Operator: Welcome to The ExOne Company First Quarter Financial Results Conference Call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. [Operator Instructions] I would now like to turn the conference over to Karen Howard, Investor Relations for ExOne. Please go ahead.

Karen Howard: Thank you, Savis, and good morning, everyone. We appreciate your time today for the ExOne first quarter 2019 financial results conference call.

Referring to our slide deck, on Slide 2, on the line with me today are our presenters: Kent Rockwell, our Chairman and Chief Executive Officer; John Hartner, our Chief Operating Officer; 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. Kent, 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 https://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 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. Doug will go through a detailed review of the financial results. And then John will provide 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: Thank you, Karen, and good morning, everybody. Welcome to the ExOne Q1 report. I'm starting on slide 5. As you've seen in the release that we put out, we reported improved operating performance on lower revenues than the prior 2018 year. We had anticipated revenues may drop off in the first quarter, and had stated that in our Q4 call with you. In my opinion, the revenue reduction came as a result of some of the activities in the Q4 marketplace. The stock market sort of slowed up some capital spending decisions, but we thought it was an aberration at that time. I believe now that we've seen that it was because, based on the current order volumes in Q1 and Q2, we're seeing a healthy increase in revenues and in backlog. We're not concerned that this shortfall in Q1 will in any way impact our 2019 revenue goals or our performance objectives. We should see good revenue recovery in Q2 based on the backlog.

In terms of cost performance, gross margin increased to over 27% in this quarter and helped offset some of the loss related to the lower volume. Operating expenses were reduced by 13%, which is due to the changes in our business model, which should be very positive for us as we move forward. We're pleased about our cost-effectiveness.

With regards to backlog, most importantly, our order rate has picked up noticeably. Backlog grew to $18.8 million compared with $12.3 million at year-end 2018, and our pending backlog is improving as well for the year. So we still hold to our forecast for that period.

Moving to slide 6, we do see some encouraging progress taking place. The market conditions for binder jetting applications continue to expand in several areas. Particularly, the metal printing activity will generate a lot of additional momentum in the coming months as this technology is now moving from the prototyping labs to the production floor. The volume of opportunity for the metal printing is certainly in the hundreds of millions of dollars over the next couple years.

There are other high-value applications continuing to develop in carbon fiber and other applications. We did put out a release here recently about the Oak Ridge collaboration, which we're very pleased to have. We've been working with them for a long time, and to formalize our collaboration as we move into some of these new materials is very exciting for us.

We are planning to participate perhaps in the use of 3D printing of large sand molds for the reconstruction of the Notre Dame Cathedral. We've been asked by a couple people to examine that opportunity. There are a whole variety of things that are out there.

In terms of costs, our past cost containment efforts have led to cost improvements as we reported in this quarter. Doug will talk about that, so I'm not going to hang onto that too much. R&D for our newest machines is on schedule for deployment over the next 6 to 18 months. We're pretty excited about the productivity improvements that we'll provide to the market with those machines. We are developing a much broader customer focus globally. John Hartner has been very, very focused on customer development, and I think that we're going to see the results of that. John will be talking to you about that shortly.

In terms of the 2019 goals for this Company, we are very much on target for continued revenue growth and achieving the earnings goals that we had described earlier. I'm comfortable we're tracking that very well.

With that, I'm going to let Doug and John tell you how the quarter went. Doug?

Doug Zemba: Thanks, Kent. Good morning, everyone. Before I go into the details, I wanted to start with a broad comment on the quarter. While revenue was less than our prior year, our current operating model resulted in a much improved bottom-line performance. We think this current operating structure will result in significantly better leverage going forward in Q2 and beyond as we reach higher levels of revenue.

To explain the detailed results of this quarter, please turn to Slide 8 and we'll start with revenue. Revenue was $9.6 million in Q1 2019, down $2.3 million compared to Q1 2018, including approximately $400,000 due to unfavorable foreign currency. Remember that we told you in March that our first quarter revenue would be less than last year. On a trailing 12-month basis, revenue was up to $62.3 million.

Now let's go to Slide 9. Here you see that our first quarter machine sales were $3.3 million, down $1.2 million compared to Q1 2018. This decrease was impacted by the mix of machines sold and the timing of machine acceptance by our customers. On a trailing 12-month basis, our machine revenue was up 16% to $35.2 million.

Now if we can turn to Slide 10, we'll review machine unit sales. As a reminder, our direct machines directly print components, such as metal parts, and include our Innovent+ and M-Flex platforms and our soon-to-be-released X1 25PRO platform. Our indirect machines print tools such as sand cores and molds, and include our S-Max and S-Print platforms. Our indirect machines are our larger footprint systems, with such systems generally achieving a higher average sales value.

We sold 8 machines in the 2019 first quarter, representing a 33% increase over Q1 2018. However, our 2019 first quarter machines were more heavily weighted toward our direct machines, while in the first quarter of 2018 they were evenly split. This mix change impacted the machine revenue dollar fluctuation we saw in the last slide.

Sales of our indirect machines during the first quarter were to support global foundry applications. Sales of our direct machines were to a mix of industrial and research and development users. For the trailing 12 months we sold 58 machines, a 38% increase over the prior 12-month period. Again, you see the significant increase in direct unit sales, which grew 74% over last year to 33 machines in the 2019 trailing 12-month period, led by our Innovent+, which we introduced to market in April 2018.

Now let's turn to Slide 11. Recurring revenue, which includes our 3D printed and other products, materials and services, was $6.3 million in the first quarter of 2019, down 15% compared to last year's first quarter. For the trailing 12-month period, recurring revenue decreased 5% to $27.1 million. For the quarter, the decline is primarily attributed to a lower volume of printing projects based on timing of customer orders and the impact of the exit from our Houston, Texas facility executed in August 2018. For the trailing 12-month period, these decreases were offset by an increase in our aftermarket sales, including materials and maintenance services based on our growing global installed base of machines.

Turning to Slide 12, we'll talk about gross profit and margin. Gross profit was $2.6 million, resulting in a 27.6% gross margin for the first quarter of 2019, a significant improvement over the 22% margin for the first quarter of 2018. The improvement was driven by 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, and shows the improved leverage I mentioned earlier on our operating model.

For the trailing 12 months, we realized gross profit of $20.9 million and a gross margin of 33.6%, up from 26.2% in the prior period. The improvement was driven by higher revenue, as well as the benefits of our 2018 global cost realignment program and other restructuring activities that have been ongoing since early 2017. We expect this TTM comparison to continue to improve next quarter.

Please turn to Slide 13, and we'll discuss SG&A. Comparing the first quarter of 2019 to 2018, our SG&A expenses were down approximately $800,000, or 13%. The decrease was principally due to lower employee-related costs and consulting and professional fees resulting from our 2018 global cost realignment program. With the activities associated with 2 major industry events for our company in this upcoming quarter, that being the GEFA and RAPID Trade Shows that John will talk about later, we expect slightly higher SG&A next quarter.

For the trailing 12-month period, our SG&A decreased by $1.7 million to $22.4 million. The improvement was primarily due to lower equity-based compensation and a reduction in amortization expense, partially offset by higher employee-related costs in the first quarter of 2018, which were reduced in the second half of 2018 following the enactment of the 2018 global cost realignment program.

Please turn to Slide 14, and we'll discuss our investments in R&D. The 2019 first quarter reflects an approximate $400,000, or 13%, decrease compared with the 2018 first 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 but maintain strong progress in advancing our technology. We expect to continue this investment in our technology. And to reiterate, while we have reduced costs, this has not had a corresponding impact on the advancing development of our binder jetting technology as we've employed efficiencies in our development processes to improve their effectiveness with less overall effort.

Now if you'll turn to Slide 15, I'll review backlog. This past quarter, as we mentioned on our March call, we had a strong order flow resulting in growing our backlog to $18.8 million at quarter-end. Going into Q2, we have continued to see favorable order activity, and it landed in excess of $6 million of machine orders globally, including our first X1 25PRO order from a production customer, all of

which we expect to deliver and execute during 2019. We continue to have confidence in the strength of our customer pipeline. This strength supports our expectations for second quarter revenue, as well as a full year revenue growth rate in the mid-teens.

To remind you, 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-cancellable portion of our operating lease agreements. Backlog also includes orders from our global direct and indirect printing operations and other contractual services, such as our missile defense agency contract.

Turning to Slide 16, this chart represents a waterfall of our Q1 2019 cash flows. We had approximately $400,000 in cash capital expenditures for this quarter. Working capital changes resulted in a source of cash of about $1.5 million during the 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 to support our growth expectations for the remainder of 2019.

Our net loss net of noncash items and other used $2.9 million of cash, ending the quarter with $7.3 million in total cash. Our overall net cash outflow of $1.8 million for 2019 compares favorably with our net cash outflow of $5.3 million for the comparable quarter.

If you'll turn to Slide 17, you'll see our total liquidity at the end of Q1 2019 and year-end 2018. At the end of the first quarter, we had $20.4 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 plans.

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

John Hartner: Thanks, Doug. Good morning, everybody. Please turn to Slide 19, and I'll summarize our strategy that outlines how we accelerate binder jet printing adoption and our success. We have three strategic pillars.

The first is an increased focus on customers and new applications. Because of the breadth of what you can do with binder jetting, the diversity of materials and the scalability for production, we see many new applications that are unique and will carry high margins. We're going to focus on bringing those applications to market faster. Additionally, we are enhancing our customer-facing organization to improve coverage and engagement with global customers. These efforts should drive our long-term growth and our margins.

Secondly, as you know, we've been developing machines and solutions for this market for quite a while. But as binder jetting moves 3D printing more towards production, we have to drive further improvements in the total cost of ownership for our customers that will help broaden adoption, as well as open up new applications. Also, we have a range of different machines based on six different platforms. We want to be more modular in our engineering approach so that we can innovate faster, as well as have more scale and improved margins.

The third row talks about recurring revenue and leveraging our installed base. This is an area we have focused on to a degree. However, we've been more of a machine company in the past. I know the value of growing our recurring revenue at a faster pace. What does that do? Although it does not provide large top-line bumps like our big indirect machines might, a larger recurring revenue base helps us reduce top-line and bottom-line volatility quarter-to-quarter and year-to-year. Even more importantly, it gets us fully aligned with our customers' success. These 3 strategies are long-term in nature and will drive stable, profitable growth.

Let me give you some examples. Please turn to Slide 20, expand customer and applications focus. We have one example from our indirect business and one from our direct. First, washout tooling.

This application leverages our expertise in sand printing and knowledge of special coatings for industrial applications. While we first discussed the concept a few years ago, the application has been gaining traction with multiple customers as we've been perfecting the process together. For many aerospace, defense, and high-end automotive applications, people are using composite materials to create lightweight ducting or structural composite elements within aircraft or other vehicle systems.

That composite shape is formed over tooling, and that tooling many times has to be washed out with harsh chemicals. It's a complicated process that we've been able to simplify and eliminate the chemical waste streams. The process we developed prints the tool mandrel and uses just tap water to wash out the tooling. And to be clear, this tooling for composite ducting would be washed out for every set of composite ducting produced, so it's a nice recurring business. It's a new application that we started to sell commercially late last year, and we're growing sales this year and beyond.

On the direct side, we have significant experience with a number of metals; yet, given the material flexibility inherent in binder jetting, we have the opportunity to go much further. Silicon carbide is an advanced ceramic used for its thermal stability both in hot and cold applications, such as space. Over the last few years, we've been working with the Missile Defense Agency and, with that government funding, developed silicon carbide printing using our process. We've been very successful with that particular grant and are now moving this into select production applications.

The small part on the bottom is an unclassified sample part of a housing that would be used for an optical mirror mounting in a satellite. This is one application that's very high value, and we see many additional applications in aerospace, defense, and a variety of other industries.

Another example of how we're expanding applications, we recently announced a new collaboration project with Oak Ridge National Labs. We've been working with them over the past few years on a variety of research efforts. This latest collaboration will focus on the development of new binder systems. A goal of the project is to establish binder jetting as a leading low-cost method for the fabrication of advanced hard tooling. We believe that activities such as these will retain our edge over competitors and other production technologies for industrial additive manufacturing.

Now, if we can turn to Slide 21, I will highlight some of the activities we have underway to enhance and expand our technology. As you know, we have platforms for both direct and indirect applications. These are leading platforms in the industry, but we're constantly advancing them. We have to keep developing new machines that have higher throughput, higher capabilities, and the ability to handle a broader range of materials. The photograph shown here is the latest model that we announced, our X1 25PRO. We'll have one on display at the upcoming additive manufacturing trade show, RAPID, which will be held in Detroit two weeks from now.

Feedback from the initial machine testing has been positive. We are pleased to report that we already have received our first production order from an existing customer in addition to the two beta partners in process. The production machines will start shipping in the second half of the year. This machine builds on our very successful Innovent+ that was designed for MIM powder applications. We see this machine being a real success in expanding our capabilities into larger parts and higher production applications of MIM powders.

On the indirect side, we have a trade show coming up in June called GIFA, taking place in Dusseldorf, Germany. This is the largest casting show in the world, held only every four years. And we'll be introducing some really exciting new applications and new systems there that will continue to drive down the total cost of ownership for our customers, especially those moving into serial production. Again, this will broaden the applications for our system as well as expand our market potential.

Now, let's turn to Slide 22, and I'll briefly touch on where the additive manufacturing industry is going using an insightful slide created by ARK Investments. Traditionally, additive manufacturing was

oriented towards prototyping. Prototyping is when you build one or a few visual models, potentially moving into functional models before going into traditional production. Then, the industry started moving from prototyping into tooling and other molds. ExOne participates in both of these spaces. But the real buzz lately, where the acceleration in the market is coming from, is the industry moving into end-part production. We're talking about thousands, or hundreds of thousands of part lot sizes.

We agree with ARK and see this as a huge market with very low penetration at this point. It is commonly believed that this is going to drive acceleration of additive manufacturing, and we believe binder jet printing is the perfect technology to capture this growth.

Now, if you turn to Slide 23, I'll update you on the outlook for 2019 and beyond. As you know, it's difficult to predict timing of our customers' actions, but we continue to feel confident that our 2019 revenues will grow in the mid-teens. When thinking about a first half/second half revenue split, we continue to estimate it's about 35/65, which is consistent with our history. This means that we are expecting a strong second quarter. Our growing machine order activity and our backlog, as well as our customer pipeline, give us this confidence.

From an execution standpoint, we'll continue to leverage our improved operating model and anticipate achieving positive adjusted EBITDA for 2019 in total, while maintaining the R&D investments I spoke about a few moments ago. In addition to machine growth, we intend to grow our recurring revenue base by further penetrating our expanding installed base of machines. In the past, our cost structure had been a headwind against the profitability for our recurring revenue. Going forward, we anticipate this will be a tailwind with our revised structure and focus.

Finally, as we look beyond 2019, we anticipate revenue growth at increasing rates for each of the next several years, driven by our initiatives. To reiterate, these include expanding applications using our technology, broadening our machine platform range, and growing our recurring revenue base. And our focus is not simply growth for growth's sake. We believe we are now positioned where we can leverage our fixed cost base and achieve 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 Christopher Van Horn with B. Riley FBR.

Dan Drawbaugh: This is Dan Drawbaugh on the line for Chris. Thanks for taking our questions. I wanted to expand a little bit on a point that John brought up on the recurring revenue stream. Can you share with us what you're seeing as far as usage rates and materials revenue from your installed base? And can you provide a little more color on how you see that potentially evolving, going forward, as you drive these increased machine sales?

John Hartner: Recurring revenue includes a number of different elements relevant to the usage of consumables in our installed base, replacement parts, service contracts, parts production, et cetera. There are a number of things going on here. From the standpoint specifically of our installed base and usage, one of the things we're doing from a proactive standpoint is we've added an aftermarket-oriented business manager in the Americas and EMEA regions. Those folks are focused on understanding the usage rates within the equipment that's in the field, and better servicing those customers. I can't at this point talk about the specifics of the usage rates, although I would say, broadly, we're seeing good activity across the Americas and EMEA and Japan. I believe that will continue to increase as we improve our service levels to drive additional penetration and usage.

Dan Drawbaugh: And then, specifically within recurring related to the EAC demand, can you give us a little more clarity on Houston, as well as the other factors that may have been driving that reduction?

Doug Zemba: This is Doug. For Houston, we had about $400,000 of revenue for the first quarter of the prior year. When we exited that, we had flagged it. We were not going to be able to recover that through other facilities, given the distance between our Troy facility and some of the customers that we were sourcing out of.

Related to other EACs with respect to indirect, the pace continues. We're looking to grow that business long-term. On the direct side, you see sort of a mix. We have a pretty good customer pipeline related to direct-to-consumer parts and we also feel that there's growth in industrial and frame orders. We really are investing in the frame orders which could ultimately become a big opportunity for us in the future. We're not seeing it right now. But if big orders come through in sort of the serial production or the production lots that we anticipate coming out of the direct printing, that's the catalyst for that group.

Dan Drawbaugh: And then, really nice progress from an OpEx and gross margin standpoint, kind of rewarding some of those changes you made in the past year. Can you perhaps provide a little clarity on the step-up you mentioned in the second quarter, though? You said SG&A should be slightly higher. Is that sequentially? Is that year-on-year percent of sales or dollar basis?

Doug Zemba: It's going to be sequential. The investment that we're making in GIFA, given that it's a once per every-four-year show, is substantial. So that's going to cost us some money, which we have built into our plans. We wanted to make sure it was clear that we expect an uptick based on our participation in that show.

Operator: [Operator Instructions] This concludes the question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Kent Rockwell: This is Kent Rockwell. Again, thank you for your time today. We're always available to answer questions. And frankly, we are, as we've tried to indicate here, pretty enthusiastic about the direction we're headed. We think that the subsequent quarters are building nicely, and very much in line with the expectations we've provided to all of you previously. Thank you for your time and joining us today, and feel free to contact us if you need to.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.