Operator: Greetings, and welcome to The ExOne Company Second Quarter 2019 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Karen Howard, Investor Relations for ExOne. Thank you, Ms. Howard. You may begin.

Karen L. Howard: Thank you, Doug, and good afternoon, everyone. We appreciate your time today for The ExOne Second Quarter 2019 Financial Results Conference Call. Referring to our slide deck on **Slide 2**, on the line with me today are our presenters: John Hartner, our Chief Executive Officer, who was elected to the CEO role in mid-May; and Doug Zemba, our Chief Financial Officer and Treasurer. In addition, Brian Smith, our Senior Vice President of Corporate Development, is with us and may participate in the Q&A. John 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 website 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 the 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 will 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 release.

John will get us started, providing a high-level overview of our second quarter results. Doug will go through a detailed review of them, and then John will provide an operational update as well as 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 John to begin.

John Hartner: Thank you, Karen, and good afternoon, everybody. Thanks for joining us for ExOne's second quarter report. I'm starting on **Slide 5** with an overview of our results.

It continues to be a very exciting time for ExOne, and we are making progress on many fronts. I'll start with summarizing our financial highlights, and then I'll update you on our operational progress later in this presentation. We reported more than $15 million of revenue for the second quarter, over 40% higher than last year. That's a record second quarter for us.

On that revenue, we earned more than $5 million of gross profit, another record-setting level for a second quarter. That represents a 33.7% gross margin compared with 14.6% a year ago, evidencing the significant productivity improvement in our operating model and our cost structure, resulting from the Company's 2018 global cost realignment program. This also reflects the benefit of additional sales volume and the leverage opportunity we have from our fixed cost base as we continue to grow.

Our operating expenses reflect the benefits from our improved operating model as well, but they were partially offset this quarter by some equity compensation and costs for trade shows, which we mentioned to you last quarter.

As we are working toward driving further revenue growth and achieving positive adjusted EBITDA for 2019, I want to point out that the current TTM period reflects a full 12 months under our new operating model. For this TTM period ended June 2019, we were nearing breakeven at the adjusted

EBITDA level, a significant improvement from the $21 million net loss and nearly $14 million adjusted EBITDA loss for the prior year TTM period.

Finally, we finished the quarter with over $23 million of backlog. This, along with our new product launches and active order pipeline, supports our current growth goals in the second half. I'll touch on that further at the end of this presentation. Now I'm going to let Doug walk through the details of our financial results. Doug?

Doug Zemba: Thanks, John. Good afternoon, everyone. If you could please turn to **Slide 7**, we'll start with revenue. Revenue was up 41% to $15.3 million in Q2 2019 compared with Q2 2018. On a trailing twelve-month basis, revenue was up 13% to $66.7 million, a record-setting twelve-month level for ExOne, and consistent with our mid-teens growth goal for fiscal 2019. On a product line basis, you can see that the machine revenue percentage has grown in both comparables, representing 60% of our second quarter revenue and 62% of our trailing twelve-month revenue.

Now let's go to **Slide 8**. Here, you can see that our second quarter machine sales were $9.3 million, up $6.1 million or nearly three times the Q2 2018 machine sales level. This increase benefited from both higher volumes and a favorable mix of machines sold, which I'll detail on the next slide. On a trailing twelve-month basis, our machine revenue was up 41% to $41.2 million, also a record-setting level.

Now if we can turn to **Slide 9**, we'll review machine unit sales. As a reminder, our direct machines directly print components such as metal parts and include our Innovent, M-Flex and X1 25PRO platforms. Our indirect machines print tools such as sand cores and molds and include our S-Max and S-Print platforms as well as our S-MAX Pro platform, which we introduced to market in June 2019 at the GIFA trade fair in Düsseldorf. Our indirect machines are larger footprint systems, with such systems generally achieving a higher average sales value.

We sold 13 machines in the 2019 second quarter, representing an 86% increase over Q2 2018. Our 2019 second quarter machine sales included a higher proportion of our indirect machines than the second quarter of 2018. As you can see in the charts on the left, we sold five more indirect machines and one more direct machine in the 2019 second quarter as compared with the prior year quarter. This mix change benefited the machine revenue dollar increase we saw on the last slide.

Sales of our indirect machines during the second quarter were to support global foundry applications, and such sales represented a diverse set of geographies and binder systems, including our furan and cold hardening phenolic offerings. Sales of our direct machines were to a mix of industrial and research and development users.

During the trailing twelve months, we sold 64 machines, a 56% increase over the prior twelve-month period. You can see the significant increase in both direct and indirect unit sales, which grew 79% and 36% to 34 and 30 machines in the 2019 trailing twelve-month period, respectively. This increase was led by our Innovent+ platform, which we introduced to market in April 2018, as well as our market-leading S-Max for indirect applications.

Now let's turn to **Slide 10**. Recurring revenue, which includes our 3D printed and other products, materials and services, was $6 million in the second quarter of 2019, down from $7.6 million in last year's second quarter. For the trailing twelve-month period, recurring revenue was $25.5 million, down from $29.6 million in the prior year TTM period.

For the quarter, the decline is primarily attributed to a lower volume of printing projects for both direct and indirect, based on timing of customer orders and the impact of the exit from our Houston, Texas facility, exited in August 2018. For the trailing twelve-month period, these decreases were offset by an increase in our aftermarket sales based on our growing global installed base of machines.

Turning to **Slide 11**, we'll talk about gross profit and margin. Gross profit was up significantly to $5.1 million resulting in a 33.7% gross margin for the second quarter of 2019, a significant improvement over the 14.6% margin for the second quarter of 2018. The improvement was driven by higher volumes and a reduction in the fixed cost portion of our cost of goods sold resulting from our 2018 global cost realignment program including the Houston facility exit I referenced. This shows the improved leverage from our operating model, which we have witnessed in the past few quarters. We also note that the 2018 second quarter included an inventory impairment charge associated with an exited product that benefitted the quarter-to-quarter change.

For the trailing twelve months, we realized gross profit of $24.5 million and a gross margin of 36.7%, up from $15.0 million and 25.4% in the prior year period. The 2019 TTM reflects the full year benefit of our 2018 global cost realignment program initiated at the end of June 2018, a primary driver for the increase. The improvement also benefited from higher TTM revenues and lower net inventory impairment charges, as I cited earlier.

Please turn to **Slide 12**, and we'll discuss SG&A. Comparing the second quarter of 2019 to 2018, our SG&A expenses were down approximately $200,000, or 3%. The decrease was principally due to lower employee-related costs and consulting and professional fees resulting from our 2018 global cost realignment program. The savings we realized were partially offset by equity compensation costs associated with executive leadership changes between the periods, including certain awards issued in the current quarter and certain award forfeitures which benefited the prior year quarter. In addition, we incurred approximately $500,000 in incremental costs during Q2 2019 associated with trade show activities, principally the GIFA trade fair, a once-every-four-year event which I referenced earlier. These incremental trade show related costs will not repeat in Q3 and Q4.

For the TTM period, our SG&A decreased by $2.2 million to $22.2 million. The improvement was primarily driven by cost reductions, employee and consulting-related costs associated with our 2018 global cost realignment program, offset by the incremental trade show related costs tied to GIFA, which were not a part of our 2018 TTM SG&A.

Please turn to **Slide 13** and we'll discuss our investments in R&D. The 2019 second quarter reflects an approximate $700,000, or 22%, decrease compared with the 2018 second quarter. The decrease resulted primarily from the 2018 global cost realignment program resulting in lower employee-related and consulting costs, while we continue to improve our overall resource allocation and productivity and maintain progress in advancing our technology, including our development efforts tied to our X1 25PRO and S-MAX Pro product launches. We note a similar trend driven by the same factors for the TTM period comparison. We expect to continue to invest in our technology and, to reiterate, while we have reduced costs, this has not had a corresponding impact on the development of our binder jetting platforms as we've employed efficiencies in our development processes to improve their effectiveness with less overall effort.

Now if you'll turn to **Slide 14**, I'll review backlog. This past quarter, as we mentioned on our May call, we had strong order flow and, even with the level of machine revenue recognized this quarter, we've nearly doubled our backlog during the first six months of 2019, to $23.1 million at quarter end.

To remind you, our backlog includes firm orders received from our machine and recurring revenue customers. It 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 global direct and indirect printing operations and other contractual services.

Our order momentum and resulting backlog position, combined with our customer pipeline following the two significant product launches that I mentioned, support our full year revenue growth rate goal in the mid-teens. We are certainly conscious of the pressure mounting on capital equipment purchasing decisions primarily driven by macroeconomic factors and the impact this may have on our second half results, which could serve as an impediment to our goal. Ongoing trade matters with China have had no identifiable impact on our internal supply chain at this point and only a negligible impact on our sales activity. However, future economic uncertainty in the broader market is likely to impact capital equipment decision-making, which could have a direct impact on our machine sale projections for the second half.

Nonetheless, we have a high level of confidence in our expanding product portfolio and our existing position within the additive manufacturing space as the leader in binder jetting technologies.

Turning to **Slide 15**, this chart represents a waterfall of our Q1 and Q2 2019 cash flows. Since I reviewed Q1 last quarter, I won't repeat that here. Instead, I will talk you through the Q2 section to the right. We had approximately $100,000 in cash capital expenditures for the second quarter. We continue to anticipate modest cash Capex spending for the remainder of the year. Working capital changes resulted in a source of cash of approximately $2.1 million during the second quarter, benefiting from net cash inflows from customers, partially offset by an increase in net cash outflows for payments to suppliers for our inventory production and operating expenses in support of our growth expectations for the remainder of 2019. Our net loss net of non-cash items and other used $2.0 million of cash, and we ended the second quarter with $7.3 million in total cash. Our overall net cash outflow of approximately $1.8 million for the first half of 2019 compares very favorably with our net cash outflow of $9.1 million for the first half of 2018.

If you'll turn to **Slide 16**, you'll see our total liquidity at the end of Q2 2019 and year-end 2018. At the end of the second quarter, we had $20.5 million of liquidity compared with $22.6 million at the end of 2018. We continue to have virtually no debt outstanding. It's important to note that we continue to believe that we have sufficient capital to support our operating plan.

That concludes my prepared comments, and now I'll turn it back to John.

John Hartner: Thanks, Doug. Please turn to **Slide 18**, and I'll start with how we're communicating our brand, both externally and internally. A little over a month ago, we unveiled our new logo and tagline: Collaborate. Innovate. Accelerate. Those three words summarize our current external focus on customers and speed to market. And internally, the real purpose of these words is to ensure consistent engagement among our team members with the customer experience and to support our Company values.

Collaborate refers to working side by side with our customers and partners as a team to solve the toughest engineering and manufacturing problems. We work to truly understand their challenges and take them on as our own, designing and implementing game-changing solutions.

Our innovation is grounded in over 20 years of practical experience and problem solving. We help customers get products to market faster, creating solutions that were once impossible.

Collaboration and innovation feed and build upon each other, and we believe those attributes are the foundation for us as we accelerate the transformation of industrial manufacturing with binder jetting technology. We believe these characteristics make us the market leader in our field today and will continue to keep us on top.

Please turn to **Slide 19**. This visual is intended to display the collaborations announced in the second quarter with our various partners, as we develop and evolve binder jetting and expand its applications. Aligning with industry leaders who are investing in and advancing the application of binder jetting technology is critical to our ongoing success and our drive to revolutionize manufacturing through 3D printing.

We've had long-standing relationships with Sandvik and Kennametal, two key material partners who utilize our machines to develop new and innovative applications and are the first to beta test our new X1 25PRO.

Software partners include Siemens and their MindSphere Internet of Things operating system. Our new S-MAX Pro includes the latest Siemens Digital Factory portfolio of software and automation technology to leverage the benefits of Industry 4.0.

R&D specialists, such as Oak Ridge National Lab, are critical partners for ongoing development of technological advancements in binder jetting. While we have been working with them for years, we recently announced a new collaboration project with them that is initially targeted on the development of cutting-edge technology for new binder systems, focusing on optimizing chemistry and process parameters for our machines.

In addition to these specific examples, we have many more key relationships including those with peripheral and post-processing partners as well as customers. Stay tuned for more announcements that evidence our progress and commitment to collaborate with partners and customers within our ecosystem.

Please turn to **Slide 20**, and I'll update you on our most recently announced platform, an indirect printing machine, the S-MAX Pro. We have been previewing a new product launch for a couple of quarters now, and we introduced it in conjunction with the GIFA fair. A rendering of the machine is shown in this middle photo. On the left is the ExOne team at our booth at the GIFA fair. And on the right is a photo of Dr. Karsten Heuser, VP Additive Manufacturing from Siemens Digital Factory group, which is one of our key software partners, along with me.

You may recall, we have, in the past described our S-Max as the workhorse 3D printing solution in the foundry industry; it was introduced in 2011 and has been very successful in the marketplace. But we never stop working to improve our technology. We have to keep developing new machines that have higher throughput, higher capabilities and the ability to handle a broader range of materials. The new S-MAX Pro platform is based on the S-Max, but it's faster and capable of an even higher degree of reliability.

Some key features of the new S-MAX Pro are as follows. It has a higher performance printhead and an advanced recoater, which enhance precision and performance, and lower operating costs for our customers. It's very flexible, compatible with all of the binder systems, including furan, phenolic and inorganic. Finally, we worked closely with Siemens to develop a new, more advanced control system that is in alignment with Industry 4.0.

This new platform will continue to drive down the total cost of ownership for our customers, especially those moving into serial production. Additionally, it will broaden the applications for our system and expand our market potential. We have high interest in the new system with several orders in hand and an active pipeline. We will start shipping in Q4 of this year.

Please turn to **Slide 21**, and I'll update you on our newest direct printing platform, our X1 25PRO. We had a unit on display at the RAPID + TCT trade show in Detroit in May and received very positive feedback. This is the machine whose platform is based on our successful Innovent+ system, with the X1 25PRO capable of printing MIM powders in a larger format job box. We see this machine being a real success in expanding our capabilities into larger parts and higher production applications of MIM powders.

To promote awareness of the machine’s capabilities and potential applications, we established a material partnership program focused on process developments and powder optimization. We also established a program to introduce customers to the benefits of the machine by allowing trial production runs in our facility.

As we previously announced, we're very excited that Kennametal and Sandvik are beta partners for this new machine. They are existing customers who are leading the way in investing in opportunities that binder jetting offers to industrial manufacturers.

Just last month, our patent application for advanced compaction technology, or ACT, was allowed by the U.S. patent office, great news for this unique technology. It is faster and improves the quality of advanced metal parts. It's a key differentiator for the X1 25PRO and, as we print more parts and gain experience, it's clear that the part quality is meeting or exceeding our expectations.

Please turn to **Slide 22**, and I'll discuss our current outlook for 2019. As we've said in the past, it's difficult to predict our customers' actions, and the current macroeconomic environment presents increasing uncertainty, as many other public companies have noted. We are maintaining our 2019 revenue growth goal in the mid-teens. As a point of reference, our second quarter TTM revenue grew 13%, the lower end of our targeted range.

Our first half came in close to where we expected, in the ballpark of 35% of our full year total revenue goal, as we had previously indicated. So we need a strong second half, which is typical in our industry. We currently expect our third quarter to be up modestly from the second quarter. This means that we're expecting a stronger fourth quarter. Our backlog, product launches and our active order pipeline support these goals. That said, we continue to actively monitor macro uncertainty, including geopolitical events. From an execution standpoint, we continue to leverage our improved operating model and, at the targeted sales level, we target achieving positive adjusted EBITDA for 2019 in total while maintaining our ongoing R&D investments. We continue to be keenly focused on profitable growth.

That concludes my prepared comments, and now let's open up the lines for questions.

Operator: [Operator Instructions] Our first question comes from the line of Daniel Drawbaugh with B. Riley FBR.

Dan Drawbaugh: Congrats on the quarter and the growth rebound here.

John Hartner: Yes. Thanks.

Dan Drawbaugh: I'll start. I wanted to get a little more color from you about the momentum you're seeing in order activity, how you executed the second quarter's improvement up more than 40% on sales year-over-year and what gives you confidence in this mid-teens revenue outlook, just looking into your pipeline into that large fourth quarter you mentioned?

John Hartner: As we stated in the prepared remarks, we have a growing backlog, but we've just come off two major product launches and two major trade shows, particularly the GIFA is notable as it only occurs every four years. With those product launches and trade shows, our pipeline expanded dramatically. We have a lot of customer activity, and we're working hard to continue to convert those opportunities into orders. We have seen some customer uncertainty, but we continue to close business and believe we have a good shot at hitting our target for the rest of the second half of the year, including Q4.

Secondly, on supply chain, we feel comfortable with our supply chain being capable. As Doug mentioned, we're planning on that from an inventory standpoint and also from an installation standpoint.

Dan Drawbaugh: Got it. Okay. And then in the quarter, particularly strong growth in your indirect unit sales. Can you comment on whether that's customers that you already had taking additional machines or perhaps new customers coming online? Just curious what's moving that number.

John Hartner: I'll start and then Doug can chime in. The indirect product line is more mature as far as adoption in the additive space. We have many customers who have been using the technology for years and continue to move forward with deployment in existing facilities and new facilities. That, in turn, brings new customers on board. So, I'd say that covers most of it. Doug, anything else to add?

Doug Zemba: Yes. Dan, just to add a little bit more color, we did have a mix, especially on the indirect side, of customers that we've previously had machines installed with and new customers. In fact, even one customer who's a repeat customer upgraded or switched to a different binder set altogether. So, you're seeing a diversity and certainly an expansion of the purchases even of the existing customer base that we have.

Dan Drawbaugh: Terrific. Got it. Now from a cost standpoint, it seems like from a TTM basis, I think you mentioned that you've got the operational realignment fully included in the numbers. So what should we be thinking about as far as your R&D spending plans, your SG&A spending plans? Is the TTM number here a good way to think about an annual spend rate? Anything incremental coming up? Or any costs that may come out? Just curious what you're thinking about over the next few quarters.

Doug Zemba: Related to the R&D side, just to reiterate, we continue to invest in R&D and if you stretch out the run rate that we've had here both on a TTM basis and particularly in the quarters within 2019, you get a pretty good indicator of where we sit. We're coming off of two product launches, so we're going to be directing ourselves with some other activities once we get past those. Nonetheless, we're committed to those spend levels. On the G&A side, we noted in the prepared comments that the GIFA piece that came through in the current quarter, really the total trade show activities including our investment that we made this year in RAPID, were a bit of an incremental hit for the G&A line item and that we had, comparably speaking, a little bit higher equity-based compensation, which we would expect at the current levels to continue through the remainder of 2019. So, when you mark out the blip in the trade show-related activities, about $500,000 or so, the TTM number comes back more in line with what you should expect going forward.

Dan Drawbaugh: Okay. Fair enough. And then one last one for me. I was just hoping you could comment on your outlook for working capital in the back half of the year. It was a nice tailwind in the first half here. But should that be changing, given the higher sales number in the back half? Just what can we look for in that respect?

Doug Zemba: Specific to the third quarter, we're expecting to probably see a bit of a net outflow only because we have a pretty extensive build-up of inventory heading into that fourth quarter. For the fourth quarter, we expect things to balance out, and we don't expect our cash position to change a whole lot from what you're seeing midyear to the end of the year, assuming that we meet plan.

Operator: [Operator Instructions] Our next question comes from the line of Brian Kinstlinger with Alliance Global Partners.

Brian Kinstlinger: I was curious on the S-MAX Pro. You mentioned fourth quarter starting to see some sales of that product. Is that replacing sales that otherwise would have been of a different printer of yours or incremental? And then from a pricing standpoint, how will that change your average machine sale?

John Hartner: The S-MAX Pro has additional capability. We already have in hand orders from both new customers as well as significant commitments from existing customers to continue to deploy our technology with the new S-MAX Pro. So, that particular growth is a positive, incremental thing for us. From a pricing standpoint, we expect it to help firm and maintain pricing as we continue to drive better operating cost of ownership for our customers going forward.

Brian Kinstlinger: Great. And then maybe you can talk about the expected timeline, if I heard correctly, for the testing of the X1 25PRO. When should we expect that will be available also for general sale? Or should we foresee other beta customers that you plan to sign?

John Hartner: We anticipated and we already had beta projects in this third quarter, and we would anticipate shipping that as well in the fourth quarter, and we have commitments for customers there.

Brian Kinstlinger: Yes. Right. But I think you said they were in the testing phase. I mean is that a 3-month period? So generally, is that a 9-month period or a 6-month? I'm curious when you get the feedback and if you can make adjustments after that.

John Hartner: Well, we already have a firm order beyond the beta trials. That actually is scheduled for the fourth quarter, and the beta trial should normally take one to two months. I mentioned in my prepared comments that we are also doing some trial production in our facility on the machine. So, we have some customers that are going to make an evaluation for literally a week or two and then make the decision.

Brian Kinstlinger: Great. And then the margins obviously look great, the gross margin, so you referenced part of that was the cost cutting. Obviously, there was also a good compare from last year. Can you talk about how much fixed cost came out of the cost of goods sold as part of that cost realignment?

John Hartner: Difficult number to quantify. We know that, specific to our exit on Houston, on a regular basis, we are looking at roughly $0.5 million a quarter, but there have been some other costs that we brought down in other facilities across the board.

Brian Kinstlinger: Great. And then finally on the backlog, just so I understand. Backlog is not signed contracts; it's your opportunity that you're bidding on right now based on what you said of a goal to turn them into orders? Or is backlog signed commitments?

John Hartner: No, backlog is signed commitments.

Brian Kinstlinger: Great. And then is there an opportunity to split that between how you see that in direct versus indirect maybe?

John Hartner: We don't normally carve it up that way. We generally just try and monitor the consolidated figure.

Operator: There are no further questions in the queue. I'd like to hand the call back to management for closing comments.

John Hartner: Great. Thank you for your time today, and thanks to our team members around the world who work hard to drive collaboration, innovation and acceleration for the digital transformation of manufacturing. We look forward to updating you on our third quarter progress in November. Thank you again for your interest in ExOne, and have a great evening.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.