across technologies and solutions



# Organizational Update

## Ensuring management depth and organizational focus

- ✓ Key management appointments
- ✓ MakerBot reorganization

### Strengthened Management Team

- ✓ Newly created Chief Business Officer role with hire of Joshua Claman (formerly of Dell) to drive commercial and go-to-market strategy across Stratasys business units
- ✓ Appointment of Jerome Hamilton (formerly of 3M) as Senior Vice President of Global Operations to lead global manufacturing, strategic sourcing, supply chain, and worldwide distribution teams
- ✓ Jonathan Jaglom promoted to MakerBot CEO to scale operations and revenues, coming to MakerBot with ten years of experience at Objet and Stratasys

### MakerBot Reorganization

- ✓ Focusing efforts at MakerBot on improving and iterating products, growing the 3D ecosystem, and expanding the focus on professional, education and consumer markets



# Applications & Verticals: Aerospace

## Manufacturing Applications

- ✓ Expanding certification of additive manufacturing processes and materials for flight applications
- ✓ Customers spend months or years qualifying a material or process



## Airbus

- ✓ Over 1,000 parts on new A350 XWB aircraft printed using Stratasys FDM technology and ULTEM 9085 thermoplastic
- ✓ Culmination of two year development, certification, and implementation process
- ✓ Technology is expected to improve buy-to-fly ratio by manufacturing strong, lighter weight parts
- ✓ Process reduces costs, decreases material waste, increases supply chain flexibility, and improves on-time delivery
- ✓ Anticipate further announcements as applications develop

## United Launch Alliance (ULA)

- ✓ ULA is printing multiple flight-ready components for the Atlas V Rocket, including internal ducts, brackets, nozzles, and panels that are used to seal off compartments
- ✓ Initiative is already generating an estimated \$1 million in savings per year compared to traditionally manufactured parts
- ✓ Early stages of developing applications, ULA intends to use printed parts on unmanned space flights starting in early 2016

# Summary & Outlook

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Fundamental growth drivers of 3D printing and additive manufacturing industry remain unchanged

Industry in early phases of adoption , and we remain focused on driving long-term growth as we move through a challenging period

Confident in long-term market prospects, but moderating near-term operating and capital expenditure plans for the remainder of 2015

Committed to our investment plan and strategy that further positions our company for growth

Observing attractive long-term manufacturing and vertical-specific opportunities

# 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)	Q1-14			Q1-15		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Net sales						
Products	\$129,252	\$235	\$129,487	\$126,667	\$ -	\$126,667
Services	21,689	-	21,689	46,064	-	46,064
Cost of sales						
Products	61,022	(13,728)	47,294	98,371	(45,912)	52,459
Services	12,191	(433)	11,758	28,272	(1,409)	26,863
Gross profit	77,728	14,396	92,124	126,643	47,321	93,409
Operating expenses						
Research and development, net	16,771	(1,496)	15,275	27,238	(2,817)	24,421
Selling, general and administrative	67,617	(13,522)	54,095	102,608	(32,844)	69,764
Goodwill impairment	-	-	-	150,400	(150,400)	-
Change in fair value of earn-out obligations in connection with acquisitions	(7,495)	7,495	-	(13,256)	13,256	-
Operating income (loss)	835	21,919	22,754	(220,902)	220,126	(776)
Financial expenses, net	(1,336)	-	(1,336)	(5,124)	-	(5,124)
Income (loss) before income taxes	(501)	21,919	21,418	(226,026)	220,126	(5,900)
Income taxes (benefit)	(4,588)	5,408	820	(9,622)	1,814	(7,808)
Net income (loss)	4,087	16,511	20,598	(216,404)	218,312	1,908
Net income (loss) attributable to non-controlling interest	-	-	-	(116)	-	(116)
Net income (loss) attributable to Stratasys Ltd.	4,087	16,511	20,598	\$ (216,288)	\$218,312	\$2,024
Net income (loss) per ordinary share attributable to Stratasys Ltd. (Diluted)	\$0.08		\$0.40	\$(4.24)		\$0.04
Diluted Shares	51,240		51,240	50,956		52,341

# Reconciliation of Non-GAAP Adjustments

Stratasys Ltd.

(\$ in thousands)

	Q1-14	Q1-15
Net sales, products		
Deferred revenue purchase price	\$235	\$-
Cost of sales, products		
Acquired intangible assets amortization	(13,225)	(14,905)
Non-cash stock-based compensation expense	(503)	(1,225)
Intangible assets impairment	-	(29,782)
Cost of sales, services		
Non-cash stock-based compensation expense	(409)	(608)
Merger related expense	(24)	(801)
Research and development, net		
Non-cash stock-based compensation expense	(938)	(1,868)
Merger related expense	(558)	(949)
Selling, general and administrative		
Acquired intangible assets amortization	(5,364)	(6,456)
Non-cash stock-based compensation expense	(4,886)	(6,059)
Merger and acquisition related expense	(3,272)	(6,906)
Intangible assets impairment	-	(13,423)
Goodwill impairment		
Goodwill impairment	-	(150,400)
Change in fair value of earn-out obligations in connection with acquisitions		
Change in fair value of earn-out obligations in connection with acquisitions	7,495	13,256
Income taxes (benefit)		
Tax expense related to non-GAAP adjustments	5,408	1,814
Net income (loss) attributable to Stratasys Ltd.	\$16,511	\$218,312