

1 **SSYS Q1 2017 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' first
8 quarter 2017 financial results.

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

11
12 And now, I'd like to hand the call over to Shane Glenn, Vice President of Investor Relations for
13 Stratasys. Mr. Glenn, please go ahead.

14
15 **SLIDE 3&4: FLS & NON-GAAP DISCLOSURE**

16
17 **SPEAKER: Shane Glenn**

18
19 Good morning, everyone, and thank you for joining us to discuss our first quarter financial results.
20 On the call with us today are Ilan Levin, CEO, and Lilach Payorski, CFO of Stratasys.

21
22 I remind you that access to today's call, including the prepared slide presentation, is available
23 online at the web address provided in our press release.

24
25 In addition, a replay of today's call, including access to the slide presentation, will also be available,
26 and can be accessed through the investor section of our website.

27
28 We will begin by reminding everyone that certain statements made on this call regarding Stratasys'
29 strategy, and the statements regarding its projected future financial performance, including the
30 financial guidance concerning its expected results for 2017, are forward-looking statements
31 reflecting management's current expectations and beliefs. These forward-looking statements are
32 based on current information that is, by its nature, subject to rapid and even abrupt change. Due to
33 risks and uncertainties associated with Stratasys' business, actual results could differ materially
34 from those projected or implied by these forward-looking statements. These risks and uncertainties
35 include, but are not limited to: any failure to efficiently and successfully integrate the operations of
36 Stratasys and various entities that it has acquired, including MakerBot, Solid Concepts, Harvest and
37 GrabCAD, or to successfully establish and execute effective post-acquisition integration plans;
38 changes in the overall global economic environment; the impact of competition and new
39 technologies; changes in the general market, political and economic conditions in the countries in
40 which we operate; any underestimates in projected capital expenditures and liquidity; changes in
41 our strategy; changes in applicable government regulations and approvals; changes in customers'
42 budgeting priorities; lower than expected demand for our products and services; reduction in our
43 profitability due to shifting in our product mix into lower margin products or our shifting in our
44 revenues mix significantly towards our AM services business; costs and potential liability relating
45 to litigation and regulatory proceedings; and those factors referred to in Item 3.D "Key Information
46 - Risk Factors", Item 4, "Information on the Company", and Item 5, "Operating and Financial Review
47 and Prospects" in our 2016 Annual Report on Form 20-F, which we filed with the SEC on March 9,
48 2017, as well as in the 2016 Annual Report generally. Readers are urged to carefully review and
49 consider the various disclosures made throughout (i) the Report on Form 6-K that attaches
50 Stratasys' unaudited, condensed consolidated financial statements as of, and for the quarter ended,

51 March 31, 2017, and its review of its results of operations and financial condition for that period,
52 which has been furnished to the SEC on or about the date hereof, (ii) Stratasy's 2016 Annual Report,
53 and (iii) Stratasy's other reports filed with or furnished to the SEC, which are designed to advise
54 interested parties of the risks and factors that may affect our business, financial condition, results of
55 operations and prospects. Any guidance provided, and other forward-looking statements made, on
56 this call are made as of the date hereof, and Stratasy undertakes no obligation to publicly update or
57 revise any forward-looking statements, whether as a result of new information, future events or
58 otherwise, except as required by law.

59 As in previous quarters, today's call will include GAAP and non-GAAP financial measures. The non-
60 GAAP financial measures should be read in combination with our GAAP metrics to evaluate our
61 performance. Certain non-GAAP to GAAP reconciliations are provided in the table contained in our
62 slide presentation and in today's press release.

63 Now I would like to turn the call over to our CEO, Ilan Levin. Ilan?

64

65 **SLIDE 5: OPENING SUMMARY**

66

67 **SPEAKER: Ilan Levin**

68

69 Thank you Shane.

70

71 Good morning everyone, and thank you for joining today's call.

72

73 We remain encouraged by our efforts to achieve deeper engagement with customers in our key
74 vertical markets during the first quarter.

75

76 This customer-centric approach has resulted in encouraging progress in developing rapid
77 prototyping, tooling, and production part applications that are being driven by the specific
78 requirements of industry-leading aerospace and automotive manufacturing companies.

79

80 We continue to believe that by gaining greater insights into the specific needs and requirements of
81 our customers, we are unlocking significant value and growing the adoption our products and
82 services going forward.

83

84 I will return later in the call to provide you more details on these important initiatives, as well as
85 other key developments, but first I will turn the call over to our CFO, Lilach Payorski, who will
86 review the details of our financial results.

87 Lilach?

88

89 **SLIDE 6&7: FINANCIAL RESULTS SUMMARY**

90

91 **SPEAKER: Lilach Payorski**

92

93 Thank you, Ilan, and good morning, everyone.

94

95 We are pleased with our first quarter results, which includes growth in recurring revenues that
96 demonstrates strong utilization of our installed base of systems.

97

98 Additionally, the trend of reduction in operating expenses has continued into the quarter, and with
99 this reduction we have aligned our resources as we shift towards addressing specific high-value
100 added applications in our key vertical markets.

101
102 Total revenue in the first quarter was \$163.2 million compared to \$167.9 million for the same
103 period last year.

104
105 GAAP operating loss for the first quarter was \$12.6 million, compared to a loss of \$21.1 million for
106 last year.

107
108 Non-GAAP operating income for the first quarter was flat, year over year, at \$4.0 million.

109
110 **SLIDE 8: REVENUE**

111
112 Product revenue in the first quarter decreased by 3% to \$115.1 million, as compared to the same
113 period last year.

114
115 Within product revenue, system revenue for the quarter declined by 11% over last year, primarily
116 driven by a shift in our product mix towards lower end systems, which is mainly the result of the
117 successful introduction of our low cost, high value F123 offering to the rapid prototyping
118 professional market.

119
120 We continued to see favorable trends around system utilization and demand for our premium
121 materials, which contributed to consumables revenue increasing by 7% as compared to the same
122 period last year.

123
124 The growth we see in our premium materials supports our focus on specific value-added solutions
125 and gives us confidence to increase our efforts in target industry markets.

126
127 Services revenue in the first quarter decreased by 2% to \$48.1 million, as compared to last year.

128
129 Within service revenue, customer support revenue, which includes revenue generated mainly by
130 maintenance contracts on our systems, increased by 7% compared to the same period last year,
131 driven primarily by growth in our installed base of systems.

132
133 As we put greater strategic focus on additive manufacturing offerings, we expect to transition away
134 from the lower revenues attributed to conventional manufacturing services within our Stratasys
135 Direct Manufacturing business.

136
137 **SLIDE 9: GROSS MARGIN**

138
139 GAAP gross margin decreased slightly to 47.1% for the first quarter, compared to a GAAP gross
140 margin of 48.3% for the same period last year.

141
142 Non-GAAP gross margin decreased to 51.2% for the first quarter, compared to 55.1% for last year,
143 driven by a shift in sales mix.

144
145 Product gross margin decreased to 57.9%, compared to 61.1% for the same period last year, driven
146 by the shift in sales mix described earlier, relating to the introduction of our low-cost, high-value
147 offering to the rapid prototyping professional market.

148

149 Service gross margin decreased to 35.0%, compared to 40.4% for same period last year, driven
150 primarily by lower service revenues ratio to fixed expenses.

151

152 **SLIDE 10: OPERATING TRENDS**

153

154 GAAP operating expenses decreased by 12% to \$89.5 million for the first quarter, as compared to
155 the same period last year.

156

157 Non-GAAP operating expenses decreased by 10% to \$79.5 million for the first quarter versus last
158 year.

159

160 The favorable trends in operating expenses over the last year reflect the positive impact of our
161 overall focus on improving efficiencies across the company.

162

163 We have aligned our resources as we continue to focus on addressing specific high-value added
164 applications in our key vertical markets.

165

166 These cost efficiencies are in line with our long-term growth strategy, which includes increased
167 investments in areas we see as critical to our long-term growth and productivity.

168

169 **SLIDE 11: BALANCE SHEET & CASH FLOW FROM OPERATIONS SUMMARY**

170

171 The Company generated \$25.4 million of cash from operations during the first quarter, as compared
172 to \$31.6 million for the first quarter last year.

173

174 We were pleased to end the first quarter with \$297.2 million in cash and cash equivalents,
175 compared to \$280.3 million at the end of 2016.

176 Inventory at the end of the first quarter decreased to \$116.0 million as compared to \$117.5 million
177 at the end of 2016 as we maintain tight control on inventory levels.

178 Accounts receivable decreased to \$115.1 million, compared to \$120.4 million at the end of 2016
179 with DSO on 12-month trailing revenue at 63.

180

181

182 **SLIDE 12: SUMMARY**

183

184 In summary:

185

- 186 1.) We are pleased with the growth in recurring consumables and service contract revenue,
187 driven by strong system utilization and growing demand for our premium materials.
- 188 2.) We continue to focus on operational performance, which is reflected by significant
189 reduction in operating expenses.
- 190 3.) Our strategy to invest in value-added solutions within our key target markets continues,
191 while aligning costs and resources with our long term goals.
- 192 4.) And finally, our favorable cash position, including cash generation and a strong balance
193 sheet, provide us with the capital needed to take advantage of opportunities going forward.

194

195

196 I would now like to turn the call over to our VP of Investor Relations, Shane Glenn, who will provide
197 you greater details on our 2017 financial guidance. Shane?

198 **SLIDE 13: GUIDANCE**

199
200 **SPEAKER: Shane Glenn**

201 Thank you, Lilach.

202
203 Our guidance for 2017 remains as follows:

- 204
205
- 206 1. Total revenue in the range of \$645 to \$680 million, with non-GAAP net income in the range
207 of \$10 to \$20 million, or \$0.19 to \$0.37 per diluted share.
 - 208 2. GAAP net loss of \$53 to \$39 million, or (\$1.00) to (\$0.73) per basic share.
 - 209 3. Non-GAAP operating margin of 3% to 5%.
 - 210 4. Capital expenditures projected at \$40 to \$50 million.

211 Non-GAAP earnings guidance excludes \$34 million of projected amortization of intangible assets;
212 \$18 to \$20 million of share-based compensation expense; \$2 to \$3 million in merger and acquisition
213 related expense; and \$8 to \$10 million in reorganization and other related costs; and includes \$3 to
214 \$4 million in tax expenses related to non-GAAP adjustments.

215 We maintain a relatively high estimated non-GAAP tax rate for 2017 given the ongoing non-cash
216 valuation allowance on deferred tax assets we expect to record throughout the year. These
217 deferred tax assets have expiration dates many years into the future, and we do anticipate being
218 able to ultimately recognize their value to offset prospective tax liabilities.

219
220 Given the expected ongoing negative impact of not recording a tax benefit on U.S. tax losses on our
221 net income loss, the Company believes non-GAAP operating profit would be the best measure of our
222 performance in 2017.

223
224 Appropriate reconciliations between GAAP and non-GAAP financial measures are provided in a
225 table at the end of our press release and slide presentation, with itemized detail concerning the
226 non-GAAP financial measures.

227
228 Now, I'd like to turn the call back over to our CEO, Ilan Levin. Ilan?

229 **SLIDE 14: STRATEGY UPDATE**

230 **SPEAKER: Ilan Levin**

231 Thank you, Shane.

232 We are pleased with the continued progress we are making in building more meaningful
233 relationships with our customers, which is demonstrated by the many exciting customer use cases
234 and applications we have shared so far this year.

235 We believe our emphasis on improving customer engagement with key customers in our targeted
236 industry verticals of aerospace, automotive, and healthcare, combined with our extensive
237 knowledge and capabilities, is allowing us to bring increased value to the market.

238 **SLIDE 15: GAINING TRACTION IN ADVANCED MANUFACTURING**

239
240 Our recently announced strategic collaboration with SIA Engineering Company, a major provider of
241 aircraft maintenance, repair, and overhaul services in the Asia-Pacific region evidences our
242 strategic focus on building deeper, long term customer relationships in key vertical markets.
243

244 The strategic collaboration will combine Stratasys' deep expertise in additive manufacturing, as
245 applied to aerospace applications, with SIA Engineering Company's comprehensive service
246 offerings, to provide on-demand parts solutions to their airline customers.
247

248 As part of the collaboration, we will jointly establish a Singapore-based Additive Manufacturing
249 Service Centre that offers design, engineering, certification support, and part production services.
250

251 The new service center will serve as a one-stop shop to provide aftermarket cabin interior parts, as
252 well as services that support part redesign, engineering and material testing, airworthiness
253 certification support, and final part production.
254

255 Additionally, we recently collaborated with Strata, an aerospace composite structure manufacturer,
256 as well as with Siemens, in producing aircraft interior parts for Etihad Airways.
257

258 As we have shown with our existing relationships with leading aerospace manufacturers, such as
259 Airbus and Boeing, we are committed to advancing the use of additive manufacturing for high
260 requirement aerospace applications, and believe these new developments represent further
261 traction for our proprietary technology within the aerospace industry.
262

263 Last quarter, we announced that Stratasys was appointed as the Official Supplier of 3D printing
264 solutions to the McLaren-Honda Formula 1 team.
265

266 We are pleased to share that McLaren Racing has quickly expanded its use of Stratasys FDM and
267 PolyJet 3D Printing Solutions to produce final 3D printed race-ready parts for the new MCL32
268 Formula 1 race car, as well as to produce manufacturing tools to advance production.
269

270 Improved performance has been driven by the use of the parts, which include:

- 271 1. A hydraulic line bracket printed on a Fortus 450mc Production 3D Printer with our new
272 carbon-fiber reinforced nylon material, Nylon 12CF;
- 273 2. A flexible radio harness location boot, printed on a J750 3D Printer in rubber-like material;
- 274 3. A carbon fiber composite brake cooling duct created using ST-130 wash-out soluble
275 material specifically developed for sacrificial tooling applications; and
- 276 4. A large rear wing flap extension manufactured in carbon fiber-reinforced composites using
277 a 3D printed lay-up tool produced on the Fortus 900mc Production 3D Printer.
278

279 Additionally, McLaren Honda has dedicated a Stratasys FDM 3D Printer to track-side use, bringing
280 the technology closer to the action, enabling the team to produce parts and tooling on demand.
281

282 We believe that our relationship with McLaren Formula 1 racing enables us to understand and
283 deliver added value based applications for this quick turn-around, demanding automotive
284 environment.

285
286 Another exciting application that we recently announced was Siemens Mobility's use our Fortus
287 900mc Production 3D Printer and ULTEM material to produce parts that include housing covers for
288 the couplers on the front of trams.

289
290 Adopting Stratasys FDM technology for this application led to dramatically shorter delivery times
291 and higher part quality.

292
293 These parts are also now being produced on-demand, allowing customers who require replacement
294 parts, or who need to make changes to existing designs, to order custom parts online, which are
295 then 3D printed and delivered.

296
297 Most recently, we announced that Stratasys Direct Manufacturing is now collaborating with
298 Peacocks Medical Group, a leading medical equipment supplier and creator of Podfo orthotics, to
299 optimize 3D printing for large-scale production of custom orthotics.

300
301 In a healthcare application such as orthotics, customization based an individual's anatomy and
302 medical requirements exemplifies how 3D printing can produce highly customized solutions to
303 improve a patient's quality of life.

304 **SLIDE 16: STRATASYS CONTINUOUS BUILD 3D DEMONSTRATOR**

305
306
307 Highlighting our ongoing commitment to drive innovation, we recently unveiled our latest
308 technology demonstrator, the Stratasys Continuous Build 3D Demonstrator, a new additive
309 manufacturing platform comprised of a modular unit with multiple 3D print cells working
310 simultaneously, and driven by a central, cloud-based architecture.

311
312 The new platform will leverage our core FDM technology, GrabCAD control and monitoring, and
313 multi-cell scalable architecture to produce parts in a continuous stream with minor operator
314 intervention, automatically ejecting completed parts and commencing new ones.

315
316 Additional cells can be added at any time to the scalable platform, making it fast and easy to
317 increase production capacity in accordance with needs.

318
319 Automatic queue management, load balancing and architecture redundancy further accelerate
320 throughput as jobs are automatically routed to available print cells

321
322 Target applications will include service bureaus, education rapid prototyping labs, and volume
323 manufacturing environments that can benefit from part production without tooling and from zero-
324 inventory supply chains.

325
326 Stratasys Technology 3D Demonstrators, including our Infinite Build 3D Demonstrator and Robotic
327 Composite 3D Demonstrator announced last year, represent a development path for Stratasys
328 which will yield new manufacturing-focused technology and products, but are not commercially
329 available for at this time.

330 **SLIDE 17: METAL ADDITIVE MANUFACTURING INITIATIVES**

332
333 I would like to recap several announcements that we have made regarding our activity with respect
334 to metal applications.

335
336 We are actively strengthening our knowledge and expertise in metal additive manufacturing,
337 building off the strong base of knowledge within Stratasys Direct Manufacturing, which currently
338 has one the largest 3rd party installations of DMLS systems.

339
340 Through our SDM service, we are currently a provider of metal parts services to customers in our
341 key vertical markets.

342
343 Leveraging our leading additive manufacturing assets, we have been actively augmenting our
344 internal product and service offerings with investments and partnerships with other leading
345 players in the metal additive manufacturing space.

346
347 Recently, we made public a strategic investment in LPW Technology, a market leader in developing,
348 manufacturing, and supplying metal powder end-to-end solutions for additive manufacturing.

349
350 LPW already supplies leading OEM and Tier-1 suppliers with metal powders for additive
351 manufacturing processes, as well as an intelligent powder management system that enables the
352 traceability and management of metal powder batches throughout their lifecycle to meet specific
353 quality requirements for the aerospace, defense, automotive and medical-implant industries.

354
355 Most recently, we announced a strategic partnership with Desktop Metal, an exciting new
356 manufacturer of metal 3D printing systems.

357
358 Stratasys was one of the first investors in Desktop Metal, and Scott Crump, our founder and Chief
359 Innovation Officer has been on its Board of Directors since 2015.

360
361 This announcement builds upon this history of collaboration with new efforts to provide Desktop
362 Metal access to selected Stratasys resellers who will be granted authorization to carry Desktop
363 Metal's products in the future.

364
365 We view Desktop Metal's solutions as a complementary technology to Stratasys' leading PolyJet and
366 FDM plastic solutions.

367

368

369 **SLIDE 18: SUMMARY & OUTLOOK**

370

371 In summary:

372

- 373
- 374 1. We are encouraged by our efforts to achieve deeper customer engagement within our
375 targeted industry verticals of aerospace, automotive, and healthcare.
 - 376 2. We are focused on expanding our relationships with key global manufacturing companies
377 and unlocking value around customer-specific applications, which we believe will grow
378 adoption of our products and services.
 - 379 3. Looking forward, we remain focused on better allocating our resources to achieve our long-
380 term goals, and we remain excited about the Company's future and the long-term growth
381 potential within our industry.

382 Operator, please open the call for questions.

383

384 **SLIDE 19: Q&A**

385

386 SPEAKER: Ilan Levin

387

388 Thank you for joining today's call. We look forward to speaking with you again next quarter.

389 Goodbye.

390

391 **SLIDE 20: FINANCIAL RECONCILIATION TABLES**