

3D Systems Corporation (DDD)

\$11.80 (As of 02/14/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/13/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

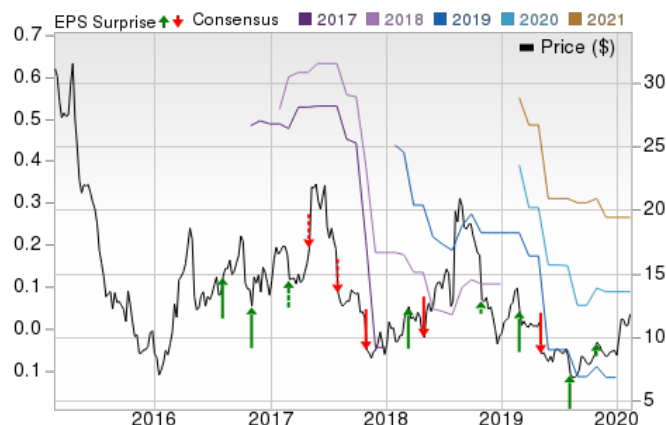
Growth: C

Momentum: F

Summary

3D Systems is benefiting from modest growth in Materials and Healthcare, led by customer demand for core and new product solutions. The company expects printers, materials, healthcare and software to be long-term drivers. Moreover, the company's cost-control initiative and its exit from the entertainment business are likely to boost its bottom line, going forward. However, weakness in the automotive sector in Europe and China is a major overhang on the company's printer hardware and on-demand printing businesses. Moreover, last year's large orders from Align pose a challenge throughout the current year. Further, it is hurt by a disruption in shipments of its metal printers, due to a technical glitch. Shares of 3D Systems have underperformed the industry in the past year.

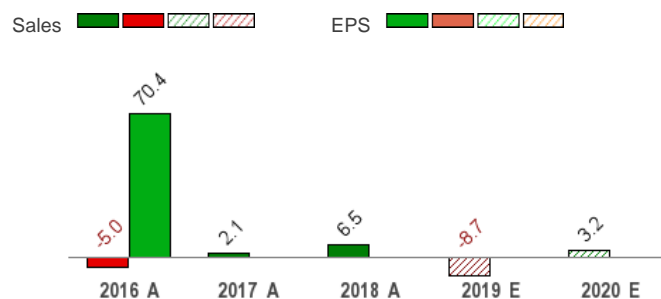
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$14.50 - \$6.47
20 Day Average Volume (sh)	2,118,313
Market Cap	\$1.4 B
YTD Price Change	34.9%
Beta	1.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Mini computers
Zacks Industry Rank	Top 18% (45 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	131.1
PEG F1	5.7
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	158 E	163 E	159 E	171 E	648 E
2019	152 A	157 A	155 A	164 E	628 E
2018	166 A	177 A	165 A	181 A	688 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.01 E	\$0.02 E	\$0.00 E	\$0.05 E	\$0.09 E
2019	-\$0.09 A	\$0.00 A	-\$0.04 A	\$0.01 E	-\$0.12 E
2018	-\$0.03 A	\$0.06 A	\$0.02 A	\$0.10 A	\$0.15 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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.

3D Systems operates through one reportable business segment and pursues a growth strategy in five major growth areas – Manufacturing, Metals, Medical, Materials and Mainstreet.

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.

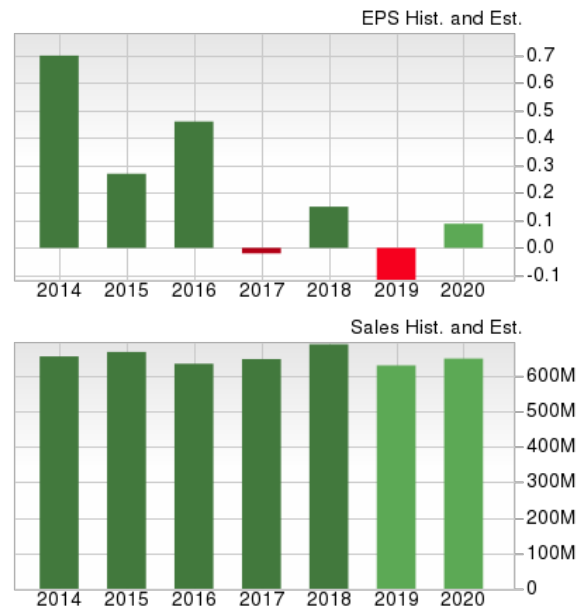
In 2018, 3D Systems reported revenues of \$687.7 million, which grew 6.4% year over year.

Revenue from printers increased 24.5% to \$153.7 million.

Healthcare revenue, which includes sales of products, materials and services for healthcare-related applications, including simulation, training, planning, 3D printing of anatomical models, surgical guides and instruments and medical and dental devices, increased 19.5% to \$225.5 million.

Total software revenue, including haptics and scanners, from products and services increased 5% to \$96.3 million.

In 2018, revenue from America was 49.6%, EMEA was 34.5% and Asia Pacific was 15.9%.



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. It is focusing on strategic initiatives like improvement of existing 3D printers, strengthening partnerships and enhancing productivity to drive growth. 3D Systems believes its ability to improve the cost structure by focusing on IT infrastructure, go-to-market & innovation, and re-invest these savings back into cost reductions into IT infrastructure, will help it drive profitable growth. 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. This apart, the company unveiled four new 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.

Growth across most of its end business, particularly healthcare, is a tailwind for 3D Systems.

Reasons To Sell:

- ▼ We remain concerned about the company's 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. Increase in operating expenses due to the company's persistent investment in go-to-market and IT transformation is an overhang on margins.
- ▼ 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 Q3 Earnings

3D Systems reported third-quarter 2019 non-GAAP loss per share of 4 cents against earnings of 2 cents a year ago. The bottom line matched the Zacks Consensus Estimate.

This 3D printer maker's revenues of \$155.3 million declined 5.6% year over year. However, the top line beat the Zacks Consensus Estimate of \$152 million. Modest growth in Materials and Healthcare, led by customer demand for core and new product solutions, was a tailwind for the top line.

However, weakness in the automotive sector in Europe and China was a major overhang on the company's printer hardware and on-demand printing businesses. Further, trade tariffs adversely impacted the company's business in Asia.

Decline in manufacturing activity and industrial production, which led to an overall fall in customer demand, affected the business.

Continued headwinds due to ordering patterns of a large enterprise customer and the temporary suspended operations of factory metal systems were an overhang on revenues from the Americas and Asia Pacific.

Suspended shipments of Powder Management units, due to a technical snag in the same, dented revenues.

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

The sale of 3D Systems' entertainment business hurt revenues as well.

Quarterly Details

3D Systems' Healthcare services and simulation revenues increased 6.3% year over year to \$56.4 million. Excluding the order of the larger enterprise customer, healthcare revenues grew 15%, driven by strong demand for Virtual Surgical Planning, medical simulators and advanced manufacturing.

The company's on-demand manufacturing revenues were down 12% to \$23.1 million. Headwind associated with the suspension of federal contracting by the U.S. Air Force was a dampener. Softness in demand from automotive customers in Europe was also a downside.

Printer revenues dropped 17.2% to \$41.4 million due to the order timing of a large enterprise customer and the tepid macroeconomic industrial environment.

Software revenues rose 0.1% year over year to \$24.6 million. However, lower Cimatron product revenues owing to automotive weakness remained an overhang. The company anticipates software to be a long-term catalyst, and is evidently looking at enhancing its software portfolio.

Material revenues increased 2.8% to \$41.4 million. This was attributed to strong momentum in NextDent materials. Management plans to scale the industrial Figure 4 platforms in the forthcoming months.

3D Systems introduced eight new production materials for the Figure 4 platform, including application-specific resins like EGGSHELL, medical resins like MED-AMB and MED-WHT and production resins like PRO-BLK 10 and HI TEMP 300. These products are expected to create new production workflows in health care, automotive, consumer electronics and other industrial segments, enabling the company to shift from prototyping to production.

Margins

In the reported quarter, non-GAAP gross margin contracted 300 basis points on a year-over-year basis to 44.4%. This decrease was primarily due to factory utilization, unfavorable revenue mix and inventory adjustments.

In the quarter under consideration, the company's non-GAAP operating expenses declined 6% to \$69.3 million. Moreover, non-GAAP SG&A costs were down 4.9% and non-GAAP R&D expense was 8.3% lower.

Notably, 3D Systems lowered its net inventory by \$11.2 million sequentially.

Cash Flow and Balance Sheet

3D Systems ended the third quarter with cash and cash equivalents of \$127.6 million compared with \$150.4 million in the prior quarter.

The company generated \$6.5 million of cash from operational activities during the third quarter compared with \$18.7 million in the second quarter.

Guidance

For the fourth quarter, the company expects mid-single-digit sequential revenue growth. Macro uncertainty, current slowdown in the market and large capital purchases are persistent challenges to the top line.

Despite the current revenue headwinds, 3D Systems expects printers, materials, healthcare and software to be long-term drivers.

Although the suspension from the Air Force was lifted in September, it is expected to continue to affect revenues in the fourth quarter due to its impact on the pipeline.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	2.01%
EPS Surprise	0.00%
Quarterly EPS	-0.04
Annual EPS (TTM)	-0.03

Lower Cimatron product revenues are expected to remain a downside in the fourth quarter.

Recent News

On Jan 13, 2020, 3D Systems recently partnered with ColiPlant 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.

On Oct 23, 2019, 3D Systems announced a collaboration with Antleron for advancing and accelerating breakthroughs in the biomedical industry.

On Sep 12, 2019, 3D Systems announced that it has received additional clearance from the FDA to commercially use its D2P (DICOM-to-PRINT) software.

Valuation

Shares of 3D Systems have increased 69% in the past six months and lost 13.7% over the trailing 12-month period. Stocks in the Zacks sub-industry increased 52.8% and the Zacks Technology sector are up 22.4% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 85.2% and 29.7%, respectively.

The S&P 500 Index has risen 16.1% in the past six months and 21% in the past year.

The stock is currently trading at 1.97X forward 12-month sales, which compares to 4.07X for the Zacks sub-industry, 3.79X for the Zacks sector and 3.58X for the S&P 500 index.

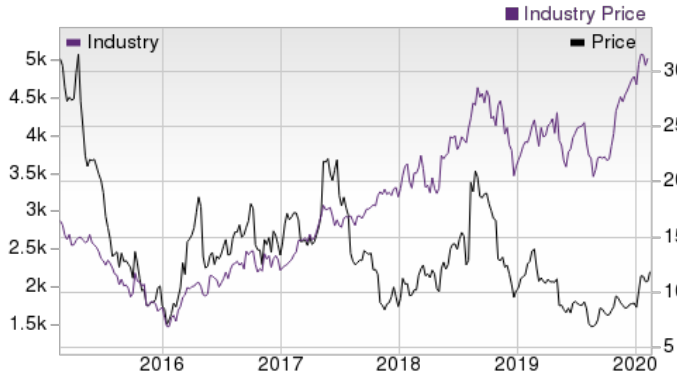
Over the past five years, the stock has traded as high as 5.15X and as low as 0.85X with a 5-year median of 1.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 2.07X forward 12-month sales.

The table below shows summary valuation data for DDD

Valuation Multiples - DDD					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	1.97	4.07	3.79	3.58
	5-Year High	5.15	4.1	3.79	3.58
	5-Year Low	0.85	1.77	2.3	2.54
	5-Year Median	1.98	2.81	3.02	3
P/B TTM	Current	2.76	13.11	5.76	4.68
	5-Year High	4.18	13.2	5.76	4.68
	5-Year Low	0.76	3.21	3.13	2.85
	5-Year Median	2.27	5.21	4.24	3.62
EV/Sales TTM	Current	1.97	4.07	4.51	3.32
	5-Year High	5.15	4.1	4.51	3.32
	5-Year Low	0.85	1.77	2.56	2.16
	5-Year Median	1.98	2.81	3.47	2.79

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Samsung Electronics Co. (SSNLF)	Outperform
HP Inc. (HPQ)	Neutral
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 Neutral	LNVGY Neutral
VGM Score	F	-	-	C	A	A
Market Cap	1.40 B	20.34 B	24.61 B	1,421.81 B	32.51 B	8.17 B
# of Analysts	5	4	13	11	4	2
Dividend Yield	0.00%	1.51%	1.78%	0.95%	3.15%	2.07%
Value Score	F	-	-	D	B	A
Cash/Price	0.10	0.12	0.04	0.08	0.14	0.42
EV/EBITDA	82.30	12.53	14.06	17.98	7.09	4.14
PEG Ratio	5.70	3.57	2.09	2.25	4.89	0.60
Price/Book (P/B)	2.76	2.76	3.29	15.88	NA	2.04
Price/Cash Flow (P/CF)	78.86	14.64	13.65	21.29	7.98	5.85
P/E (F1)	131.11	16.80	19.21	23.59	9.79	10.00
Price/Sales (P/S)	2.17	1.36	2.70	5.31	0.55	0.16
Earnings Yield	0.76%	7.12%	5.19%	4.24%	10.24%	10.00%
Debt/Equity	0.11	0.32	0.71	1.04	-4.01	0.53
Cash Flow (\$/share)	0.15	2.56	6.92	15.26	2.80	2.32
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	-23.66%	-12.75%	10.85%	9.54%	-12.10%	-13.40%
Proj. EPS Growth (F1/F0)	175.86%	28.30%	7.17%	15.87%	2.01%	37.37%
Curr. Cash Flow Growth	-770.00%	2.29%	8.56%	-3.74%	8.32%	46.98%
Hist. Cash Flow Growth (3-5 yrs)	-30.40%	-5.50%	8.36%	7.40%	-18.40%	11.30%
Current Ratio	2.29	1.22	1.23	1.60	0.80	0.84
Debt/Capital	11.27%	34.79%	42.91%	50.97%	NA	34.79%
Net Margin	-10.74%	3.37%	11.81%	21.49%	5.36%	1.38%
Return on Equity	-9.77%	3.92%	16.86%	60.19%	-241.43%	17.61%
Sales/Assets	0.75	1.21	0.54	0.80	1.80	1.63
Proj. Sales Growth (F1/F0)	3.08%	0.94%	3.85%	9.54%	-1.20%	-1.29%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	-2.72%	-0.56%	0.06%	0.02%	0.68%	-1.15%
1 Week Price Chg	0.28%	2.66%	2.47%	3.40%	1.92%	4.33%
4 Week Price Chg	-0.25%	1.41%	0.59%	3.08%	3.23%	-9.80%
12 Week Price Chg	36.89%	18.93%	6.98%	24.02%	13.84%	-4.81%
52 Week Price Chg	-12.20%	-6.11%	16.62%	90.25%	-3.70%	-8.53%
20 Day Average Volume	2,118,313	5,731,750	2,020,569	31,657,334	9,345,186	22,810
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.23%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	4.73%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	1.10%	-0.17%	5.50%	2.19%	-7.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	5.29%	0.00%	0.00%

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	C
Momentum Score	F
VGM Score	F

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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