Operator: Greetings and welcome to The ExOne Company Second Quarter 2018 Financial Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder this conference is being recorded.

I would now like to turn the conference over to your host, Karen Howard, Investor Relations.

Karen Howard: Thank you, Cheri, and good morning, everyone. We appreciate your time today for our second 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 yesterday afternoon. 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 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 in 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.

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 our quarterly review for the second quarter of 2018. Please turn to Slide 5. ExOne, late in the quarter, instituted several management changes which we've announced and I'll just go over those quickly again. I have returned to the role of CEO in addition to being the Chairman. Brian Smith, who was formerly our CFO, is now in the role of Senior Vice President for Corporate Development. Doug Zemba, our former Chief Accounting Officer has taken the role of CFO and Treasurer. Also, Jared Helfrich has moved into the Chief Commercial Officer role to run that business for us. Additionally, after the quarter, we added a new Board Member, Roger Thiltgen. Roger has a lot of 3D experience and is a technology investor from Texas, and we're pleased to have him join us.

Beginning late in Q2, we initiated several cost reduction activities to remove inefficiencies from our cost of goods sold, to slim our G&A, and review our R&D spending. To date, we've identified

$6 million worth of implemented savings, and I believe that there is more that we will implement as we go through the year. Brian will touch on those. Our target is to get $10 million of costs out, on an annualized basis, by the end of the year. That is to help us achieve our goal of profitability and positive cash flow as we hit 2019. Secondary to that goal, we want to see a substantial improvement in our second half performance, and you'll hear more about that specifically from my associates here in just a minute.

I'm going to provide a few quick comments on the strategic focus of the company in the next two slides. As noted on Slide 6, IDC recently reported, and I'm just reprinting some of their highlights, that the 3D business by 2022 will be $23 billion in volume. The growth rate for the hardware side of that has a CAGR in excess of 18%. Printers and materials will be two-thirds of that, or $7.8 billion to $8 billion. The biggest chunk of that's going to be spent in the U.S., followed by Western Europe, where we're co-located.

Moving to the next Slide, 7. I want to give you my perspective on the ExOne vision of how we fit within that realm of activity. If the global market is $23 billion, growing from the less than $8 billion that they've reported for 2017, the subset market of binder jetting technology, since this is a very large market, is about 10% to 15% of that in our estimation which would be a $2.5 billion to $3.5 billion market. ExOne is applying its capital and all of our human resources to try to achieve at least 10% to 15% market share.

If we can accomplish that in that timeframe, that's a $250 million to $500 million market share, and I think that we are well-positioned to do that. We spent a great deal on R&D funding in the last few years to bring on the new machines that will be robust production machines generating all this market activity. So, we've had to spend an extraordinary sum in the last two years to be able to get there.

With that, I'm going to pass this over to Brian Smith, who'll give you some additional highlights.

Brian Smith: Okay. Thanks, Kent. Good morning, everyone. Before I start, I'd like to congratulate Doug on his promotion to CFO and Treasurer. ExOne has benefited greatly from his energy and his experience over the last six-and-a-half years. He's an accomplished professional and he's very well-prepared for this next opportunity in his career.

If you could please turn to Slide 9, I will summarize some of the highlights from the quarter. We finished the quarter with $10.9 million of revenue, which is certainly lower than what we expected. Machine revenue was impacted by the timing of our customers' acceptance of our machines, that not being consistent with our expectations of their cadence. We currently have 18 machines shipped to our customers that are awaiting arrival, installation and/or acceptance.

We expect an approximately 80% machine revenue weighting in the second half of 2018, as opposed to our general historical weighting, which was much closer to 70%. Our strong backlog of $26.6 million including these 18 machines that I mentioned, our pipeline of opportunity as well as our available inventory of machines and our current understanding of our customers' action plans and timelines, tell us that our 20% growth goal for 2018 is achievable if we execute on the delivery and installation of our machines. Our trailing 12-month revenue growth of 19% is very close to that 2018 annual goal.

Moving to our activities in our direct metal machine development, we shipped and recorded in revenue our first Innovent+ machine in the second quarter. To date, we have received orders for six more Innovent+ machines that we expect to deliver later this year. The Innovent+ includes our brand new patent-pending ultrasonic recoater system. This recoater works extremely well with cohesive powders, that being powders that are difficult to spread evenly, namely finer powders, including those associated with the metal injection molding (MIM) industry.

Printing these MIM powders is important, as they're generally well-understood powders that have documented material properties and sintering profiles. This knowledge base can speed up the users' development of applications, and since these powders are more broadly used, they are generally less expensive than many other powders used in 3D printing.

We're also excited about the testing we have done in the second quarter with our recoater on larger build boxes. We currently believe this system is scalable and is planned on both of our new fine powder direct metal machines that are under development. Those machines being our new mid-size build box printer, the M-Flex 2.0, as well as our new large build box printer, the M-Pro.

Now, please turn to Slide 10. Here you will see our direct product roadmap, split between machines and some of the materials we are using in the print process. We are making very good progress on the M-Flex 2.0 as well as the M-Pro. As part of our recent changes, we have created strong interaction between these two development teams, which has allowed us to scale the development of both machines with lower overall expenditures. We expect to release these printers for sale to our customers in 2019. The initial customer reception of the Innovent+ gives us great expectations for the release of these two new printers.

On the materials side, we are working on and will be releasing several new metals into the market later in 2018 and in 2019. High density 304 stainless is expected for release this fall. This material is commonly used in the mining and construction industries. A 718 nickel alloy is expected in the first half of 2019. This material has properties that make it corrosion and heat-resistant, and will target applications in the aerospace, energy, medical and nuclear industries. We also expect several new tool steel releases. Because of the distinctive hardness of these materials, they are resistant to abrasion and defamation, and therefore, work very well in tooling for a variety of industries.

In terms of new market opportunities on Slide 11, we're excited with the success in our development of printing carbon materials, principally for plates, molds, and specialty graphite applications. We previously announced our partnership with SGL in this area, and that is moving forward nicely with the expected delivery of our first S-Print for this purpose in the second half of this year.

Based on our printing success over the last two years under our Missile Defense Agency contract, we were awarded our third year. This award, of approximately $500,000, will be completed by June of 2019. Later in this contract year, we will be pursuing a commercial contract to print commercial products for this important customer. This, as well as our other efforts in the ceramic area, is allowing us to expect to offer machine sales to be used for printing silicon carbide initially for wear parts and tooling in 2019.

In the area of composite tooling, our Washout Tooling process is in the final stages of ISO compliance and we expect to deliver parts to a commercial customer in the aerospace industry in the second half of 2018. These tools will be used for the production of ductwork on various aircraft. Our plans are to broaden our commercial efforts for this product to several other partners in 2019.

Now, if you'll please turn to Slide 12. We're making great progress on our global cost realignment initiative that we announced in late June. Our early efforts have been focused on disciplined spending principles, and identification of redundant and overlapping costs. To date, we have reduced, or identified for reduction, over $6 million of expense, principally in the areas of consulting, excess positions in our employee base, and in travel costs. Culturally and process wise, we have instituted changes to increase communication and coordination across the company.

In the second half of 2018, we are focused on asset optimization at each individual facility and opportunities to outsource. Longer term, we'll have a broader effort around supply chain enhancements for both our machines and our consumables. Our targeted efforts for working capital will be to continue our good progress with our customers on standardizing contract payment terms, shortening our PO-to-acceptance process, as well as other efforts to turn our inventory more quickly.

With that, I would now like to turn it over to Doug to discuss more details around our results.

Doug Zemba: Thanks, Brian. Good morning, everyone. If you could please turn to Slide 14, we will start with revenue. Revenue was up 1% to $10.9 million in Q2 2018 compared to 2017. For the 2018 trailing 12 months, our revenue was up 19% over 2017. Recall that we had guided to revenue growth in excess of 20% for 2018 and we are still on track for that goal.

Now, we'll go to Slide 15. Here you can see that our second quarter machine sales were down 25% to $3.2 million as compared to Q2 2017. There were seven machines sold in the 2018 second quarter. Included in our Q2 sales are one of our S-Max machines, one S-Print, one M-Flex, our first Innovent+, and three Innovents. So, it was a diverse mix of platforms, driven by our customers' varying application needs. Four of the seven machines were sold to customers that are already operating our machines and three were to first-time machine customers.

Last year in the second quarter, we recognized eight machines. They were more heavily weighted toward our indirect systems which generally have a higher average selling price causing lower revenue dollars in this year's second quarter. Please refer to the table in the back of our release that shows sales by machine type.

Industries we sold our machines into during the quarter included automotive, tooling, and energy. We also sold machines to a metal powder company's research group and a European research institute, the third such printer acquired by this research institute. Referring to the trailing 12-month revenue chart on the right of this slide, you can see the Q2 2018 machine revenue was up 30% over 2017 to $29.2 million.

Now, if we can turn to Slide 16. Here you'll see shipments and revenue recorded in units by machine type for the first and second quarters and year-to-date in 2018. We shipped 16 machines during the second quarter, 25 during the first half of 2018. At quarter-end, there were 18 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 nine of our indirect machines and nine 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.

Now, let's turn to Slide 17. Non-machine revenue was $7.7 million in the second quarter of 2018 and $29.6 million for the 2018 trailing 12 months. This reflects actual growth rates of 17% and 11%, respectively. The growth was driven by significant increases in demand for our direct printing operations as well as an increase in aftermarket sales, including maintenance services and ancillary equipment, related to our expanding global installed base of machines. These increases were partially offset by a decrease in sales from our indirect printing operations.

Now, if you'll turn to Slide 18. We finished the quarter with the total backlog of $26.6 million while also achieving 5% revenue growth over the trailing 12-month period. To remind you, backlog includes firm orders received from our machine and non-machine customers. This includes the 18 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 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, where we were recently awarded funding for the third contract year.

The machine portion of our backlog includes customers in the automotive, aviation, education and research, pumping valve, power, metal powder, tooling, energy and general manufacturing industries. This level of backlog, combined with our pipeline of opportunities in our existing machine inventory and supply plan, gives us confidence in our expected revenue growth for 2018.

Turning to Slide 19, we'll talk about gross profit and margin. Gross profit was $1.6 million resulting in a 14.6% gross margin for the second quarter of 2018. For the trailing 12-month period, we experienced a gross profit of $15 million and a gross margin of 25.4%. Our current period margins were impacted by a write-down of our industrial microwave inventories for which we have discontinued future manufacturing. This write-down was less than the impact of our write-down of inventories associated with our Exerial machine platform during the second quarter of 2017. The 2017 second quarter was also favorably impacted by a gain recognized from the sale of our former Las Vegas facility.

Please turn to Slide 20 and we'll discuss SG&A. Comparing the second quarter of 2018 to 2017, our SG&A expenses were up about $400,000. The increase was principally costs associated with the actions taken to affect our global cost realignment program and separation costs for our former CEO.

Please turn to Slide 21 and we'll discuss our investment in R&D. The 2018 second quarter reflects a $900,000 increase over the 2017 second quarter as we accelerated development activities for our M-Pro and M-Flex 2.0 projects.

Now, let's please turn to Slide 22 to review CapEx. Our cash CapEx remains very modest. Our second quarter cash spending was about $300,000 compared to about $100,000 for Q2 2017. We expect this cash CapEx level to continue in 2018, and we estimate spending will be approximately $1.5 million to $2 million for the full year.

The noncash 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, as well as transfers from PP&E to inventory principally to support commercial sales activity with customers.

Turning to Slide 23, this chart represents a waterfall of our first half 2018 cash flows. I mentioned cash CapEx previously. Working capital changes resulted in an increase of about $2.6 million, principally from collections on AR and deposits on customer orders. This is offset by increases to inventory to support our expected revenues in the second half of 2018. Our net loss, net of cash and other items used about $11 million of cash in the first half of 2018, and we ended the first half at $13 million in cash.

If you'll turn to Slide 24, you'll see we continue to have virtually no debt on our balance sheet.

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

Kent Rockwell: Okay. Thank you, Doug. Please turn to Slide 26. The clear focus for our company going forward is that we maintain good revenue growth. I can tell you from examining the backlog, the order rate of activities, and from our sales force reviews that we do every month, that we will be able to sustain or achieve revenue growth in excess of 20% in the year despite the fact that we were anemic in this quarter. That really just had to do with customer-related activities with regards to revenue recognition. But I'm comfortable that the growth rate is positive and that we'll get to our annual 2018 goal.

We've spent $4 million in incremental R&D. We earlier said that we probably will spend a little bit more than that. The spending has been a little bit less, and I don't think that we need to spend quite as much as was anticipated in our prior releases. So, there is plenty of money to get the two new machine programs accomplished, so that we have these fine powder machines as we get into 2019. The demand for those machines looks to be quite positive.

We are expecting cash flow to stabilize and quite possibly improve during the second half of 2018, so that our cash burn is going to ebb to a good degree along with that revenue increase. The $10 million of cost savings that both Doug and Brian have discussed, are very real. We've gotten well more than half of that already captured and it's just a question of timing to get these other cost savings implemented in order to see that we have a cost structure that we should have for this company to be able to operate profitably in 2019.

Our capital resources are sufficient. We have enough cash. If we hit these plans with this 20% revenue growth rate, we have more than enough cash to be able to meet all of our operating needs and to move into 2019 successfully. So, we have no other plans with regards to raising any capital at this point in time.

With that, I'd be glad to take any questions.

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question is from Chris Van Horn with B. Riley FBR. Please proceed.

Chris Van Horn: Good morning, guys. Thanks for taking the call.

Kent Rockwell: Hey, Chris. How are you doing?

Chris Van Horn: Good. So, just starting with the cost savings, thank you for giving some color and some quantification there. Can we get a sense of – it sounds like they're starting right now and it looks – correct me if I'm wrong, but $6 million in 2018 going to $10 million in 2019. How do we think about the cadence of that? Then, are there any areas on the income statement that are more outsized than others, i.e., COGS versus SG&A versus other places?

Doug Zemba: Sure, Chris. So, just to clarify, we expect in the second half of 2018, with the actions that we've taken that we'll realize savings of approximately $2 million to $3 million over the first half. Of the $10 million that we expect for 2019, we believe we've already targeted or acted on about $6 million. I would say, in general, that the savings are tipped heavily toward G&A, but it touches all three components. We do believe that our overhead costs can come down substantially for some of our facilities. As Kent mentioned, we've taken a second look at some of the R&D spending and feel like we can control it a bit better.

Kent Rockwell: We did have, Chris, some consulting charges that were hitting costs of goods sold which have been terminated. So, that will also help margin.

Chris Van Horn: Okay. Got it. Thanks for that clarification. The Innovent, obviously, doing very well in the marketplace. I'm just curious what – if you could give us more visibility in terms of the timing of Innovent+. Is this a large volume format printer and just what are the really big target markets for this technology?

Brian Smith: The Innovent is our smallest printer, so it's got a very small job box. It's really targeted toward both university markets and research labs for many companies. So, the way we view that Innovent now, the Innovent+ is the precursor to companies moving to the new M-Flex 2.0 or the M-Pro. They can prove up printing the powders that they want to print in that Innovent. Then, we would look to production out of the next two machines when we release them.

So, we think Innovent+ is very important, and the response to our release of it already having one in revenue and six more that we've got orders for is pretty quick. I think in total, we were looking to sell roughly 25 Innovents for the whole year, in a ballpark number. So, the growth of that machine sale is really good for us, albeit it's a smaller price point, $150,000 to $200,000 per machine generally.

Kent Rockwell: I think anybody that's going to use the large format printers that we're bringing into the market in the 2019, is going to take one of these smaller ones through – if they don't use it through some association or the university, they'll own one themselves to be able to prove out their materials, so that they know how to move into production effectively. So, it's a starting tool for them, but it's been well received and we think that there's going to be a lot of demand for the Innovent+, because it's really the fine powder solution whereas the straight Innovent uses a larger micron powder size.

Chris Van Horn: Okay. Great. Got it. Then just wondering if you could comment on the usage rates at the customers, because you've seen sequential growth in the services and the materials, and just wondering if you're seeing any trends there?

Kent Rockwell: Well, we've seen multiple buying from customers. On the indirect side, we started off slower than we had anticipated, because there was resistance from our customers in buying indirect machines, because it was primarily the foundry technology, and the foundry guys are lower return, high capital intensive facilities. They really didn't want to make the transition to this new technology.

Their customers drove them to make that transition, and bit by bit we have gotten to the point now where the foundries themselves recognize they no longer can avoid this. So, we're seeing with certain customers, OEMs that operate their own machines, they're now moving into their third and fourth machines. We think there's going to be plenty more of that. The recognition that this technology is profoundly accepted and obsoleting other processes is now becoming clear in the indirect printing markets.

On the direct side, it's much more nascent, but it's also probably higher growth in terms of the total opportunity in the market. That was described in the IDC materials, as much more towards metal printing than it is the sand or coarse powder printing. That too, we believe, is going to come alive very substantially as we move into 2019. It's all about getting powder size down to the 10 to 15 microns, and right now, we've got the predominant offering for that in our Innovent. It will migrate to the larger platforms. First to the M-Flex 2.0, and then finally to the M-Pro, which will come online as we get to mid-year of 2019.

Chris Van Horn: Okay. Great. Then, obviously, it seems like activity is picking up especially in the back half of this year, and we're hearing from OEMs and others that additive manufacturing is really expanding. So, maybe more from a broad strategic point of view, how are you seeing the marketplace? It feels like adoption is really ramping. Maybe any comment on the competitive nature of this space? I know you guys have a very unique technology and you've got some competitive advantages. But just wondering what you're seeing from a competitive standpoint? It seems like the market is really building. I just want to see what commentary you have around that. Thanks so much.

Kent Rockwell: Sure. Just in that regard I'll bifurcate it into the two pieces. In the indirect market, we believe we own a dominant market share and we do not see any strong competitive influences touching that market at this point in time, although, we recognize that we need to continue to make enhancements to that technology and we're looking at doing some of that as we move through 2019. But right now, it's just about broader market acceptance of the technology. As I said, we have operators that are buying their third and fourth machines, and some of these people will be able to use 10 or 12 of them as they get into full swing. So, I think it's all coming along fairly well.

Chris Van Horn: Great.

Kent Rockwell: The direct side, comparatively speaking, there's no one out there that's offering the efficiency of the Innovent+ that we're offering, but there's obviously large players out there that are viewing this market with a lot of opportunity. None of them are offering product that competes with us yet, but we fully expect to see the HPs, the GEs, the Desktops, they're all going to take a shot at it. There's no question. I'm sure that they'll be successful in varying degrees.

My own opinion about that market is that demand will exceed supply over the next three to four years. The opportunity for applications is so diverse and the market is so large that I don't care how much GE or HP could bring online, there will be opportunities for all players, just like in the automotive industry, there's a Kia and there's a General Motors and there's a Ford, and I think that all of them are relatively healthy. That's what you'll see for the next five years.

Chris Van Horn: Perfect. Thanks so much, guys, for taking the time.

Kent Rockwell: Thank you. Sure.

Operator: [Operator Instructions] There are no more questions at this time. I would like to turn the call back over to management for closing remarks.

Kent Rockwell: All right. Thank you for taking the time, and we'll keep you advised as we move forward. We're comfortable that we're moving in the right direction, and actually pretty excited about what we're going to see over the next 12 to 24 months. Thank you, again.

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