

3D Systems Corporation (DDD)

\$9.50 (As of 03/03/20)

Price Target (6-12 Months): **\$10.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/13/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: F

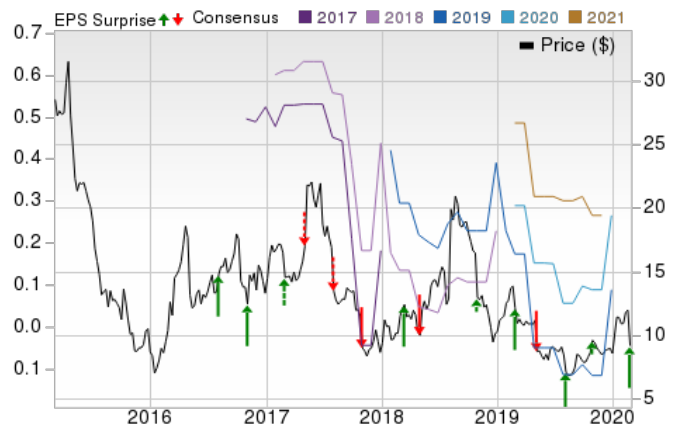
Growth: A

Momentum: F

Summary

3D Systems' fourth-quarter 2019 revenues and earnings declined on a year-over-year basis. Weakness in manufacturing activity and industrial production resulted in an overall fall in customer demand, thereby affecting the company's overall business in the quarter. In addition, prevalent headwinds due to ordering patterns of a large enterprise customer and the temporarily-suspended operations of factory metal systems eroded overall revenues. 3D System stock has underperformed the industry in the last six months. Nonetheless, the company's efforts to simplify cost structure by trimming cost of sales and operating expenses will boost its margins over the long run. Moreover, the strategic move of exiting from the entertainment business will help 3D Systems utilize its resources on more profitable businesses.

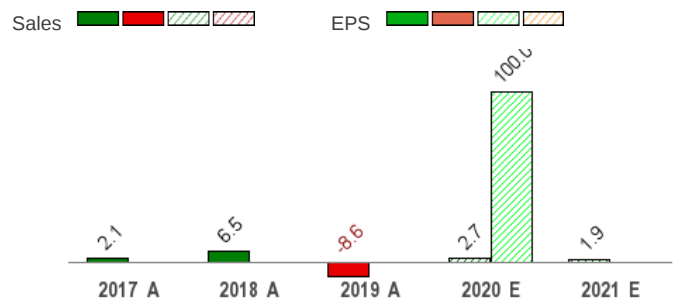
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$12.56 - \$6.47
20 Day Average Volume (sh)	2,350,181
Market Cap	\$1.1 B
YTD Price Change	8.6%
Beta	1.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Mini computers
Zacks Industry Rank	Top 10% (26 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	400.0%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-63.2%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	162 E	168 E	164 E	178 E	658 E
2020	149 E	161 E	163 E	176 E	646 E
2019	152 A	157 A	155 A	165 A	629 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.00 E	\$0.02 E	-\$0.01 E	\$0.05 E	\$0.08 E
2020	-\$0.03 E	\$0.02 E	\$0.00 E	\$0.03 E	\$-0.00 E
2019	-\$0.09 A	\$0.00 A	-\$0.04 A	\$0.05 A	-\$0.08 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

Overview

Headquartered in Rock Hill, SC, 3D Systems is a leading provider of 3D content-to-print solutions including 3D printers, print materials, on-demand custom parts services and 3D authoring solutions for professionals and consumers, worldwide.

The company also provides scanners for a variety of medical and mechanical X-Ray film digital archiving.

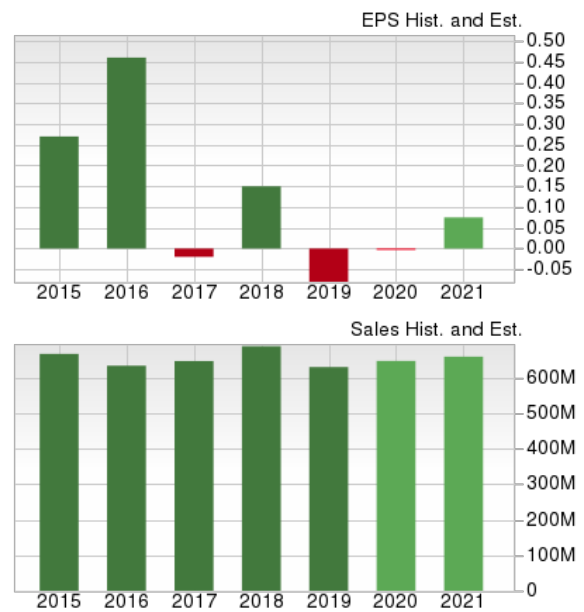
The company's primary print engines comprise stereolithography, selective laser sintering, multi-jet modeling as well as ZPrinters. Its 3D printers convert data input from computer aided design software or 3D scanning and sculpting devices to produce physical objects from engineered plastic, metals, ceramics and edibles.

The company primarily caters to a broad range of industries, including manufacturers of automotive, aerospace, computer, electronic, defense, education, consumer, energy and healthcare products, as well as original equipment manufacturers, government agencies, universities, independent service bureaus and individual consumers.

3D Systems operates through two reportable segments — Products and Services. Under its Product division, the company offers 3D printers, materials, software, haptic design tools, 3D scanners and virtual surgical simulators. The segment accounted for 61% of 2019 total revenues of \$629.1 million.

Under the Service segment, the company provides maintenance and service support, periodic hardware and software updates, printer installations, and training of customers. The division contributed 39% to 2019 total revenues.

Region wise, revenue contributions from Americas, EMEA, and APAC were 50.2%, 38.2%, and 11.6%, respectively in 2019.



Reasons To Buy:

- ▲ 3D Systems business follows an annuity-based business model, which combines materials, services and software, to boost structural improvements and ensure profitable growth. The company is focusing on strategic initiatives like improvement of existing 3D printers, strengthening partnerships and enhancing productivity to drive growth. 3D Systems' strategy of reducing costs through headcount reductions and lowering selling and research and development expenses will help it enhance profitability. It has also implemented organizational changes to improve execution, and increased investments as it shifts to a worldwide go-to-market structure. The company plans to drive further reductions in cost of sales from supply-chain betterment initiatives and manufacturing improvements, in order to drive margins higher. Improvements made in the cost structure have also helped the company review and adjust pricing of printers and materials, which, in turn, has better aligned their demand and boosted their market traction.
- ▲ With the 3D printing industry booming, the company's focus on this market presents a favorable long-term opportunity. As a matter of fact, majority of 3D Systems customers are shifting from prototyping to end use production, using 3D printing technology and the company believes that it is well positioned to aid them in their transformation. Moving ahead, 3D Systems believes that robust demand for production printers, materials and software will continue to act as major catalysts, supplementing growth. It launched 3DXpert software solution for direct metal 3D printing and made groundbreaking advancements to its Figure 4 technology – the ultra-fast, modular Stereo lithography system – designed for the production of plastic parts on the factory floor. These initiatives are a bold, definite step toward the company's transition from prototyping to production. They will enable its additive manufacturing clients to leverage on its digital manufacturing solutions. The company is enabling 3D production through digital design and manufacturing workflows, technology advancements and materials innovation, and application engineering expertise. Additionally, last year, the company unveiled four materials optimized for producing precision metal parts. Also, it has begun bundling the innovative 3DXpert software with all direct metal printers. The company believes metal technology and Figure 4, combined with the advanced materials and software innovation such as 3D Sprint and 3D Expert, will eventually help customers shift from prototyping to production. This can unlock multiple profitable growth opportunities for the company.
- ▲ Currently, 3D Systems is witnessing robust prospects across most of its end business. Especially, the company remains bullish on the prospects of its healthcare business. Consistent demand for printers and materials for medical and dental customers fueled growth of this segment. 3D Systems believes material science will be a key driver in the transition to 3D production and the company is investing large sums in materials innovation across its portfolio to capitalize on this trend. In this regard, it announced the acquisition of dental materials provider, Vertex-Global Holding B.V., which operates under the Vertex and NextDent brands. The company has integrated its proprietary Figure 4 platform with NextDent's advanced 3D printing materials to fortify its foothold in the billion-dollar digital dentistry space. The company also continues to see steady performance of its Software business and believes it to be one of the major growth drivers going ahead.
- ▲ 3D technology has the potential to revolutionize manufacturing and improve the commercial space. Various companies, ranging from hospital managers to car manufacturers, are now opting for varied 3D solutions to address simple make-to-stock orders as well as complex, engineer-to-order production strategies. Consequently, the company has been expanding its operation processes to meet increasing demand across diverse sectors. For instance, sectors like automotive, consumer products, government and defense, industrial/business machines, education research, and others (arts and architecture) are expected to raise demand for 3D printing products. Apart from this, aerospace and the trillion-dollar oil & gas industry are showing a penchant for 3D printing too, that will aid the company's growth in future. Consequently, 3D Systems has been making acquisitions to diversify its offerings, add synergistic technology and expand its domain expertise in operating markets. Encouragingly, the company has already secured an important place in sectors like manufacturing, medical and aerospace, while also pursuing unconventional sectors like food and fashion. Going forward, the company expects its portfolio of innovative products to drive more than 30% organic growth over the next couple of years, thereby enhancing its margins and earnings.

3D Systems' efforts to simplify its cost structure by lowering headcount, and trimming cost of sales and operating expenses would boost its profitability.

Reasons To Sell:

- ▼ We remain concerned about 3D Systems' declining gross margin and increasing operating expenses. Unfavorable sales mix and increased investment in services, and on-demand manufacturing, more than offset the cost-reduction benefits achieved from ongoing supply-chain initiatives.
- ▼ 3D Systems operates in a highly competitive industry with its chief competitors being the firms that manufacture or use machines to make models, prototypes, molds and small-volume to medium-volume manufacturing parts. These industry players include suppliers of CNC, dealers of plastics molding equipment, including injection-molding equipment, suppliers of traditional machining, milling and grinding equipment, and businesses that use such equipment to produce models, prototypes and molds. Some of the company's existing and potential competitors are researching, designing, developing and marketing other types of competitive equipment and software, print materials and services. A few of these competitors may have substantially greater financial, marketing, manufacturing, distribution and other resources. Printing giant HP is surging into the 3D printing market with new "Jet Fusion 3D printers" and looks well-positioned to challenge 3D Systems' leadership. There is also a great risk that 3D Systems will be forced to cut prices to compete with rivals, which might ignite a price war that will hit the company's already weak margins severely and might also contract its market share.
- ▼ 3D Systems operates in a highly dynamic industry. The company's business faces the adverse effects of rapid technological changes, alterations in user and customer requirements and preferences, new product and service introductions requiring new technologies, and the emergence of new standards and practices. The company has to constantly come up with new products, services and technologies that address the increasingly sophisticated needs of prospective customers, particularly in the area of printer speeds and print materials functionality.
- ▼ This apart, 3D Systems has to incur high research & development and acquisition costs. Going forward, the company believes investment in IT and go-to-market initiatives will result in higher expenses, thus restricting near-term operating income growth. 3D Systems also needs to continually spend heavily on research and development to keep up with the competitive marketplace, which adds to the pressures on its margins on a sustained basis. Although these initiatives hold good for long-term growth, such costs continue to take a toll on the company's financial health in the near term.
- ▼ Apart from seasonality, the company's near-term results are likely to be impacted by persistently tough year-over-year comparisons due to last year's large orders from Align. Further, the suspension of new federal contracts is a major downside.

Declining gross margin due to unfavorable sales mix and increased investment in services, and on-demand manufacturing, is a major concern.

Last Earnings Report

3D Systems Reports Q4 Earnings

3D Systems' fourth-quarter 2019 earnings of 5 cents per share topped the Zacks Consensus Estimate of a penny. Moreover, the company reported revenues of \$164.6 million, which marginally beat the consensus mark of \$164 million.

However, both top and bottom lines fell on a year-over-year basis. Quarterly revenues were down 8.9% from the year-ago quarter's reported figure of \$180.7 million. Quarterly earnings plummeted 50% from the year-ago quarter's 10 cents.

Decline in manufacturing activity and industrial production, which resulted in an overall fall in customer demand, affected the business. In addition, prevalent headwinds due to ordering patterns of a large enterprise customer and the temporarily-suspended operations of factory metal systems were an overhang on overall revenues.

The sale of 3D Systems' entertainment business also depressed top-line growth. Excluding the entertainment business, revenues declined 7.3% year on year.

Nonetheless, the company's efforts to simplify its cost structure by lowering headcount, and trimming cost of sales and operating expenses were a positive.

Quarterly Details

3D Systems reported year-over-year declines across all its segments, except the Materials business. Material revenues grew 7.3% to \$45 million in the December-end quarter.

The Printer division revenues declined 22.8% to \$33.6 million due to soft macro-industrial environment, timing of large enterprise customer orders, and delay in factory metals printing shipments.

3D Systems' Healthcare segment revenues fell 5.9% to \$54.9 million, mainly due to ordering pattern of a large enterprise customer. Excluding the same, Healthcare revenues slid 2.3%.

The company's On Demand revenues were down 17.2% to \$23 million. Headwinds associated with the suspension of federal contracting by the U.S. government and decline in manufacturing activity chiefly dented the segment's overall performance.

Software revenues slipped 10.2% year over year to \$25.8 million. This year-over-year decline primarily resulted from weakness in overall industrial manufacturing and the European automotive market. The company expects that apart from typical seasonal declines, the first-quarter 2020 Software sales will likely be hurt by the Coronavirus outbreak in China.

3D Systems introduced 14 production materials last year, bringing the total product portfolio count to more than 130 3D printing materials.

Margins

In the reported quarter, non-GAAP gross profit declined 13.9% year over year to \$72 million, while margin shrunk 250 basis points to 43.8%. This decrease was primarily due to factory utilization, unfavorable revenue mix and inventory adjustments.

In the fourth quarter, the company's non-GAAP operating expenses declined 12.3% to \$66.4 million. This year-over-year decline was chiefly due to the company's sustained focus on lowering cost structure, and favorable timing of customer-funded research and development. Non-GAAP SG&A costs were down 5.7% and non-GAAP R&D expense slid 27.2%.

Cash Flow and Balance Sheet

3D Systems ended 2019 with cash and cash equivalents of \$133.7 million compared with the \$110 million recorded at the end of 2018. The company generated \$21.5 million of cash from operational activities during the fourth quarter and \$31.6 million for 2019.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	0.08%
EPS Surprise	400.00%
Quarterly EPS	0.05
Annual EPS (TTM)	-0.08

Recent News

On Feb 26, 3D Systems' president and CEO Vyomesh Joshi announced his plans to retire. 3D Systems' board has partnered with executive search firm Spencer Stuart to look for Joshi's successor.

On Feb 3, 3D Systems announced expanding business relationships with Sanmina to manufacture certain plastic 3D printing platforms.

On Jan 13, 2020, 3D Systems recently partnered with CollPlant Biotechnologies (CLGN) to jointly develop tissue and scaffold bioprinting processes for third party companies, aiming to expedite the advancements in the biomedical industries.

On Nov 19, 2019, 3D Systems announced that the VisiJet M2S-HT90 is generally available for purchase. The product is the latest addition to the company's portfolio of engineering-grade plastics for the ProJet MJP 2500 Plus.

Valuation

Shares of 3D Systems have increased 28.9% in the past six months while have lost 18.6% over the trailing 12-month period. Stocks in the Zacks sub-industry increased 39.4% and the Zacks Technology sector are up 10.2% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 67.5% and 16.9%, respectively.

The S&P 500 Index has risen 4.1% in the past six months and 9.6% in the past year.

The stock is currently trading at 1.73X forward 12-month sales, which compares to 3.59X for the Zacks sub-industry, 3.48X for the Zacks sector and 3.26X for the S&P 500 index.

Over the past five years, the stock has traded as high as 3.95X and as low as 1.06X with a 5-year median of 2.07 X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$10 price target reflects 1.82X forward 12-month sales.

The table below shows summary valuation data for DDD

Valuation Multiples - DDD					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	1.73	3.59	3.48	3.26
	5-Year High	3.95	3.73	3.58	3.43
	5-Year Low	1.06	1.85	2.3	2.54
	5-Year Median	2.07	2.54	3.05	3.01
P/B TTM	Current	2.19	12.33	4.71	4.15
	5-Year High	4.18	13.49	5.34	4.54
	5-Year Low	0.76	3.21	3.13	2.85
	5-Year Median	2.26	5.23	4.25	3.62
EV/Sales TTM	Current	1.65	3.79	4.04	3.10
	5-Year High	5.15	4.15	4.19	3.42
	5-Year Low	0.85	1.69	2.53	2.10
	5-Year Median	1.99	2.77	3.48	2.80

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Top 10% (26 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
HP Inc. (HPQ)	Outperform
Samsung Electronics Co. (SSNLF)	Outperform
Lenovo Group Ltd. (LNVGY)	Neutral
Panasonic Corp. (PCRFY)	Neutral
Stratasys, Ltd. (SSYS)	Neutral
voxeljet AG (VJET)	Neutral
Canon, Inc. (CAJ)	Underperform

Industry Comparison Industry: Computer - Mini Computers				Industry Peers		
	DDD Neutral	X Industry	S&P 500	AAPL Outperform	HPQ Outperform	LNVGY Neutral
VGM Score	C	-	-	D	A	A
Market Cap	1.13 B	18.65 B	21.37 B	1,265.91 B	29.74 B	7.55 B
# of Analysts	3	3	13	11	4	2
Dividend Yield	0.00%	1.65%	2.04%	1.06%	3.40%	2.24%
Value Score	F	-	-	D	B	A
Cash/Price	0.12	0.13	0.05	0.09	0.14	0.46
EV/EBITDA	-154.66	5.07	12.65	15.99	6.38	3.76
PEG Ratio	NA	2.03	1.87	2.03	4.31	0.62
Price/Book (P/B)	2.19	2.19	2.96	14.14	NA	1.88
Price/Cash Flow (P/CF)	183.97	13.18	11.68	18.96	7.40	5.41
P/E (F1)	NA	9.90	16.98	21.31	8.63	9.90
Price/Sales (P/S)	1.79	1.15	2.44	4.73	0.51	0.15
Earnings Yield	0.00%	7.40%	5.87%	4.69%	11.57%	10.10%
Debt/Equity	0.09	0.31	0.70	1.04	-2.41	0.53
Cash Flow (\$/share)	0.05	2.56	7.01	15.26	2.80	2.32
Growth Score	A	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	-23.66%	-8.08%	10.85%	9.54%	-8.88%	-7.29%
Proj. EPS Growth (F1/F0)	95.83%	22.85%	6.36%	14.19%	7.37%	28.28%
Curr. Cash Flow Growth	-64.21%	2.29%	6.07%	-3.74%	8.32%	46.98%
Hist. Cash Flow Growth (3-5 yrs)	-43.37%	-5.50%	8.52%	7.40%	-18.40%	11.30%
Current Ratio	2.29	1.22	1.23	1.60	0.73	0.84
Debt/Capital	8.09%	34.79%	42.57%	50.97%	NA	34.79%
Net Margin	-11.11%	3.30%	11.57%	21.49%	5.16%	1.43%
Return on Equity	-9.91%	4.02%	16.66%	60.19%	-261.23%	17.95%
Sales/Assets	0.74	1.21	0.54	0.80	1.81	1.62
Proj. Sales Growth (F1/F0)	2.76%	0.33%	4.01%	8.22%	-2.09%	-3.25%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	-0.31%	-1.75%	-2.60%	-3.18%	-5.08%	0.80%
1 Week Price Chg	-23.41%	-12.32%	-12.06%	-12.68%	-8.41%	-11.96%
4 Week Price Chg	-18.87%	-8.69%	-10.01%	-9.26%	-3.71%	-8.11%
12 Week Price Chg	9.95%	5.24%	-7.46%	7.76%	2.72%	-2.65%
52 Week Price Chg	-18.60%	-5.71%	2.54%	64.83%	7.18%	-32.04%
20 Day Average Volume	2,350,181	8,748,656	2,406,738	42,133,116	15,147,131	38,909
(F1) EPS Est 1 week change	-63.24%	-0.25%	0.00%	-0.51%	0.21%	0.00%
(F1) EPS Est 4 week change	-63.24%	2.04%	-0.06%	-1.17%	5.25%	9.48%
(F1) EPS Est 12 week change	-63.24%	-2.20%	-0.39%	3.90%	5.58%	-8.30%
(Q1) EPS Est Mthly Chg	-12.50%	-11.22%	-0.45%	-9.94%	-6.14%	-45.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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