

## Stratasys Ltd. (SSYS)

**\$15.26** (As of 07/10/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: A

## Summary

Stratasys is benefiting from an increase in demand for 3D printed medical equipment. Notably, the adoption of PolyJet and FDM printers was strong. Moreover, the company's cost-control initiatives are expected to reflect positively on expenses in the forthcoming quarters. Firm focus on launching products and entering into partnerships is a key driver. However, economic weakness due to the outbreak of the coronavirus pandemic affected the top line. Also, falling sales of high-end products in North America makes us increasingly cautious about its near-term performance. Moreover, the company withdrew its 2020 guidance, considering the uncertainty caused by the pandemic. The company witnessed a year over year decline across each of its reportable segments. Shares have underperformed the industry in the past year.

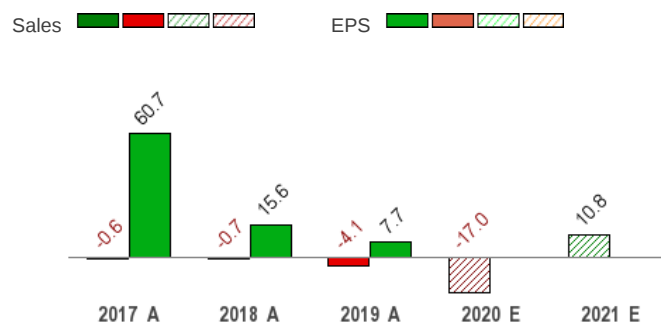
## Price, Consensus & Surprise



## Data Overview

|                            |                                                 |
|----------------------------|-------------------------------------------------|
| 52 Week High-Low           | \$30.60 - \$12.18                               |
| 20 Day Average Volume (sh) | 1,256,616                                       |
| Market Cap                 | \$830.8 M                                       |
| YTD Price Change           | -24.6%                                          |
| Beta                       | 1.56                                            |
| Dividend / Div Yld         | \$0.00 / 0.0%                                   |
| Industry                   | <a href="#">Computer - Peripheral Equipment</a> |
| Zacks Industry Rank        | Bottom 23% (195 out of 252)                     |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -216.7%    |
| Last Sales Surprise       | -3.3%      |
| EPS F1 Est- 4 week change | 11.3%      |
| Expected Report Date      | 07/29/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 56.5       |
| P/E F1                    | NA         |
| PEG F1                    | NA         |
| P/S TTM                   | 1.4        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 |       |       |       |       | 585 E   |
| 2020 | 133 A | 121 E | 130 E | 144 E | 528 E   |
| 2019 | 155 A | 163 A | 157 A | 160 A | 636 A   |

## EPS Estimates

|      | Q1        | Q2        | Q3        | Q4       | Annual*   |
|------|-----------|-----------|-----------|----------|-----------|
| 2021 |           |           |           |          | \$0.26 E  |
| 2020 | -\$0.19 A | -\$0.23 E | -\$0.05 E | \$0.13 E | -\$0.31 E |
| 2019 | \$0.10 A  | \$0.16 A  | \$0.12 A  | \$0.18 A | \$0.56 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 07/10/2020. The reports text is as of 07/13/2020.

## Overview

Headquartered in Eden Prairie, MN, Stratasys Ltd. is a manufacturer of in-office rapid prototyping (RP) and manufacturing systems and 3D printers for automotive, aerospace, defense, electronic, medical, education and consumer product original equipment manufacturers (OEMs).

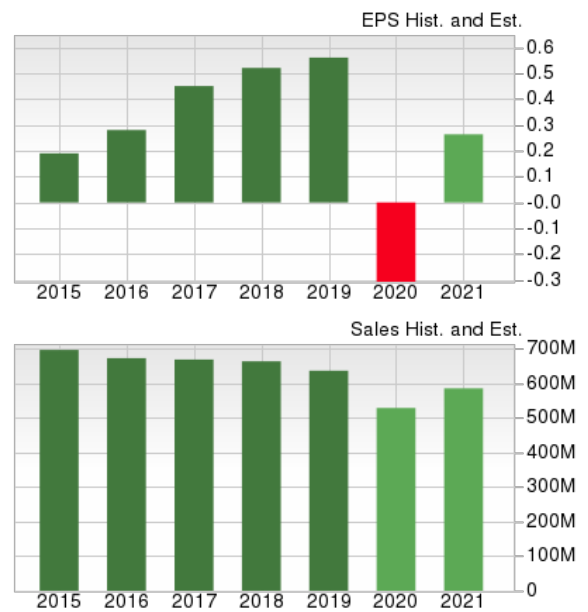
The company's systems are also used in direct digital manufacturing (DDM) and rapid tooling applications. With the use of patented Fused Deposition Modeling (FDM) and PolyJet rapid prototyping processes, engineers and designers are able to create precise physical models, tools and three-dimensional (3D) prototypes out of plastic and other materials using workstation-based computer-aided design (CAD).

These prototypes are used for testing form, fit and function throughout the design and development process. Essentially, Stratasys' systems allow design engineers to develop highly complex geometrical designs using a wide range of high-performance engineering materials with in-office RP systems that require no chemical post processing, special venting or facility modification.

The company generally reports revenues under two segments. First, Product Revenues, which includes revenues generated through the sales of products and consumables. Second, Services Revenues, which include revenues generated from service offerings, such as RedEye paid parts, installation and maintenance, and other services. In 2019, Products and Services accounted for 74.6% and 25.4% of the total revenues, respectively.

The company competes in a marketplace that is still dominated by conventional methods of model-making and prototype development. Machinists and engineers working on blueprints or CAD files and using machining or manual methods generally perform prototype development and fabrication.

The company's competitors include 3D Systems Corp., EOS GmbH and EnvisionTEC GmbH in the prototype development and customized manufacturing processes. Stratasys competes with companies such as Delta Micro Factory, Affinia, Ultimaker, Printbot, Leapfrog, Solidoodle and 3D Systems in the entry-level desktop 3D printers.



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## Reasons To Buy:

- ▲ Stratasys launched several innovative products that positioned the company well over the long term. Stratasys' machines facilitate prototyping within a few hours which reduces development time and upfront costs. Also, the company's spool-based system compares favorably with UV polymer systems. For these reasons, we think the company maintains a leading position at RP machines. Moreover, the company's RedEye RPM is the world's largest RP and part-building service. RedEye RPM is an online extension of the company's BuildFDM service. This product has grown rapidly over the past several years and offers good business for the company. Furthermore, Stratasys launched two products in late last year – The Infinite-Build 3D Demonstrator and the Robotic Composite 3D Demonstrator. These launches have helped users to reduce complexities and data loss, thereby enhancing user experience and providing high-quality prints.
- ▲ Stratasys has been scaling newer heights across all its business segments. Over the past few quarters, the company has inked strategic partnerships to fuel its growth momentum. The 3D printing company has made strategic partnerships with the likes of Schneider Electric, The Boeing Co., Ford Motor Co., Siemens, Boom Supersonic and United Launch Alliance. The collaborations are aimed at introducing advanced 3D printing technologies to the aerospace and automotive industries. The deal is a strategic move by Stratasys to expand its geographic reach and drive market penetration. Both these partnership spell opportunities for Stratasys' 3D systems business and will increase its installed base.
- ▲ The 3D printing market presents a favorable long-term investment opportunity as a large number of engineers, designers, architects and entrepreneurs are resorting to 3D solutions for their primary designing and product modeling. According to market research firm CONTEXT, over half a million 3D printers have already been shipped across the globe between the 1980s and mid-2015 and the industry witnessed its millionth unit shipment in 2017. Per Statista, the global 3D printing market is expected to grow at a CAGR of 22.5% from 2020 to 2024 to reach \$35.6 billion in 2024. As the industry leader in 3D printing, this is encouraging information for Stratasys as it will be able to grab a large share of this market.
- ▲ Stratasys has a strong balance sheet with ample liquidity position and no debt obligations. Cash and cash equivalents have remained stable over \$300 million for the past 12 quarters. As of Dec 31, 2019, the company had cash balance of \$322 million. Since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Stratasys' sustained focus on launching new products and entering into strategic partnerships will drive long-term growth.

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## Reasons To Sell:

- ▼ Stratasys has been witnessing declining gross margin due to the incremental sales generated from the lower-margin products. The company tries to mitigate the gross margin contraction by lowering operating expenses as a percentage of revenues. Nonetheless, we opine that it will be a tough task for the company to lower operating expenses as it will have to continue to invest in marketing and R&D to generate higher sales, which will weigh on the company's operating margins. Therefore, Stratasys have to look for ways to generate revenues from the sales of higher margin products to maintain its profitability over the long-run.
- ▼ Stratasys is exposed to considerable foreign currency risk as it invoices sales to certain European distributors in Euros, and reported results are therefore, subject to fluctuations in the exchange rates of that currency compared to the U.S. dollar. The company has a hedging strategy in place for its Euro-denominated accounts, for which it uses 30-day foreign currency forward contracts. Nevertheless, earnings may be adversely affected by changes in currency exchange rates. It is expected that the company would continue to face currency-related problems.
- ▼ Stratasys has a high cost structure and remains in the investment mode. As a result of its plans announced in 2015 of investing in product and infrastructure development, the company expects incremental annual operating expenditure of 2% of anticipated revenues over the few years. Considering the evolving nature of the 3D printing market and the high cost of operations associated with it, we believe that much of the company's long-term profitability will depend on efficient cost management.

Falling sales of high-end products in North America is hurting Stratasys' top-line performance, which makes us increasingly cautious about its near-term performance.

## Last Earnings Report

### Stratasys' Q1 Earnings and Revenues Miss Estimates

Stratasys reported first-quarter 2020 non-GAAP loss of 19 cents per share, which was wider than the Zacks Consensus Estimate of a loss of 6 cents. Moreover, the bottom line was much lower than the year-ago quarter's reported earnings of 10 cents.

Further, Stratasys' revenues of \$133 million missed the consensus mark of \$137 million and declined 14.4% year over year.

Economic weakness due to the outbreak of the coronavirus pandemic affected the top line.

Moreover, the company withdrew its 2020 guidance, considering the uncertainty caused by the pandemic.

However, an increase in demand for 3D printed medical equipment was a tailwind.

### Quarter Details

Segment-wise, Product revenues fell 20.9% from the year-ago quarter to \$83.2 million. The figure was down 20.3% in constant currency.

Within Product revenues, System revenues decreased 39.5% and Consumables revenues fell 5.8% year over year, on a reported basis.

Notably, the adoption of PolyJet and FDM printers was strong.

Revenues from Services decreased 0.9% on a reported basis and 0.6% in constant currency to \$49.7 million. However, within Service revenues, customer support revenues grew 2.2% year over year.

### Margin

Stratasys' non-GAAP gross profit decreased 20.3% from the year-ago quarter to \$64.3 million. Non-GAAP gross margin contracted 360 basis points (bps) to 48.4%.

Non-GAAP operating expenses declined 1.6% year over year to \$72.7 million, driven by efforts to cut SG&A costs.

Non-GAAP operating loss totaled \$8.4 million against an operating income of \$6.8 million in the prior-year quarter.

### Balance Sheet and Cash Flow

The company exited the quarter with cash and cash equivalents of \$325.5 million compared with \$321.8 million at the end of the previous quarter.

As of Mar 31, 2020, there was no long-term debt.

Net cash used in operating activities in the quarter was \$11.3 million.

### Outlook

The company's cost-control initiatives are expected to reflect more vividly on expenses in the second quarter of 2020.

Quarter Ending 03/2020

|                  |              |
|------------------|--------------|
| Report Date      | May 14, 2020 |
| Sales Surprise   | -3.25%       |
| EPS Surprise     | -216.67%     |
| Quarterly EPS    | -0.19        |
| Annual EPS (TTM) | 0.27         |

## Recent News

On Jun 2, Stratasys announced the move to downsize 10% of its workforce in order to reduce operating expenses and return to growth.

On Apr 29, Stratasys introduced the J55 3D Printer. Priced at about a third of that of enterprise-class PolyJet printers, the J55 features high fidelity and five simultaneously printed materials that enable nearly 500,000 colors, PANTONE Validation, realistic textures and transparency in one printed part.

On Apr 23, Stratasys partnered with Origin to respond to the growing critical demands of the coronavirus outbreak. Per the deal, Stratasys will market Origin 3D-printed nasopharyngeal swabs to healthcare providers and other testing centers in the United States.

On Mar 23, Stratasys announced that it will globally mobilize its 3D printing resources and expertise to help fight the coronavirus pandemic. As part of this move, the company said that it will initially focus on providing thousands of disposable face shields for use by medical personnel.

On Feb 10, 2020, Stratasys unveiled its J826 mid-range 3D printer at the 3DEXPERIENCE World event.

## Valuation

Stratasys' shares are down 24.5% so far this year and 47.9% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have increased 10.8% and 16.2%, respectively, in the year-to-date period. Over the past year, while the Zacks sub-industry has increased 13.8%, the sector gained 26.6%.

The S&P 500 Index has plunged 0.7% year to date while has gained 6.5% in the past year.

The stock is currently trading at 1.49X forward 12-month sales, which compares to 0.66X for the Zacks sub-industry, 3.99X for the Zacks sector and 3.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.37X and as low as 1.1X, with a 5-year median of 1.65X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 1.56X forward 12-month sales.

The table below shows summary valuation data for SSYS

| Valuation Multiples - SSYS |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 1.49  | 0.66         | 3.99   | 3.55    |
|                            | 5-Year High   | 2.37  | 6.90         | 3.99   | 3.55    |
|                            | 5-Year Low    | 1.10  | 0.34         | 2.32   | 2.53    |
|                            | 5-Year Median | 1.65  | 5.09         | 3.14   | 3.02    |
| P/B TTM                    | Current       | 0.73  | 0.73         | 6.04   | 4.37    |
|                            | 5-Year High   | 1.43  | 1.32         | 6.04   | 4.56    |
|                            | 5-Year Low    | 0.61  | 0.63         | 3.16   | 2.83    |
|                            | 5-Year Median | 0.99  | 0.96         | 4.37   | 3.70    |
| EV/Sales TTM               | Current       | 0.82  | 1.04         | 4.63   | 3.11    |
|                            | 5-Year High   | 2.48  | 1.04         | 4.63   | 3.45    |
|                            | 5-Year Low    | 0.61  | 0.29         | 2.59   | 2.14    |
|                            | 5-Year Median | 1.26  | 0.57         | 3.62   | 2.84    |

As of 07/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 252)



## Top Peers

| Company (Ticker)             | Rec          | Rank |
|------------------------------|--------------|------|
| Apple Inc. (AAPL)            | Neutral      | 3    |
| Cisco Systems, Inc. (CSCO)   | Neutral      | 3    |
| 3D Systems Corporation (DDD) | Neutral      | 3    |
| HP Inc. (HPQ)                | Neutral      | 3    |
| Lenovo Group Ltd. (LNVGY)    | Neutral      | 3    |
| Panasonic Corp. (PCRFY)      | Neutral      | 4    |
| Proto Labs, Inc. (PRLB)      | Neutral      | 3    |
| Canon, Inc. (CAJ)            | Underperform | 4    |

| Industry Comparison Industry: Computer - Peripheral Equipment |           |            |           | Industry Peers |            |         |
|---------------------------------------------------------------|-----------|------------|-----------|----------------|------------|---------|
|                                                               | SSYS      | X Industry | S&P 500   | DDD            | HPQ        | PRLB    |
| Zacks Recommendation (Long Term)                              | Neutral   | -          | -         | Neutral        | Neutral    | Neutral |
| Zacks Rank (Short Term)                                       | 3         | -          | -         | 3              | 3          | 3       |
| VGM Score                                                     | D         | -          | -         | D              | A          | D       |
| Market Cap                                                    | 830.77 M  | 83.64 M    | 21.61 B   | 788.09 M       | 24.29 B    | 2.99 B  |
| # of Analysts                                                 | 3         | 2          | 14        | 3              | 6          | 2       |
| Dividend Yield                                                | 0.00%     | 0.00%      | 1.92%     | 0.00%          | 4.15%      | 0.00%   |
| Value Score                                                   | D         | -          | -         | F              | A          | D       |
| Cash/Price                                                    | 0.38      | 0.20       | 0.07      | 0.14           | 0.17       | 0.04    |
| EV/EBITDA                                                     | 11.54     | 9.86       | 12.75     | -107.32        | 5.23       | 25.55   |
| PEG Ratio                                                     | NA        | 6.80       | 2.87      | NA             | 5.34       | 2.27    |
| Price/Book (P/B)                                              | 0.73      | 1.73       | 3.01      | 1.61           | NA         | 5.09    |
| Price/Cash Flow (P/CF)                                        | 13.36     | 10.96      | 11.53     | 128.39         | 6.06       | 31.75   |
| P/E (F1)                                                      | NA        | 34.66      | 21.07     | NA             | 8.10       | 52.17   |
| Price/Sales (P/S)                                             | 1.35      | 0.99       | 2.23      | 1.29           | 0.43       | 6.48    |
| Earnings Yield                                                | -2.03%    | -2.03%     | 4.48%     | -2.87%         | 12.36%     | 1.92%   |
| Debt/Equity                                                   | 0.00      | 0.10       | 0.76      | 0.09           | -5.30      | 0.01    |
| Cash Flow (\$/share)                                          | 1.14      | 0.54       | 6.94      | 0.05           | 2.80       | 3.53    |
| Growth Score                                                  | D         | -          | -         | B              | B          | C       |
| Hist. EPS Growth (3-5 yrs)                                    | 75.18%    | -8.62%     | 10.90%    | NA             | -5.33%     | 11.54%  |
| Proj. EPS Growth (F1/F0)                                      | -154.76%  | -41.02%    | -9.99%    | -137.50%       | -6.33%     | -22.94% |
| Curr. Cash Flow Growth                                        | -15.46%   | -22.98%    | 5.51%     | -64.21%        | 8.32%      | -8.86%  |
| Hist. Cash Flow Growth (3-5 yrs)                              | -19.40%   | 2.22%      | 8.55%     | -43.37%        | -18.40%    | 11.60%  |
| Current Ratio                                                 | 3.91      | 2.12       | 1.30      | 2.21           | 0.78       | 4.49    |
| Debt/Capital                                                  | 0.05%     | 9.13%      | 44.46%    | 8.37%          | NA         | 1.32%   |
| Net Margin                                                    | -4.93%    | -2.98%     | 10.62%    | -10.53%        | 5.27%      | 13.49%  |
| Return on Equity                                              | -0.51%    | -4.61%     | 15.75%    | -8.77%         | -295.77%   | 10.82%  |
| Sales/Assets                                                  | 0.44      | 0.93       | 0.55      | 0.74           | 1.74       | 0.69    |
| Proj. Sales Growth (F1/F0)                                    | -16.94%   | 0.00%      | -2.52%    | -14.93%        | -6.75%     | -2.82%  |
| Momentum Score                                                | A         | -          | -         | C              | B          | D       |
| Daily Price Chg                                               | 2.42%     | 0.00%      | 1.51%     | 2.31%          | 3.53%      | 4.31%   |
| 1 Week Price Chg                                              | 2.89%     | 1.15%      | 3.66%     | 5.58%          | 2.77%      | 1.05%   |
| 4 Week Price Chg                                              | -7.18%    | -4.88%     | 1.85%     | -7.40%         | 8.49%      | 1.31%   |
| 12 Week Price Chg                                             | -4.21%    | 27.18%     | 12.57%    | -7.79%         | 11.48%     | 46.55%  |
| 52 Week Price Chg                                             | -47.97%   | -22.96%    | -7.10%    | -26.74%        | -18.51%    | 4.76%   |
| 20 Day Average Volume                                         | 1,256,616 | 35,486     | 2,339,510 | 1,999,070      | 14,140,291 | 255,013 |
| (F1) EPS Est 1 week change                                    | 11.34%    | 0.00%      | 0.00%     | -7.50%         | 0.00%      | 0.00%   |
| (F1) EPS Est 4 week change                                    | 11.34%    | 0.00%      | 0.00%     | -7.50%         | 0.30%      | 0.00%   |
| (F1) EPS Est 12 week change                                   | -195.95%  | -78.68%    | -7.77%    | -16.22%        | -6.41%     | NA      |
| (Q1) EPS Est Mthly Chg                                        | 23.58%    | 0.00%      | 0.00%     | 8.33%          | 0.00%      | 0.00%   |

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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    | D |
| Growth Score   | D |
| Momentum Score | A |
| VGM Score      | D |

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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