

Stratasys Ltd. (SSYS)

\$17.14 (As of 03/20/20)

Price Target (6-12 Months): **\$18.00**

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:F

Value: D

Growth: F

Momentum: F

Summary

Although an economic slowdown in Europe and headwinds from the Asia Pacific hurt Stratasys' Q4 results, continued strength in the Americas, particularly in the Fortus platform and F123 Series, was a breather. Increasing adoption of manufacturing-focused platforms in automotive, aerospace and healthcare was encouraging. Firm focus on launching products and entering into partnerships is a key driver. Rising demand for high-end PolyJet solutions from various industries is a positive as well. However, the top line witnessed the adverse impact of foreign exchange rates in Europe and the Asia Pacific. Decline in materials associated with legacy platforms also affected the top line. Additionally, an economic downturn in Europe is denting capital investments in the region. Shares have underperformed the industry in the past year.

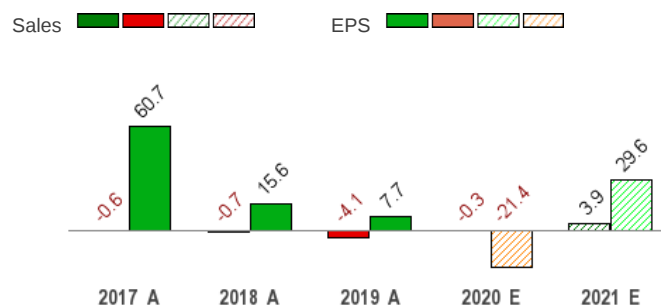
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.60 - \$12.18
20 Day Average Volume (sh)	1,015,695
Market Cap	\$933.1 M
YTD Price Change	-15.3%
Beta	2.09
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Peripheral Equipment
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.3%
Last Sales Surprise	-6.1%
EPS F1 Est- 4 week change	-80.2%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	30.6
P/E F1	39.0
PEG F1	1.7
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	163 E	173 E	170 E	190 E	659 E
2020	145 E	156 E	161 E	173 E	634 E
2019	155 A	163 A	157 A	160 A	636 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.10 E	\$0.18 E	\$0.13 E	\$0.31 E	\$0.57 E
2020	-\$0.01 E	\$0.07 E	\$0.14 E	\$0.23 E	\$0.44 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 03/20/2020. The reports text is as of 03/23/2020.

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).

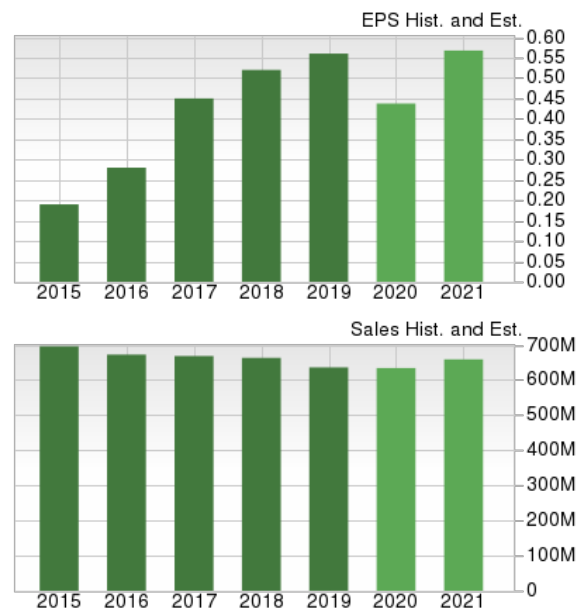
The company's systems are also used in direct digital manufacturing (DDM) and rapid tooling applications. With the use of patented Fused Deposition Modeling (FDM) and PolyJet rapid prototyping processes, engineers and designers are able to create precise physical models, tools and three-dimensional (3D) 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.



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

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 next two to three 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 Q4 Earnings and Revenues Miss Estimates

Stratasys reported fourth-quarter 2019 earnings of 18 cents per share, which lagged the Zacks Consensus Estimate by 14.29%. Moreover, the bottom line was lower than the year-ago reported figure of 21 cents.

Further, Stratasys' revenues of \$160.2 million missed the consensus mark of \$170 million and declined 9.5% year over year.

Economic weakness in Europe and Asia remained a major headwind. Decline in materials associated with the company's legacy platforms also affected the top line.

However, continued strength in the Americas, particularly in the F123 Series was a relief.

Quarter Details

Segment wise, Product revenues fell 12.4% from the year-ago quarter to \$109 million. The figure was down 12.1% in constant currency. The decline was due to weakness in Europe and Asia that affected systems sales in those regions.

Within Products revenues, System revenues decreased 20.6%. Consumables revenues fell 2.9% year over year.

System revenues were affected by persistent macroeconomic sluggishness in Europe and Asia. Moreover, decline in certain legacy product lines were also a headwind. However, Stratasys expects new products to offset the headwinds in future.

Materials for high-end platforms including design realism in PolyJet, and advanced materials in FDM increased year over year, reflecting strong customer adoption of high-value application solutions.

Revenues from Services decreased 2.6% to \$51.2 million. However, within service revenues, customer support revenues increased 1% year over year.

Increasing adoption of manufacturing-focused platforms in automotive, aerospace and healthcare was encouraging.

Margin

Stratasys' non-GAAP gross profit decreased 9.2% from the year-ago quarter to \$84 million. Non-GAAP gross margin expanded 20 basis points (bps) to 52.4%.

Non-GAAP operating expenses declined 7.4% year over year to \$73.8 million driven by efforts to increase cost efficiency.

Non-GAAP operating income totaled \$10.2 million, down 20.3%.

Balance Sheet and Cash Flow

The company exited the quarter with cash and cash equivalents of \$321.8 million compared with \$347.1 million at the end of the previous quarter.

As of Dec 31, 2019, there was no long-term debt.

Net cash used in operating activities in the quarter was \$3.4 million.

Guidance

For full-year 2020, the company provided revenue guidance. Revenues are expected in the range of \$620-\$680 million.

Non-GAAP earnings per share for the full year are expected between 45 cents and 60 cents.

Non-GAAP operating margin is projected between 5% and 6.5%.

Capital expenditures are estimated to lie within \$40-\$60 million.

About 52% of total full-year revenues is expected come at the second part of the year. Fourth quarter is typically the strongest, while the first quarter is the weakest.

First-quarter 2020 is anticipated to be negatively impacted by significant macroeconomic headwinds due to the coronavirus menace.

Quarter Ending 12/2019

Report Date	Feb 26, 2020
Sales Surprise	-6.06%
EPS Surprise	-14.29%
Quarterly EPS	0.18
Annual EPS (TTM)	0.56

Recent News

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

On Dec 2, 2019, Stratasys added TCL Hofmann and TCL Hunt as authorized channel partner to expand its market outreach in both Australia and New Zealand.

On Nov 19, 2019, Stratasys launched its Rail Industry Solution to help enhance the punctuality of passenger trains. By using its ULTEM 9085 resin and Antero 800NA material with Stratasys Fortus 3D printers for production, rail operators can leverage additive manufacturing for the production of spare parts on demand that meet strict government certification requirements for smoke, fire, and toxicity.

On Nov 18, 2019, Stratasys launched GrabCAD Shop, a work order management software solution for shops that provide centralized 3D printing services.

Valuation

Stratasys' shares are down 21.1% in the past six-month period and 26.7% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have fallen 16.8% and 14.2% in the past six months, respectively. Over the past year, the Zacks sub-industry has decreased 18.1%, while the sector plunged 12%.

The S&P 500 Index has declined 21.8% in the past six months and 18.2% in the past year.

The stock is currently trading at 1.47X trailing 12-month sales, which compares to .48X for the Zacks sub-industry, 3.1X for the Zacks sector and 2.5X for the S&P 500 index.

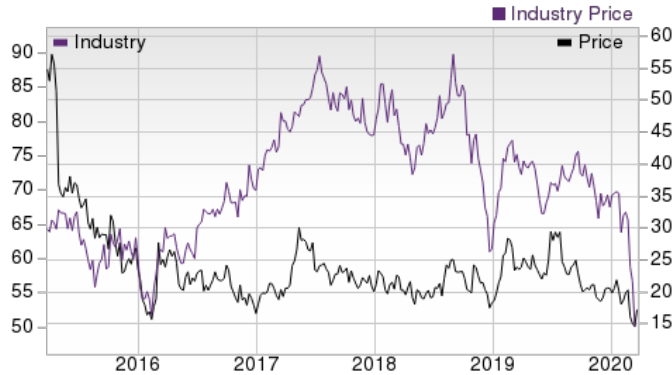
Over the past five years, the stock has traded as high as 4.06X and as low as 1.11X, with a 5-year median of 1.76X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$18 price target reflects 1.54X forward 12-month sales.

The table below shows summary valuation data for SSYS

Valuation Multiples - SSYS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.47	0.48	3.10	2.50
	5-Year High	4.06	0.63	4.42	3.68
	5-Year Low	1.11	0.07	2.56	2.50
	5-Year Median	1.76	0.50	3.51	3.19
P/B TTM	Current	0.81	0.93	4.00	3.11
	5-Year High	1.43	1.22	5.70	4.55
	5-Year Low	0.61	0.63	3.13	2.85
	5-Year Median	1.00	0.95	4.27	3.63
EV/Sales TTM	Current	0.96	0.77	3.17	2.31
	5-Year High	4.05	0.92	4.45	3.46
	5-Year Low	0.61	0.29	2.54	2.14
	5-Year Median	1.30	0.55	3.53	2.82

As of 03/20/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Top Peers

HP Inc. (HPQ)	Outperform
Panasonic Corp. (PCRFY)	Outperform
Apple Inc. (AAPL)	Neutral
Cisco Systems, Inc. (CSCO)	Neutral
3D Systems Corporation (DDD)	Neutral
Lenovo Group Ltd. (LNVGY)	Neutral
voxeljet AG (VJET)	Neutral
Canon, Inc. (CAJ)	Underperform

Industry Comparison Industry: Computer - Peripheral Equipment				Industry Peers		
	SSYS Neutral	X Industry	S&P 500	DDD Neutral	HPQ Outperform	VJET Neutral
VGM Score	F	-	-	C	A	-
Market Cap	933.12 M	49.83 M	15.82 B	714.64 M	19.95 B	12.12 M
# of Analysts	4	1	13	4	4	0
Dividend Yield	0.00%	0.00%	2.79%	0.00%	5.05%	0.00%
Value Score	D	-	-	F	B	-
Cash/Price	0.41	0.34	0.06	0.17	0.17	0.73
EV/EBITDA	13.96	5.53	9.77	-93.35	4.26	-4.10
PEG Ratio	1.63	2.23	1.42	NA	2.90	NA
Price/Book (P/B)	0.81	1.14	2.07	1.39	NA	0.29
Price/Cash Flow (P/CF)	15.00	11.06	8.39	116.77	4.98	NA
P/E (F1)	37.68	32.58	12.42	NA	5.80	NA
Price/Sales (P/S)	1.47	0.62	1.68	1.14	0.34	0.45
Earnings Yield	2.57%	2.57%	7.97%	-0.33%	17.20%	-66.15%
Debt/Equity	0.00	0.06	0.70	0.09	-2.41	0.54
Cash Flow (\$/share)	1.14	0.36	7.01	0.05	2.80	-0.33
Growth Score	F	-	-	A	B	NA
Hist. EPS Growth (3-5 yrs)	18.59%	7.06%	10.85%	-23.66%	-8.88%	NA
Proj. EPS Growth (F1/F0)	-21.88%	18.50%	4.90%	78.13%	7.37%	18.87%
Curr. Cash Flow Growth	-15.46%	-14.39%	6.03%	-64.21%	8.32%	-5.21%
Hist. Cash Flow Growth (3-5 yrs)	-19.40%	9.75%	8.55%	-43.37%	-18.40%	NA
Current Ratio	4.12	2.06	1.23	2.29	0.73	4.53
Debt/Capital	0.05%	6.09%	42.57%	8.09%	NA	34.94%
Net Margin	-1.71%	-1.70%	11.57%	-11.11%	5.16%	-45.17%
Return on Equity	1.01%	1.01%	16.74%	-9.91%	-261.23%	-25.03%
Sales/Assets	0.46	1.00	0.54	0.74	1.81	0.34
Proj. Sales Growth (F1/F0)	-0.28%	0.00%	3.13%	3.03%	-2.10%	20.00%
Momentum Score	F	-	-	F	B	-
Daily Price Chg	2.76%	0.00%	-4.39%	-9.19%	-3.13%	-15.68%
1 Week Price Chg	-3.27%	-11.64%	-11.01%	-23.53%	-19.76%	-26.71%
4 Week Price Chg	-16.84%	-33.71%	-36.57%	-51.41%	-38.38%	-63.59%
12 Week Price Chg	-17.28%	-38.35%	-34.28%	-32.78%	-32.58%	-69.68%
52 Week Price Chg	-29.72%	-46.56%	-27.95%	-47.06%	-31.01%	-70.51%
20 Day Average Volume	1,015,695	47,536	3,981,936	2,908,658	18,138,688	95,030
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-80.21%	-11.11%	-0.85%	-85.29%	5.25%	0.00%
(F1) EPS Est 12 week change	-80.21%	-69.81%	-1.70%	-85.29%	5.58%	0.00%
(Q1) EPS Est Mthly Chg	-157.14%	-5.88%	-0.88%	-15.00%	-6.14%	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	D
Growth Score	F
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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