



3DSYSTEMS®

FOURTH QUARTER & FULL YEAR 2014 CONFERENCE CALL AND WEBCAST



MANUFACTURING *THE* FUTURE

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PRESENTERS

Stacey Witten

- Vice President, Investor Relations

Avi Reichental

- President & Chief Executive Officer

Ted Hull

- Executive Vice President & Chief Financial Officer

Andy Johnson

- Executive Vice President & Chief Legal Officer



WELCOME WEBCAST VIEWERS

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OPERATING RESULTS

Avi Reichental
President & CEO



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FOURTH QUARTER 2014 HIGHLIGHTS

Record revenue of \$187.4 million, GAAP earnings of \$0.01 per share and non-GAAP earnings of \$0.21 per share. Significant foreign currency headwinds reduced our total revenue by \$6 million during the quarter

- **Products, including materials, revenue grew by 16% and services by 33%**
- **EMEA revenue grew by 46% and 28% organically**
- **Channel productivity, primarily in North America, fell well short of expectations, restricting total organic growth to 7%**
- **Direct metals and healthcare revenue increased by 178% and 96%, respectively**
- **Consumer revenue increased 68% rebounding strongly on availability of new products**

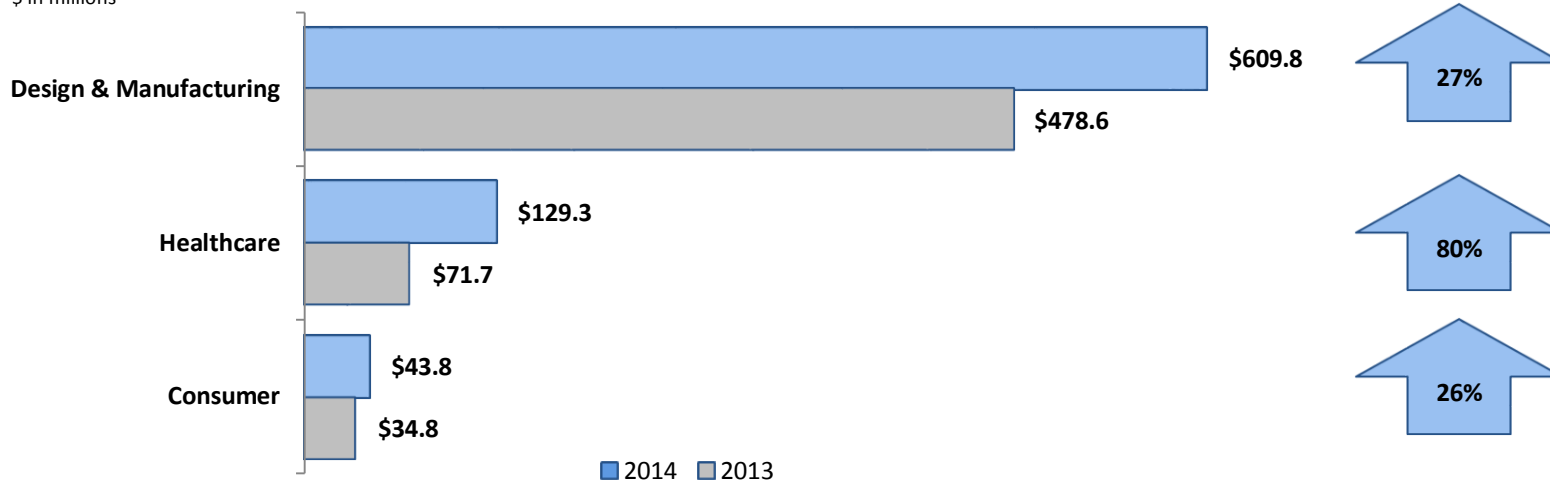
Order book held steady at \$46.5 million, even as revenue increased by 12% sequentially

Generated \$23.2 million of cash from operations during the quarter, ended 2014 with \$284.9 million of cash on hand

REVENUE HIGHLIGHTS

FULL YEAR

\$ in millions



Design and manufacturing sales grew on strengthening demand

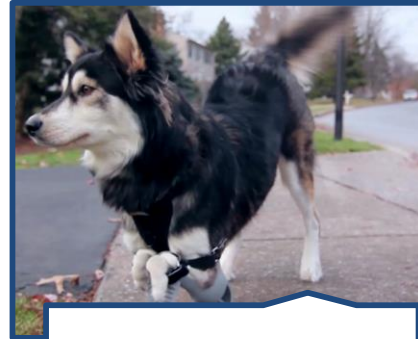
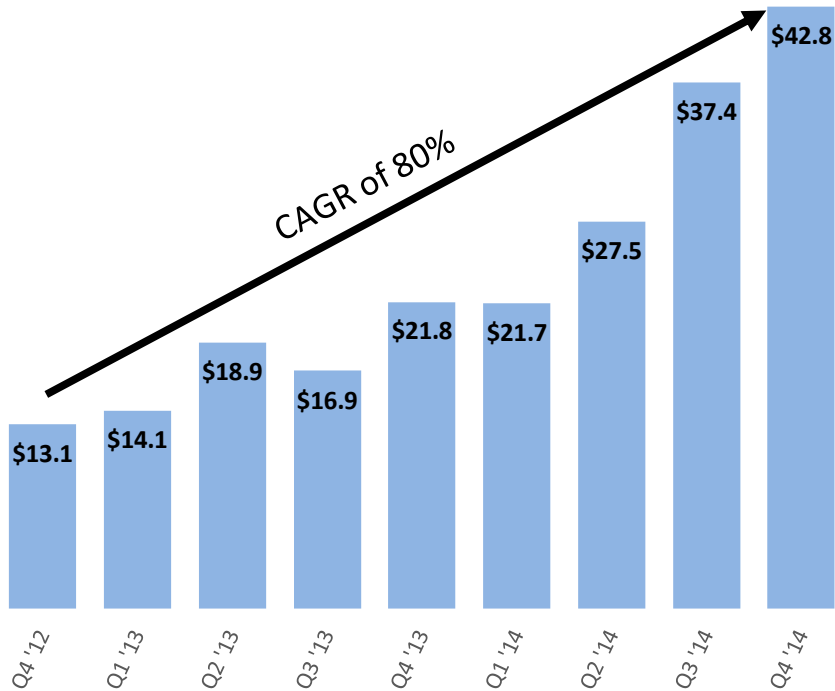
Expanded portfolio drove higher demand for our healthcare solutions

Consumer contribution increased on new products availability

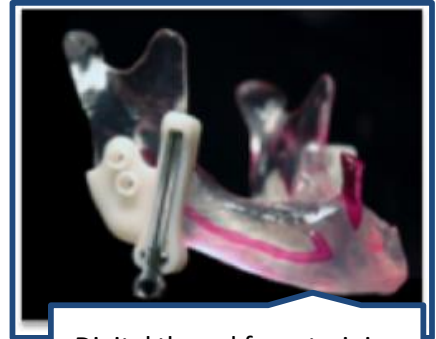


HEALTHCARE

During 2014, we expanded our digital thread from training room to operating room



Open-ended opportunities



Digital thread from training room to operating room

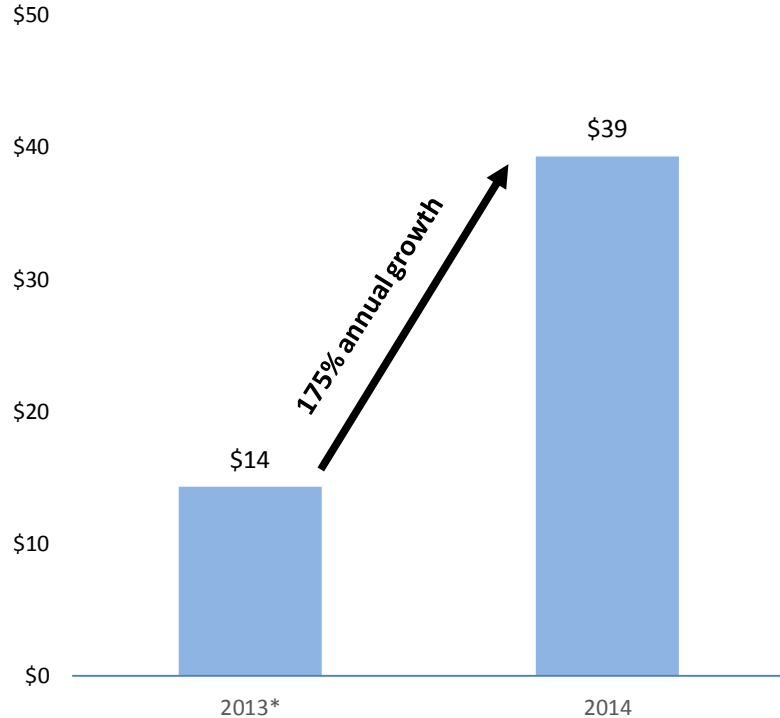


Annual growth of 80%, sequential growth of 14%



Strong organic growth of 34% for Q4 and 46% for the year

DIRECT METALS



We ended 2014 at the higher end of our expected revenue range



Revenue increased 178% compared to the fourth quarter of 2013



Revenue grew 175% compared to 2013* revenue



Revenue increased 73% sequentially

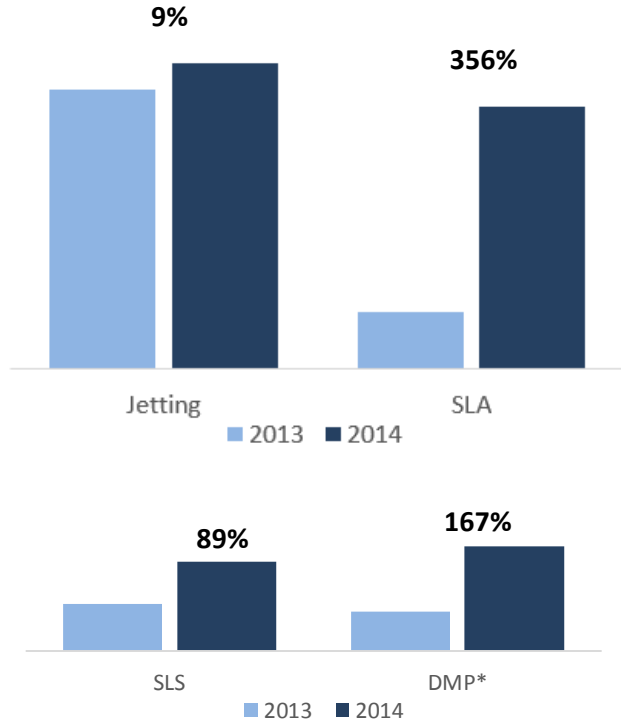


Significant opportunities in manufacturing of aerospace parts, functional automotive assemblies, and ready to use medical devices

*2013 represents proforma results inclusive of Phenix Systems revenue prior to its acquisition by 3DS in July 2013



GROWTH IN DESIGN & MANUFACTURING UNITS



We placed 70% more design and manufacturing printer units in 2014 than the prior year

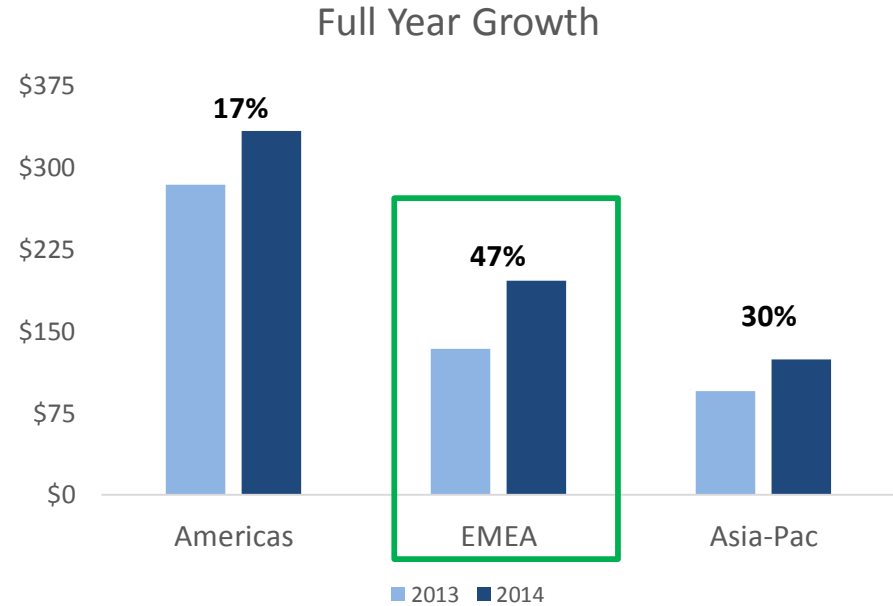
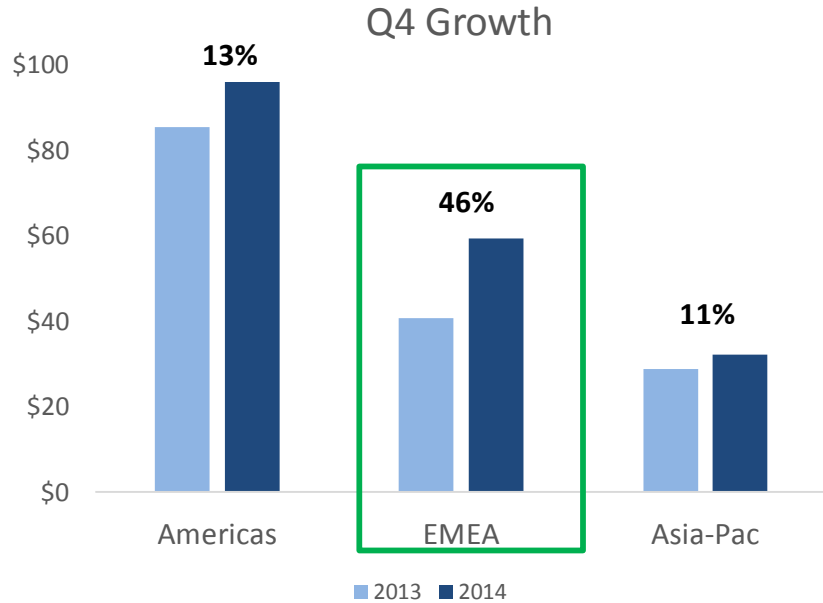
- 356% increase in SLA
- 89% increase in SLS
- 167% increase in DMP*

Jetting printers shouldered the bulk of channel weakness, primarily in North America

*2013 represents proforma results inclusive of Phenix Systems units sold prior to its acquisition by 3DS in July 2013

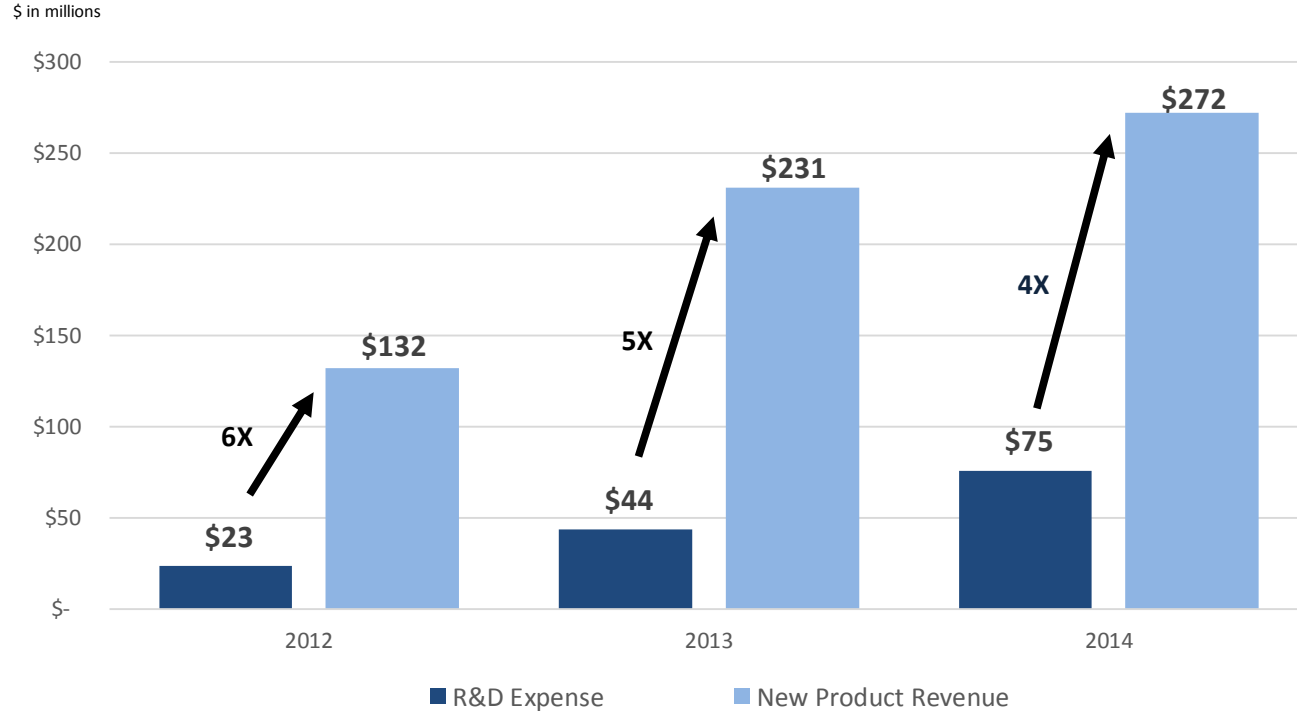


CHANNEL PERFORMANCE



- **Our EMEA channel delivered impressive growth despite foreign currency headwinds**
- **We are taking decisive steps to improve the productivity and coverage of our North American and APAC channels to the level of our EMEA region, and expect continued progress throughout 2015**

EFFECTIVE RETURNS ON R&D INVESTMENT



Our effective R&D investments contributed to a 44% increase in new products revenue over the past two years and delivered 27 new products in 2014 alone

Included in our 2014 R&D investments was the strategic addition of the Xerox Wilsonville team that is working on several breakthrough new products that are designed to fuel incremental revenue growth, beginning in the second half of 2015



FINANCIAL REVIEW

Ted Hull
Executive Vice President & CFO



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FOURTH QUARTER GAAP OPERATING RESULTS

\$ in millions, except earnings per share

Drivers	2014	2013	% Change Favorable/ (Unfavorable)
Revenue	\$ 187.4	\$ 154.8	21.1%
Gross Profit	\$ 89.8	\$ 80.1	12.1%
<i>Gross Profit Margin</i>	47.9%	51.7%	
Operating Expenses	\$ 85.5	\$ 62.1	(37.7%)
<i>% of Revenue</i>	45.6%	40.1%	
Operating Income	\$ 4.2	\$ 18.0	(76.5%)
<i>% of Revenue</i>	2.3%	11.6%	
3DS Net Income	\$ 1.6	\$ 11.2	(86.2%)
<i>% of Revenue</i>	0.8%	7.2%	
Diluted Earnings Per Share	\$ 0.01	\$ 0.11	(90.9%)



FULL YEAR GAAP OPERATING RESULTS

\$ in millions, except earnings per share

Drivers	2014	2013	% Change Favorable/ (Unfavorable)
Revenue	\$ 653.7	\$ 513.4	27.3%
Gross Profit	\$ 317.4	\$ 267.6	18.6%
<i>Gross Profit Margin</i>	<i>48.6%</i>	<i>52.1%</i>	
Operating Expenses	\$ 291.1	\$ 186.7	(55.9%)
<i>% of Revenue</i>	<i>44.5%</i>	<i>36.4%</i>	
Operating Income	\$ 26.3	\$ 80.9	(67.5%)
<i>% of Revenue</i>	<i>4.0%</i>	<i>15.8%</i>	
3DS Net Income	\$ 11.6	\$ 44.1	(73.6%)
<i>% of Revenue</i>	<i>1.8%</i>	<i>8.6%</i>	
Diluted Earnings Per Share	\$ 0.11	\$ 0.45	(75.6%)



NON-GAAP RECONCILIATION

<i>(\$ in millions, except per share amounts)</i>	Quarter Ended December 31,		Full Year Ended December 31,	
	2014	2013	2014	2013
GAAP net income	\$ 1.6	\$ 11.2	\$ 11.6	\$ 44.1
Cost of sales adjustments:				
Amortization of intangibles	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.2
Operating expense adjustments:				
Amortization of intangibles	\$ 10.9	\$ 5.5	\$ 39.2	\$ 20.4
Acquisition and severance expenses	\$ 3.2	\$ 1.7	\$ 8.0	\$ 7.0
Non-cash stock-based compensation expense	\$ 9.1	\$ 5.0	\$ 32.8	\$ 13.5
Other expense adjustments:				
Non-cash interest expense	—	\$ 0.1	\$ 0.2	\$ 1.0
Loss on convertible notes	—	—	\$ 1.8	\$ 11.3
(Gain) loss on litigation and tax settlements	—	—	—	\$ 2.5
Tax effect ⁽¹⁾	(\$ 1.1)	(\$ 3.9)	(\$ 18.8)	(\$ 16.3)
Non-GAAP net income	\$ 23.8	\$ 19.7	\$ 75.1	\$ 83.7
Non-GAAP diluted earnings per share	\$ 0.21	\$ 0.19	\$ 0.70	\$ 0.85

⁽¹⁾ tax effect calculated based on the reported rate for each quarter

- Tables may not foot due to rounding

We use non-GAAP financial measures of adjusted net income and adjusted earnings per share to supplement our unaudited condensed consolidated financial statements presented on a GAAP basis to facilitate a better understanding of the impact that several strategic acquisitions had on our financial results.

REVENUE HIGHLIGHTS

FOURTH QUARTER

\$ in millions



Design and manufacturing sales grew on strengthening demand for our products and services



Metal production capacity increased and we expect to be able to continue to meet growing demand for our metals printers



Expanded products and services drove higher demand for our healthcare business



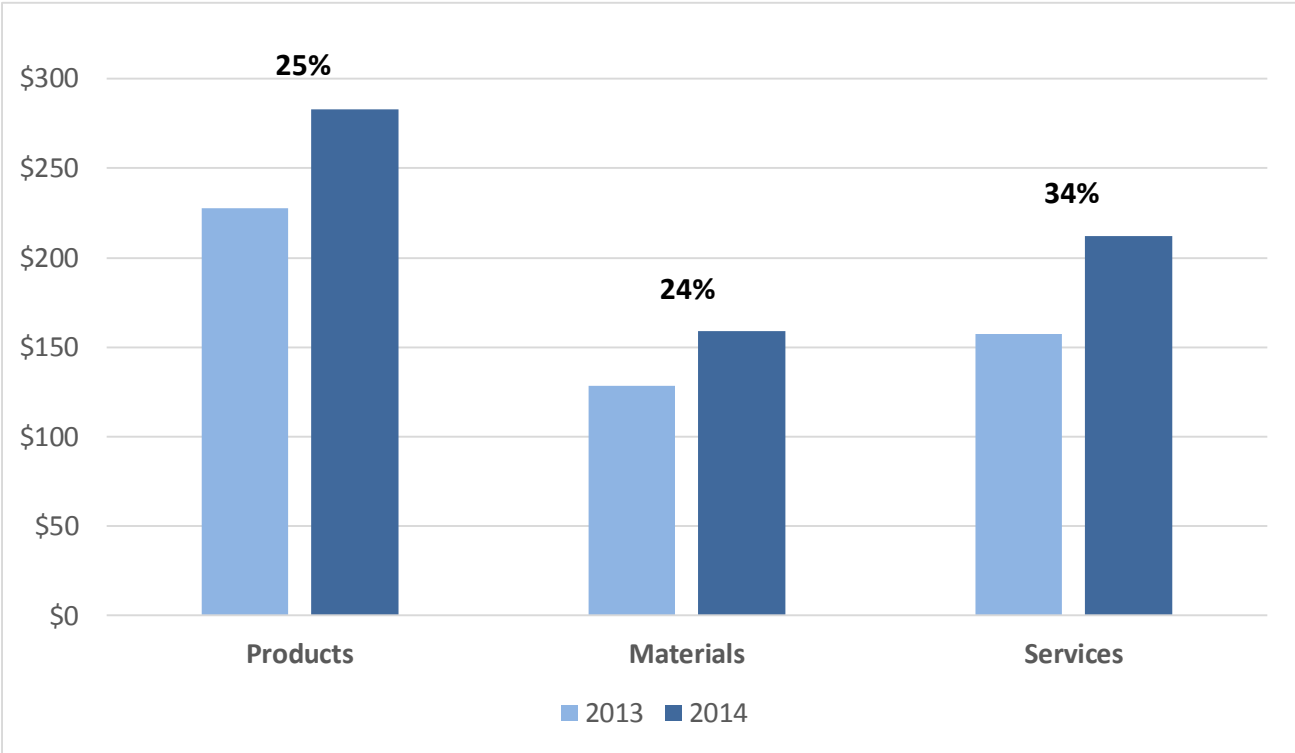
Positive marketplace reception to Cube 3 and CubePro and growing ecosystem of products and services pushed consumer revenue higher



REVENUE GROWTH BY CATEGORY

FULL YEAR 2014

\$ in millions



All categories are contributing to growth

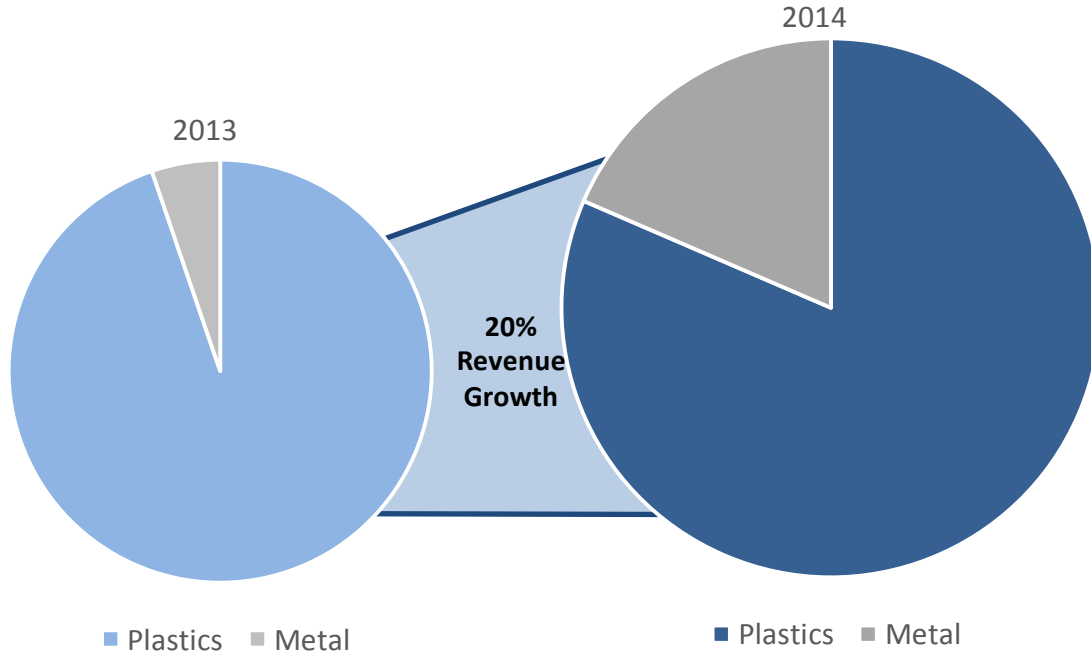
Products, including materials, grew 24%

Services increased 34%

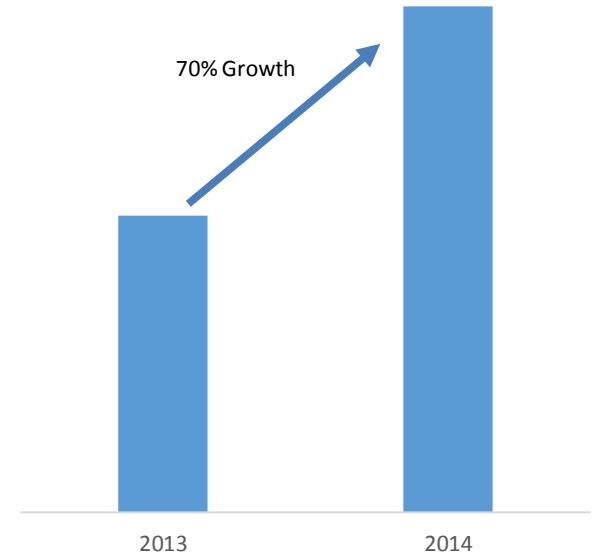


PRINTERS REVENUE AND UNITS PERFORMANCE

Design & Manufacturing Printers Revenue



Design & Manufacturing Units



GROSS PROFIT MARGIN

\$ in millions

Fourth Quarter					
	Q4 2014	Q3 2014	Sequential Change	Q4 2013	YoY Change
Products	33.8%	35.3%	-150bps	43.8%	-1000bps
Materials	75.3%	73.1%	220bps	74.4%	90bps
Services	49.7%	46.3%	340bps	45.9%	380bps
Consolidated GPM	47.9%	47.8%	10bps	51.7%	-380bps

Suppressed gross profit margin from the introduction of new products, manufacturing expansion and unfavorable mix

Fundamentals of business model remain intact and we expect gross profit margin to resume expansion from:

- Increasing materials sales resulting in higher margin category representing a larger portion of total sales
- Gross margins of products recovering after new product transition and ramp
- Continuing operational synergies within our Quickparts network
- Increasing software sales, contributing more revenue at higher gross profit margins

Full Year			
	2014	2013	YoY Change
Products	35.9%	44.7%	-880bps
Materials	73.4%	73.7%	-30bps
Services	46.9%	45.2%	170bps
Consolidated GPM	48.6%	52.1%	-350bps



OPERATING EXPENSES

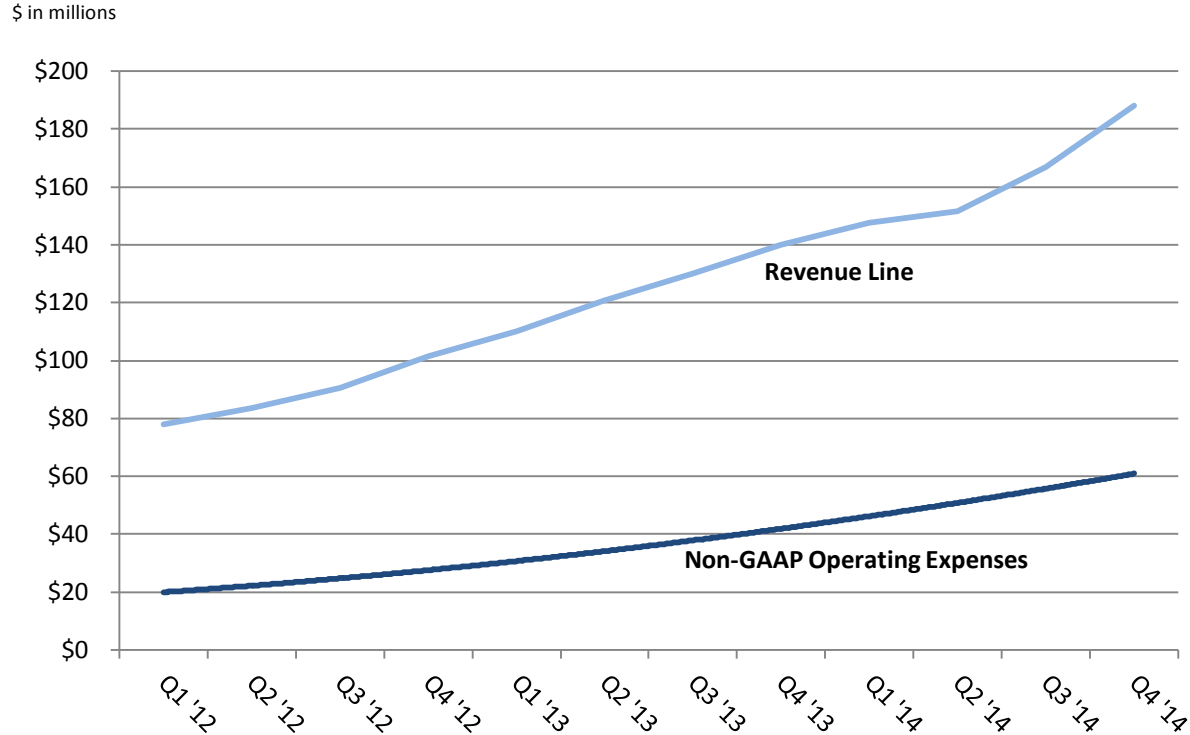
\$ in millions

Category	Fourth Quarter					
	GAAP Operating Expenses			Non-GAAP Operating Expenses		
	Q4 2014	Q4 2013	% Change Favorable/ (Unfavorable)	Q4 2014	Q4 2013	% Change Favorable/ (Unfavorable)
R&D	\$ 22.5	\$ 16.6	(35.5%)	\$ 22.5	\$ 16.6	(35.8%)
<i>% of Revenue</i>	12.0%	10.7%		12.0%	10.7%	
SG&A	\$ 63.0	\$ 45.5	(38.5%)	\$ 40.3	\$ 33.4	(20.5%)
<i>% of Revenue</i>	33.6%	29.4%		21.5%	21.6%	
Total Operating Exp	\$ 85.5	\$ 62.1	(37.7%)	\$ 62.8	\$ 50.0	(25.6%)
<i>% of Revenue</i>	45.6%	40.1%		33.5%	32.3%	

Category	Full Year					
	GAAP			Non-GAAP		
	2014	2013	% Change Favorable/ (Unfavorable)	2014	2013	% Change Favorable/ (Unfavorable)
R&D	\$ 75.4	\$ 43.5	(73.3%)	\$ 75.4	\$ 43.5	(73.4%)
<i>% of Revenue</i>	11.5%	8.5%		11.5%	8.5%	
SG&A	\$ 215.7	\$ 143.2	(50.6%)	\$ 135.7	\$ 102.4	(32.6%)
<i>% of Revenue</i>	33.0%	27.9%		20.8%	19.9%	
Total Operating Expenses	\$ 291.1	\$ 186.7	(55.9%)	\$ 211.1	\$ 145.9	(44.7%)
<i>% of Revenue</i>	44.5%	36.4%		32.3%	28.4%	



OPERATING LEVERAGE



Operating Expense Expectations

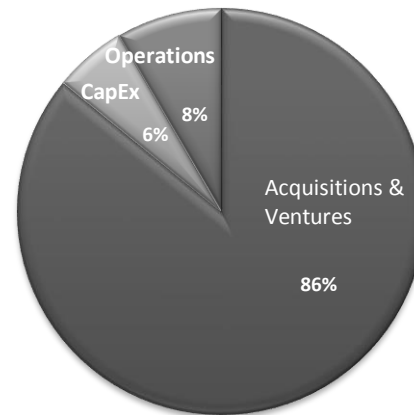
- Continuing operating leverage
- Flattening G&A expense
- Incremental sales and marketing spend in line with revenue growth
- Normalized R&D expenses at 8% - 10% of revenue in 2015



WORKING CAPITAL

\$ in millions

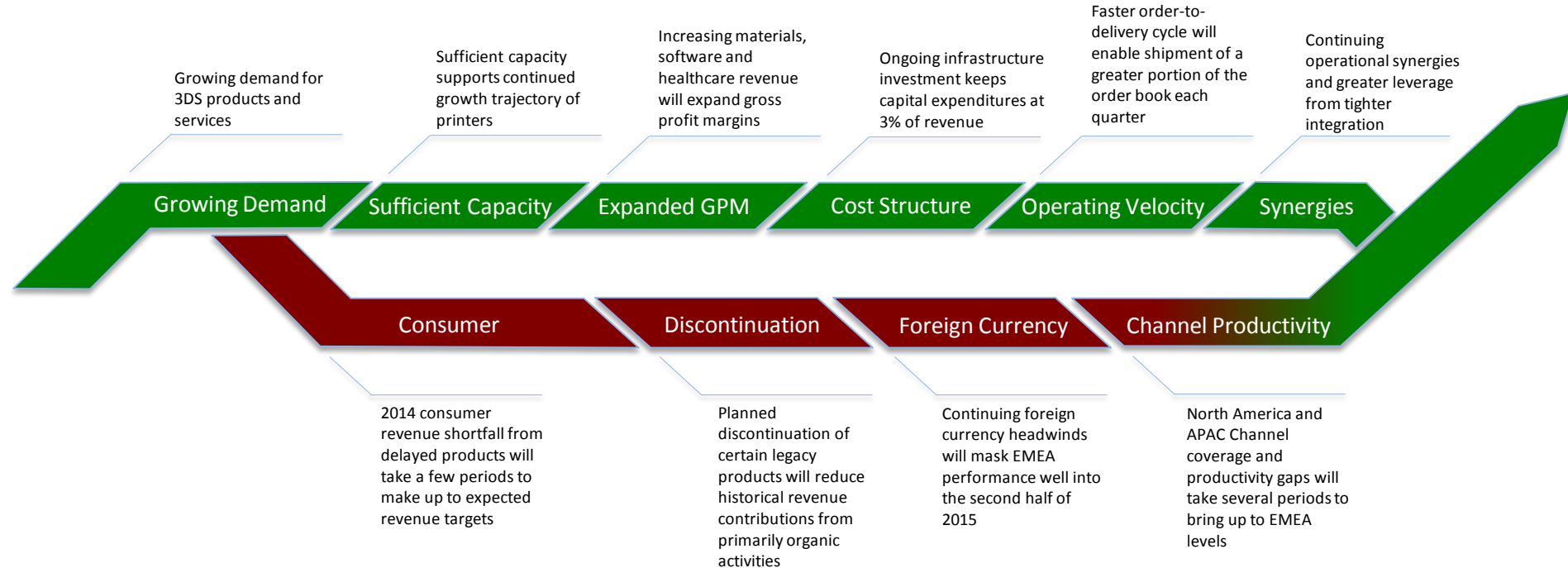
	December 2014	December 2013
Cash	\$ 284.9	\$ 306.3
Accounts Receivable	\$ 168.4	\$ 132.1
Inventory	\$ 96.6	\$ 75.1
Accounts Payable	\$ 64.4	\$ 51.7
Working Capital	\$ 432.2	\$ 416.4



- **Generated \$23 million of cash from operations during Q4 and \$51 million for the full year 2014**
- **Paid \$107 million of cash for acquisitions and venture investments in Q4**
- **Cash on hand at December 2014 decreased \$21 million compared to December 2013**
- **Inclusive of \$300 million of proceeds from equity raise completed May 2014, offset by \$352 million of cash paid for acquisitions and venture investments during 2014**



PATH TO 2015 GUIDANCE



FULL YEAR 2015 GUIDANCE

We expect annual revenue for 2015 to be in the range of \$850 million to \$900 million with greater revenue during the second half of 2015

We expect our GAAP earnings per share to be in the range of \$0.35 to \$0.45 and our non-GAAP earnings per share to be in the range of \$0.90 to \$1.10 with greater earnings during the second half of 2015

Our 2015 guidance is fully tax-effected and inclusive of all acquisitions completed to date

OUTLOOK & PROGRESS

Avi Reichental
President & CEO



MANUFACTURING *THE* **FUTURE**



INFRASTRUCTURE EXPANSION

We continue to increase production capacity to meet growing demand for our comprehensive portfolio of 3D products and services

We increased production capacity for several design, manufacturing and consumer printers at our new 200,000 sq. ft. manufacturing facility in Rock Hill, SC

We brought online and began to ramp production at a second Direct Metal Printers manufacturing facility at our Corvallis, OR contract manufacturer

We completed the ramp up of a new consumer materials manufacturing facility in Barberton, OH

We broke ground on a 70,000 sq. ft. healthcare facility in Littleton, CO

We made significant IT infrastructure, capacity and continuity investments

M&A HIGHLIGHTS

We continue to add synergistic technology, domain expertise and complementary sales channels

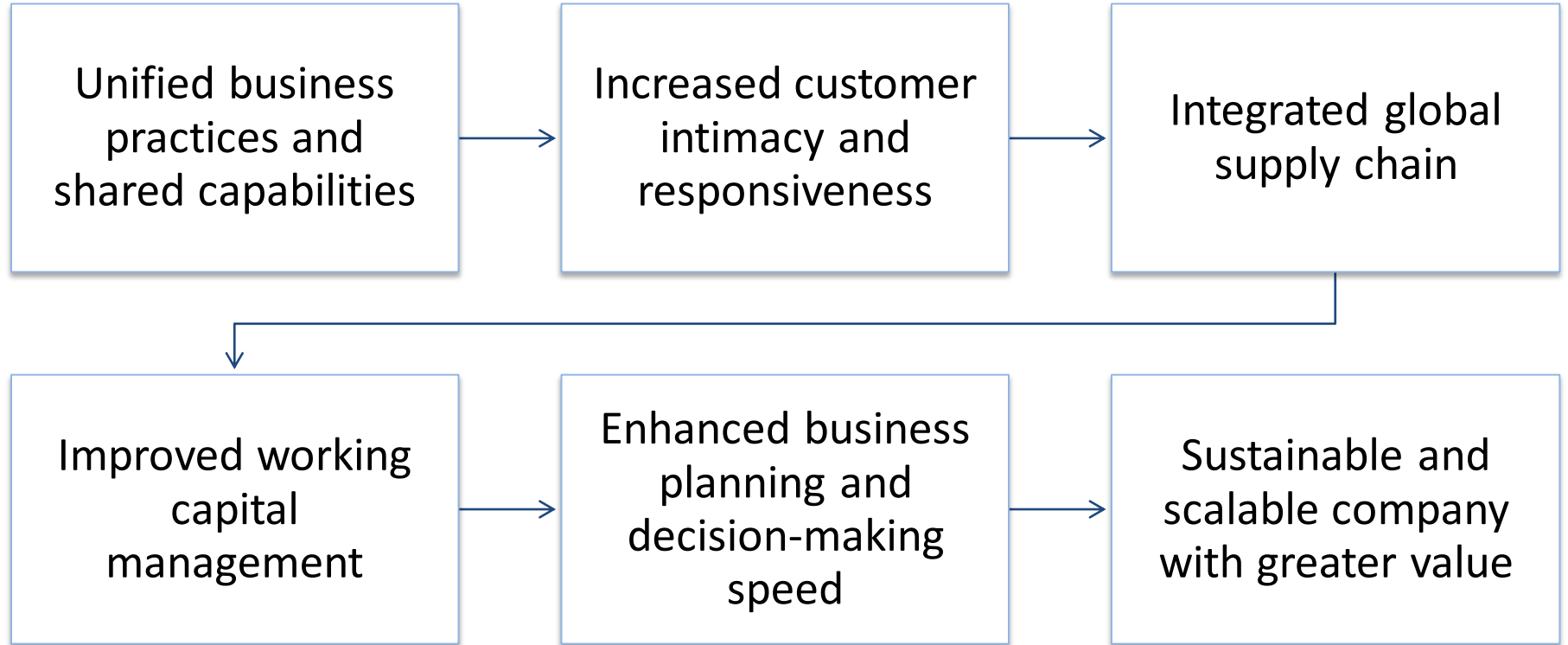
We closed the acquisition of Cimatron in February 2015, strengthening our 3D digital design and fabrication portfolio

We acquired botObjects in December 2014, enhancing our desktop product line with the addition of the CubePro C, the first affordable full-color plastic 3D printer

We completed the acquisition of Robtec in November 2014, gaining a strategic growth platform in Latin America



WE ARE BUILDING AN AGILE ENTERPRISE



OUTLOOK

We have completed a 15-month period of stepped up investments and have put our strategic foundation in place

For us, 2015 is all about execution: leveraging, fine-tuning and scaling our recent investments into sustainable, profitable growth

We plan to advance our reach and penetration in key verticals like healthcare, aerospace, automotive and consumer and expand our overall market share



Q&A SESSION

Out of respect for other conference call participants, please ask one question and then return to the queue to ask additional questions

Please direct all questions through the teleconference portion of this call

To ask questions:

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- **International: 1-201-689-8345**





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THANK YOU



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