Operator: Greetings, and welcome to The ExOne Company's Third Quarter 2018 Financial Results Conference Call. [Operator Instructions] As a reminder, today's conference is being recorded.

I'd now like to turn the conference over to your host Karen Howard, Investor Relations for The ExOne Company. Please go ahead.

Karen L. Howard: Thank you, Rob, and good morning, everyone. We appreciate your time today for our third quarter 2018 financial results conference call.

Referring to our slide deck on Slide 2, on the line with me today are Kent Rockwell, our Chairman and Chief Executive Officer; Brian Smith, our Senior Vice President of Corporate Development; and Doug Zemba, our Chief Financial Officer and Treasurer. Kent, Brian, and Doug will be reviewing the results that were published in the press release distributed this morning. If you don't have that release, it's available on our Web site at www.exone.com. The slides that accompany our discussion today are also posted on our website.

On Slide 3 is our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and may also during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that, during today's call, we may discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's earnings release.

Kent will get us started, Brian will provide an operational update and Doug will go through a detailed review of the financial results. Then, we'll turn it back to Kent to offer perspective on our outlook before we open up the line for questions and answers.

And with that, it's my pleasure to turn the call over to Kent to begin.

Kent Rockwell: Good morning, everybody. Thank you, Karen. Welcome to ExOne's 2018 Q3 call.

In our last call, in Q2, I mentioned that the Company will be taking certain actions to move towards a profitable growth focus and you can see from our reports that we're moving in that direction. While we're doing that, we want to maintain a machine development focus where our machine growth is much more than 20%, and our non-machine revenue will be at a flatter line of growth. That's primarily due to reductions at some of our PSC's and Doug and Brian will cover some of these factors in more detail. We also mentioned that we're going to make certain cost realignments. In this quarter, we have $8 million implemented to date, most of it coming out of cost of goods sold and SG&A. We are happy that we were able to put those kinds of savings in place. We still have a target of $10 million, which is an important target for us to achieve as we move towards 2019.

Our goal for the second half of 2018 and for Q4 is to achieve positive net income. And if we get the net income in Q4 that we anticipate, it will give us a full second half of profitability. Additionally, we have targets for 2019 and I will comment more on them at the close, where we're looking for net income and positive operating cash flow in the 2019 period.

Moving to the next slide, we pulled these from one of our recent meetings at ExOne, that I thought you might find interesting. Our machines serve two market spectrums: the indirect machine market as well as the direct machine market, both binder jetting machines that we use for different applications. As you can see here, we delivered in Q3, seven indirect 3D printing machines and that gave us a total of 134 currently installed machines with customers across the globe. This is truly a global market for us, as you know. There are only 23 machines in the U.S., which is less than 20% of the total. So we have really global activity in the indirect market, which is primarily sandcasting, and again, it goes around the globe.

Looking at the next slide, we have a 105 direct 3D printing machines installed at customers in total and eight of those were installed in Q3. The market, in this instance, has been much more predominant to the U.S. That's been part of our development strategy. Actually the market opportunity for our new machines for direct printing is much larger globally than it is in the U.S. at this point. And we will start to move into a more aggressive development plan for our direct machines as we move into the 2019 year. This is largely a function of the fact that the true demand is for the fine powder capabilities, which we have just recently come out with in our Innovent+™ and Doug will touch on more of that.

Finally, the next slide gives you a picture in total of where our 3D printing machines are installed globally. And with 239 machines, and that doesn't include the machines that are installed within our own operations, we’re truly a global Company. I don't think there's anybody in the marketplace today that has more binder jetting machines installed and with a better growth rate than what we're demonstrating here at ExOne.

With that, I'm going to turn it over to Brian Smith and then I will make some closing comments.

Brian W. Smith: Thanks, Kent, and good morning, everyone. If you’ll please turn to Slide 10, I will summarize some of the highlights from the quarter. We finished the quarter with $16.6 million of revenue. The comparable Q3 2017 quarter benefited from the recognition of revenue on our original four Exerial™ systems for almost $3 million and that impacted the comparability. Our TTM revenue growth was around 14%, at just under $60 million and our trailing 12-month machine revenue was up 23% from the 2017 TTM.

Our results showed strong profitability improvement over both the prior year as well as the current year first half. Our global cost realignment announced late in Q2 and our renewed focus on profitable growth yielded quick results. We had positive EBITDA of $400,000 in Q3. Our gross margin expanded to 39.6% in the quarter and our operating expenses were 14% lower than the 2017 third quarter. My last point on this slide concerns a strong backlog of over $26 million and our growing pipeline of opportunities that our commercial team has identified in our sales force database.

On the indirect side, this growth and opportunities have two strong drivers. First, an increased level of market awareness of our product for new customer adoption. In essence, our customers are talking and sharing with others the benefits of our technology and new adopters are listening and acting on it. The other driver is the growing capacity requirements of our existing customer base, initiating additional machine purchases, in essence, our existing customers are printing more cores and molds. An example of that, in Q4, we expect to record revenue on the seventh and eighth machines sold to the U.S. location of a Japanese customer. Clearly, this customer's use of our technology continues to expand.

The opportunities we are seeing on the direct side of our business are benefiting from our Innovent™ and our Innovent+™ that Kent mentioned earlier. These machines provide our customers the opportunity to economically develop additional printed materials and applications. An example of that would be the printing of tungsten carbide and other tooling materials we discussed in the prior quarter. We are also seeing the growth and evolution of our teams' as well as our customers' printing knowledge and the application of that knowledge to the printing and post-processing of both fine and coarse powders. In support of this, in the last few days, we accepted a purchase order for an Innovent+™ from a large multinational technology company. That machine will be the fourth Innovent™ they have purchased from us this year, and their eighth direct printing machine they've purchased. We look forward to working with that customer as they build out their application of our technology.

We see the Innovent+™ success as a precursor to the demand for larger format fine powder printing machines and development. This backlog and customer pipeline as well as the results of our cost activity give us line of sight to second half profitability and our 20% sales growth over the 2017 year.

Now if you'll please turn to Slide 11, I'll provide a little more detail on our cost realignment activities. As of our last measurement at the end of October, we had achieved net reductions in the run rate of our fixed COGS and our operating costs of approximately $8 million. As I said last quarter, our initial efforts focused around efficiencies and our processes, including overlapping and redundant costs and our reliance on consulting in all areas of our P&L, but particularly in SG&A.

Specifically in R&D, we improved the communication among and between our R&D teams. This resulted in additional sharing and teaming around machine componentry, testing results, supply-chain assessments, and the use of internal and external functional experts. These changes improved the effectiveness and efficiency of our already very innovative teams.

We spent considerable time in the past several months assessing our facility utilization. As a result, in August, we combined our Houston with our Troy, Michigan PSC facilities which reduced fixed COGS and to a lesser extent certain SG&A. This effort was completed efficiently with very minimal costs or write offs. We are in the process of redeploying the Houston invested capital to support our liquidity position. As Kent said, we've targeted an overall $10 million reduction. In addition to the activities I described above, we will continue a broader effort around supply chain enhancements for our machines, and for our consumables over the next six months to nine months.

Our cost realignment effort has been supported by cultural changes within our organization directed at improved communication and teaming, and our renewed focus on profitable growth. I'd like to give a shout out to all of our team members for their execution on the realignment and for adapting to the changes that we've initiated.

With that, I'll turn it over to Doug for his discussion of our financial results.

Douglas D. Zemba: Thanks, Brian. Good morning, everyone. If you could please turn to Slide 13, we will start with revenue. Revenue was up 4% to $16.6 million in Q3 2018 compared to Q3 2017. For the 2018 trailing twelve months, our revenue was up 14% over 2017. Our current goal is to achieve 20% year-over-year growth for 2018. This implies an approximate 47% growth in the fourth quarter over our prior-year, which I will address in a moment when we review our current backlog. Our first half, second half revenue split is anticipated to roughly approximate our historical performance with our fourth quarter generally being our strongest period.

Now we will go to Slide 14. Here you can see that our third quarter machine sales were up 13% to $9.7 million compared to Q3 2017. There were 15 machines sold in the 2018 third quarter. Included in our Q3 sales are, six of our S-Max® machines, one S-Print®, one M-Flex®, three Innovent+™, and four Innovent™. Once again, it was a diverse mix of platforms, driven by our customers' varying application needs. Five of the 15 machines were sold to customers that have experience operating our machines and 10 were to first-time machine customers. Last year in the third quarter we recognized revenue on 12 machines. That included our initial four Exerial™ production machines which were sold at a breakeven contribution margin through a contract settlement. Please refer to the table in the back of our release or slides that shows sales by machine type.

Industries we sold our machines into during the quarter included aerospace, automotive, heavy equipment and energy. We also sold machines to companies or educational institutions seeking to further advance their own research and development activities, including material development for industrial applications. Referring to the trailing 12-month revenue chart on the right of the slide, you can see the 2018 machine revenue was up 23% over 2017 to $30.3 million.

Now if we can turn to Slide 15, here you will see shipments and revenue recorded in units by machine type for the first three quarters and year-to-date 2018. We shipped 17 machines during the third quarter, 42 year-to-date during 2018. At quarter end, there were 17 of our machines that were shipped and are either in-transit or in the process of being installed and accepted by our customers and therefore yet to be recorded in revenue. That includes 10 of our indirect machines and seven of our direct machines. There continues to be variability in certain instances that will result in lags between machine delivery to customers and revenue recognition. This can happen for a number of reasons, including contractual terms, performance obligations or geography. We continue to focus on mitigating these factors and reducing the time between customer order acceptance and revenue recognition, to accelerate our backlog turnover rate.

Now let's turn to Slide 16. Non-machine revenue was $6.9 million in the third quarter of 2018 and $29.2 million for the 2018 trailing twelve months. This reflects a 6% decline in the quarter and 6% growth for the trailing twelve months. Our quarterly decline is attributed to lower customer demand specific to our indirect printing operations and the impact of our Houston facility exit. We've noted an increase in the number of customers interested in acquiring their own indirect machines as opposed to having us print product for them, which has driven some of our recent operational decision-making and our projections for future machine growth. We continue to realize increases in sales of consumables as well as our aftermarket offerings, including maintenance services and ancillary equipment, as our global installed base of machines continues to expand.

Now if you will turn to Slide 17. We finished the quarter with a total backlog of $26.5 million, roughly the same as last quarter. While this chart shows the improving year-to-date backlog trend, I want to mention that our backlog leading into Q4 of last year was $20.9 million. So we are up approximately 27% from that point. As I mentioned previously, we continue to focus on turning our backlog at an accelerated rate, which is contributing to our confidence in our 2018 revenue goal.

To remind you, backlog includes firm orders received from our machine and non-machine customers. This includes the 17 units identified as in-transit or in some form of installation or acceptance that I mentioned earlier as well as orders taken on machines that have future delivery dates. It also includes our firmly committed machine maintenance contracts as well as the non-cancelable portion of our operating lease agreements. Backlog also includes orders for our direct and indirect printing operations and other contractual services, such as our missile defense agency contract. The machine portion of our backlog includes customers in the aerospace, automotive, heavy equipment and energy industry as well as a host of commercial and other entities focused on material development activities for both industrial and other applications. We continue to serve a diverse and global customer base.

Turning to Slide 18, we will talk about gross profit and margin. Gross profit was $6.6 million resulting in a 39.6% gross margin for the third quarter of 2018. For the trailing twelve-month period, we realized gross profit of $17.4 million and a gross margin of 29.3%. Our current period margin benefited from the restructuring activities that have been going on since early 2017 as well as our recently initiated global cost realignment initiative. The 2017 third quarter gross margin was impacted by the previously mentioned $2.8 million sale of four Exerial™ machines at a breakeven contribution margin.

Please turn to Slide 19 and we'll discuss SG&A. Comparing the third quarter of 2018 to 2017, our SG&A expenses were down approximately $900,000 or 14%. The decrease was principally due to lower equity-based compensation cost and the net impact of our global cost realignment program.

Please turn to Slide 20 and we'll discuss our investment in R&D. The 2018 third quarter reflects an approximate $500,000 or 15% decrease compared with the 2017 third quarter. The decrease resulted primarily from the global cost realignment program. As Brian mentioned, while we have identified opportunities to reduce costs, this is not impacting the advancing development of our binder jetting technology. The trailing twelve-months R&D investment dollars reflect higher costs preceding our global cost realignment initiative that began in June 2018.

Now let's please turn to Slide 21 to review CapEx. Our cash CapEx has continued at a modest pace. Our third quarter cash spending was approximately $400,000 compared with approximately $500,000 for Q3 2017. We estimate spending will be in the range of $2 million for the full-year. The non-cash portion of our CapEx shown here pertains to the transfer of machinery from inventory into PP&E for our own use in our direct and indirect printing operations, for R&D development or for customer leasing opportunities. Noted in the footnote are transfers from PP&E to inventory, principally to support commercial sales activity with customers.

Turning to Slide 22, this chart represents a waterfall of our year-to-date 2018 cash flow, split into two sections. The first half year is on the left and the third quarter is on the right. Since I reviewed the first half year during our August call, I will review the third quarter cash flows now. I mentioned cash CapEx on the last slide. Working capital changes resulted in a use of cash of about $2.4 million during the quarter, impacted by timing of collections and payments from customers and suppliers. Our significantly reduced net loss, net of non-cash items, generated nearly $2 million of cash in the third quarter and we ended the quarter at $12 million in total cash.

If you'll turn to Slide 23, you'll see we continue to have virtually no debt on our balance sheet. Our total liquidity continues to be supported by our cash balances and availability under our credit facility entered into in March 2018.

That concludes my prepared comments and now I'll turn it back to Kent

S. Kent Rockwell: All right. Thanks very much, Doug. I'm just going to highlight Q3 again real quickly, emphasizing some of the points that were made.

Our cost and performance goals achieved a positive EBITDA for us in the quarter. We think this is quite an achievement from where we were in prior periods, and it comes from a real effort from all of our employees and I want to thank all of them for being able to adapt to our new operating culture. And I think that they're excited about where it's going to take us as we move into the future.

I don't want everybody to look at the revenue growth as it appears and think that the growth is slowing. We have a couple of factors to consider. Machine growth actually is very, very healthy, little over 20%. It is flat right now in the non-machine activity, simply because we've closed some facilities during the year and more customers are purchasing our machines instead of having us print for them. We've reduced consumable cost to enhance some of our customer activities. Those two things show up on the one side but, as I mentioned, it's a very positive thing for helping machine sales. And so, you have to look at those two in combination and we're still holding to our growth objectives even while we work through these transitions. And we'll see non-machine activities enhance greatly as new machines come online in future periods. Lastly and most significant, our cash flow improvement was significant. It was mildly negative in the quarter, but we will see positive cash flow as we move into Q4.

Moving to the next slide on Q4, an important issue here. We expect Q4 machine units in revenues to double from what they were in Q3. We shipped 15 machines in Q3 as I've shown you on those earlier slides with the flags, and we expect to ship more than 30 machines in Q4. We have the majority of those orders and shipments in place. A lot of these machines are already on the sea moving around the globe to their various install locations. For us, it's all an issue of execution of the installation and getting the customer acceptances.

When you have all of that flowing into the fourth quarter of the year, one snowstorm can cause a customer to have their facility idle, we can't get the install done or something like that. And one machine can be $1.2 million and that might get installed on January 2nd, installed and accepted on January 3rd, and that has a big, significant impact on how we report. But in terms of customers really getting market penetration, it doesn't have much significance. We are comfortable with our goals as we define them and we think we are moving in the right direction.

If we achieve those 30 plus machines in installations and recognition, we will achieve a very profitable Q4 and that profitability will give us a profitable second half of 2018. We are pleased to be able to start to get to the profitable side, as we see our revenues grow and our costs more productively maintained. We are not forgoing our future here.

Our spending for R&D in 2018 will go up between $1 million and $2 million over 2017. And it's important that you understand that we have five different machine programs right now that we're working on for 2019 and beyond. They have very significant potential in delivering some of the new machine capabilities, particularly in the direct markets where we now have the fine powder capability that we demonstrated in the Innovent™. And we are migrating that capability to the larger machine platforms, which will become the future production machines across the world. And we're also moving to strengthen our penetration of the global market for direct machines, as we predominantly just worked in the U.S. market on direct machines to date.

I just said earlier that the goal of positive cash flow in Q4 seems quite achievable and so we are looking to do that. We put out an announcement earlier last evening about John Hartner joining us as the Chief Operating Officer. John has a wealth of experience in international markets as well as in 3D printing, and we're thrilled to have him on board helping us open up some of these new opportunities. John is sitting here with us today and anxious to get on board with us next week to be at the Formnext show in Germany. So we are focused on profitable growth and operating cash flow. And I think we're moving in the right direction to be able to achieve that.

The next slide is looking forward to 2019. What will be very important to us in 2019 is that we get large format fine powder machines to market. It will be later in the year before they will be actually available for sale – but we will have alpha machines running before the end of this year, and working into the first half of next year to get them into a production format. We have historically demonstrated a revenue bias between first half and second half of 30% to 70%. I don't expect to see that change in the 2019 year too much. I think it will start to change after that as we see more direct machine sales as a result of the new machines we will be bringing online. And so, we will experience that in the 2019 year, that means that we will likely have moderate losses in the first half and then good profitability in the second half.

We will continue to pursue cost reductions in 2019. We have a $2 million goal there and we have an eye on where we will find it. And so we expect that to occur. We will maintain our R&D spending at levels to broaden the binder jetting technology for the variety of applications. Our customers' uses of our machines are very application-specific and offer us wide opportunities to a diverse spectrum of different materials as we bring on more monolithic materials and carbon. We do have existing capabilities with our capital to meet the plans as we've defined them at this point. So we're not capital insufficient, but we're prudent about the management of our capital.

The bottom line of this is that the market adoption for excellent technology is accelerating. We're seeing it across all of the markets and we're pleased with the progress that we're seeing in the marketplace. I met with one customer two weeks ago. We've been working with them for two years on an application and they will place their first order next quarter. Their objective is to have 12 to 15 of our machines in place over the next couple of years. We have multiple situations of that, where our adoption will be increasing.

So with that, we will move to take any questions please.

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Christopher Van Horn with B Riley. Please proceed with your questions.

Christopher Van Horn: Good morning and congrats on getting those cost efficiencies to show up on the P&L in an impressive fashion.

S. Kent Rockwell: Thanks, Chris. Appreciate that.

Christopher Van Horn: Your guidance for sales in the fourth quarter implies roughly $30 million in revenues. Can you give us a sense of the timing of that? It seems like there could be a potential for delays as there is with any quarter, but given your current cost structure it seems like in our model you could still weather some headwinds in terms of delivery timing and still see you turn a profit for the back half of the year. Is that the right way to think about it?

S. Kent Rockwell: Chris, we've always run the risk here of revenue recognition, because we're selling very large machines. A couple of our fourth quarter shipments are $1.5 million, $1.6 million machines. If one of those falters because a ship got stuck at sea or couldn't get through port or something like that, it's not because the customer wasn't ready to accept it, or we weren't ready with install. It's that some exogenous event occurred. And that, of course, could hit us. Each machine can be worth 1.5% or 2% and the headline all of a sudden says 'holy cow, what happened to your growth?' and that's just not real. But we are of the opinion that we will be able to accomplish what we've said. We have a reasonable expectation that these installs are scheduled, and that we will be able to accomplish them in good order. Does that answer your question?

Brian W. Smith: Let me just add to that regarding the profitability piece, Chris, you're right. We could miss a little bit on the revenue. If you look at the numbers, we can miss a little bit, still have profitability and still have positive cash flow. You're correct on that.

S. Kent Rockwell: Yes, you're correct on your model.

Christopher Van Horn: Okay, great. And then it seems like there is an additional $2 million in efficiencies that you've identified, or that you see an opportunity for. Can we think about that as very similar to what you've done already in terms of COGS and SG&A, and maybe a little bit of R&D, but probably more the former two? And then maybe the timing of that, could that be something that we realize in 2019?

S. Kent Rockwell: Yes, the $8 million run rate that we've got is all going to start in 2018. To get the additional $2 million, some of it may start in 2018, but its impact to 2018 performance is likely to be negligible. And the full amount of that may not even come in 2019, so some may be annualized into 2019. But the key is just to get it, if it moves by 90 days, it's not significant to our welfare as a company.

Christopher Van Horn: Got it. Thank you for that color. Then could you comment on the competitive landscape? There have been some rumblings that some people are getting into the sandcasting arena and, I think if that's true, that probably could add volatility to your technology. You probably have a first mover advantage here, but could you comment on the competitive landscape and that?

S. Kent Rockwell: Yes. I put up a slide earlier on with flags on it showing that we have 134 indirect machines across the planet and no one has anywhere near that. Where does the competition come from? You have a couple players that are selling lower cost machines and trying to penetrate with a more cost-effective product. Those people have been sold 10 machines in the total spectrum of who they are. And we're coming out with another low-cost machine ourselves that's in the planning stages now. That will address that market, we think it's a separate and distinct market. Our technology, I think, is ahead of anybody's that's out there, that we are looking at. We're comfortable that we've got a good position in the marketplace. We also know there's a lot of technology moves being made and we believe we are still leading that technology and it's our market to lose.

Christopher Van Horn: Okay, great. Finally, thank you for the transparency on the mix of customers. I think you mentioned auto, aerospace, machinery etcetera. Is that how we should think of demand for the fourth quarter, and is that how we can think about your pipeline as well? Are you seeing similar mix in terms of the end markets that are interested in additive in the pipeline?

Douglas D. Zemba: Yes, I think so. If you go back into our history, those have been our key markets. While we sold to a diverse mix and have a global customer base, that's always been our home in terms of aerospace and particularly automotive on the sandcasting side. We expect that to continue, both our backlog and our pipeline include that industry set.

S. Kent Rockwell: I would like to make one point in addition to what Doug just said. That is, as we start to explore different applications, and now that binder jetting is being seen as a very viable technology, it's expanding across several marketplaces that are non-traditional marketplaces where we have customers coming in and asking us to print non-traditional materials. And all of that is just the applications work where we will charge generally to get their materials working. And some of them are fairly sizable opportunities. There are some little niche markets out there that are not in the core of what Doug just expressed. There are significant revenue opportunities for us, some of which we are addressing in 2019.

Operator: The next question is from the line of Luke Gittemeier with Nokomis. Please proceed with your questions.

Luke Gittemeier: Just a quick question on the recent tariff activity. I'm curious if there are any components that you all shipped in that are for manufacturing in your centers that are impacted by tariffs or by the tariff price switch and if you've been able to adjust either your supply lines or your price profiles to account for that? Can you talk about that a little bit?

Douglas D. Zemba: Sure. This is Doug. I will address that one. We've had some discussions with suppliers and, at the moment, we don't really see any significant effect of any tariff-related activities on our supply chain. A lot of our manufacturing, particularly in the United States is domestic sourced. So we are insulated from that. One thing that we've been discussing with a lot of folks is the impact of the tariff structure on how we look out to our future, particularly 2019, and we see it playing both ways. In fact, a number of companies expressed to us their concerns related to tariffs would suggest that, particularly in the United States you could see some in-sourcing which is actually a benefit to us with bringing machines online. We're seeing both sides of it. I think that there are some cost pressures out there, maybe we haven't felt it yet, but at the same time it's actually presenting some opportunities for us in the U.S. market, which is obviously huge.

Operator: Thank you. Ladies and gentlemen, we've reached the end of the question-and-answer session. I would like to turn the call back to management for closing remarks.

S. Kent Rockwell: I think that we've covered everything today. Again, we're pretty excited about the opportunities we're facing and we look forward to getting out a positive Q4 and then really moving into what's going to be an exciting 2019 and 2020 period. Thank you very much.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.