The ExOne Company
First Quarter 2013 Financial Results
May 15, 2013
NASDAQ:XONE

Operator: Greetings, and welcome to the ExOne Company First Quarter 2013 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. A brief Question and Answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for ExOne. Thank you. Ms. Pawlowski, you may now begin.

Deborah Pawlowski: Thank you, Melissa, and good morning everyone. We certainly appreciate your time today for ExOne’s First Quarter 2013 Conference Call. On the call with me are Kent Rockwell, Chairman and CEO; David Burns, President and Chief Operating Officer; and John Irvin, Chief Financial Officer. We will be reviewing the results of the quarter, and we'll also provide an update on the Company’s strategy and outlook.

If you do not have the slides that accompany our discussion, they can be found, along with the earnings release, on the Company’s website, www.exone.com.

The Safe Harbor Statement is noted in full on slide 2. As you may be aware, we may make some forward-looking statements during this discussion, as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties, as well as other factors which could cause actual results to differ materially from what was stated here 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 at the Company's website or at sec.gov.

So with that, let me turn the call to Kent. Kent?

Kent Rockwell: Good morning everybody thanks for joining us today. It's only been two months since we had our last call, but we're pleased to get back and speak with you again about our first quarter results, which we feel were pretty much in line with the Management expectations. We think that the progress we made in the quarter was good, and remain confident that our plans for the full year are still pretty much the way we last discussed it.

I'm going to make some closing comments, but I'm going let Dave Burns go over our operations, and John will then review the financials. David?

David Burns: Thank you Kent and good morning everyone. If you could, let's flip ahead to slide 5, which is titled Strategic Focus Diversified Revenue. As I believe everyone already knows, our Q1 2013 revenue was $7.9 million. That was in line with our internal expectations, and it was precisely on our Management plan for 2013. Just as a reminder, we've said on an ongoing basis that we expect the first-half revenues to be 35% to 40% of the year's revenues and the second-half to be 60% to 65%, and as such, $7.9 million is precisely where we expected to be at the end of Q1.

You may also recall that we've talked about both a division by product line and division by region as sort of strategic focuses for us. We're hoping, over the long-term, to have a Company that ships about 50% of its revenue as a result of machine sales, and about 50% of our revenues coming from the Recurring Revenue category, which would include the output of our PSCs, the sale of consumables, service, or spare parts. The split for Q1 was 47% PSCs
and 53% machines as you can see there, and of course that's going to bounce around depending on machine demand in a given quarter, but I think it's a useful benchmark since it is something that we focused on. Secondly, in terms with our regional splits of revenue, you can see on the right-hand side that almost 50% of our revenue in Q1 came from Asia, and 31% and 21%, respectively, from Europe and the Americas. Three of the five machines we shipped in Q1 went to the Asian region; therefore, revenue on the Asian side was a little bit stronger. Again, I don't see this as any sort of ongoing trend. We're hoping that one third, one third, one third split, is an average over time, of course, but this is the snapshot of the Q1.

If you could flip ahead to slide 6, we'll take a quick look at machine shipments for the quarter. Again, what I hope you recall, is that ExOne has said from the beginning that our job is to be the industrial purveyor of additive manufacturing processes. We're focusing on creating shop-floor ready and industrial-grade equipment, and we spent the last couple years focused on increasing the volume metric output per unit time that our machines are capable of, which drives down unit cost, because we see our task not as competing with other additive technologies, but we see our task as displacing traditional processes with, as we said, shop-floor ready equipment, with reasonable unit costs that brings in all of the other amazing advantages of additive manufacturing.

We shipped five machines in the first quarter; the split-out by model: we shipped two of our Max platform; one of the Print platform; one Orion Laser machine, a micro-machine that uses a laser for micro-drilling; and one machine which is off of our Lab platform.

During the last call, we talked a bit about the development of the sales force. We added one more full-time sales person. We currently have 12 full-time salespeople around the world. Our target today, with the territories we've already acknowledged that we're going to fill with sales slots, we're headed for 17, and we believe we're going to get there during 2013. We're also engaging dealers in appropriate territories such as China, Brazil and India, so the full-time salespeople don't tell the whole story. We're also expanding our dealer network, and we're doing it systematically as the year progresses.

If you could skip to slide 7, please. The focus here is on the recurring revenue side. We intend to grow our revenues in two different ways. One is that we are, internally, within our PSC network, replacing older versions of our own machines with the more productive machines that we've released in the last year or two. We've shipped a couple machines very recently through our own PSCs, which increase those PSC's capacity, and at the same time you remember that we're focusing on increasing the number of PSCs from five to 15. We are gratified to see a 37% growth in recurring revenue in Q1 year-over-year, and that, really, was in all categories; printed parts, consumables, and service and spares, as well.

We are actively working on our strategy to increase our number of PSCs. We've talked about adding two to three this year. Our active targets, we've expanded the number of targets we're focused upon to five at the moment, spread across all three regions of the world. We will be bringing you news over the next several months about the expansion of the PSC network, but that is proceeding, within our internal planning, about on plan. One of the variables that affects the rate at which we rollout PSCs and the decision about whether or not we're wanting to, in fact, build a building as opposed to lease an existing building, and so that'll bounce the actual start dates around a little bit, but we are on track for opening PSCs this year.
Slide number 8, I simply wanted to create sort of a catch-all slide to talk about the news of the last seven or eight weeks. It's titled Advancing Our Strategic Plan. Of course, backlog is important, and our backlog at the end of Q1 was just about $9 million. The preponderance of that was in machine orders and we have, of course, received machine orders since then. So we have adequate backlog and adequate pipeline to support the projection we've had for of volume for 2013. Hopefully you saw the announcement that we opened a new materials testing laboratory in Southern Ohio; this is part of our strategy to increase the rate at which we're going to be introducing new materials to the market. You may remember that we talked about trying to release, to the market, a new material every six months, and we are well on-plan to do that.

We got our first order for an M-Flex machine off the new Flex platform. We showed the platform for the first time at IMTS in Chicago in September. We've gotten our first order for the machine to go into Canada, and it will be delivered right at the end of Q3, and we have many, many prospects for the Flex platform that we expect to realize here in the next few months.

Last call, we talked about focusing upon our intellectual property capabilities, and one of the things we've done in the last several weeks is we've gone out and hired a full-time patent attorney who will be in-house and will accelerate the rate at which we are applying for and receiving, IP of all types around the world.

I returned last Saturday from Shanghai, and we're opening a business development office in the Shanghai free trade zone. We did some interviews of perpetual full-time staff that we will be hiring and employing as full-time ExOne personnel to help us focus upon the opportunities in the Chinese market. We've already sold two machines into China, and we've got a burgeoning network of potential distributors, and so we feel strongly that we need somebody on the ground to help manage all of our efforts in China, and we will be announcing the hiring of that person fairly soon.

And the last thing is that we've got a couple key upcoming sales events. One, many of you are aware of the fact that the RAPID show, which is the premier additive manufacturing and 3D printing show in the United States, will take place in Pittsburgh the second week of June, and we will have a major presence there, as well as opening up our doors here to both investors and customers.

The week before that, we'll be down in Brazil for the major Brazilian industrial show called FEIMAFE. It is exactly the week before RAPID and I'll be down there for the week. We are steadily moving towards increasing our presence in Brazil, and we also hope to talk about that soon in terms of what exact form that's going to take.

With all of that, I'm going to turn the microphone over to John Irvin to review a little bit more detail about our financials. John?

**John Irvin:** Okay, thank you David. Good morning everyone. At this stage of our early public life, I wanted to simply say that we have a relatively easy business model to understand. We discussed two product categories on slide 10, 3D printing and Laser machines, and then 3D printed parts, consumables, service and other, which we simply refer to as PSC revenue.

Revenue for the first quarter was $7.9 million, up significantly from the $2.7 million from last year's first quarter. The growth was a result of increased customer demand for our machine
technology and also a growing interest in additive manufacturing by global industrial manufacturers.

We sold four 3D printing machines, and our first Orion Laser machine in the first quarter. Revenue from the machine sales was $4.2 million, and sales from the 3D printed parts, consumables, service, and other, which we refer to as the PSC sales, was $3.7 million in the first quarter. This is up 37% from $2.7 million in the prior period. Of the PSC revenue, 10.7% was related to the sale of consumables.

Turning to slide 11, this illustrates our improved gross margin during the first quarter of 2013 compared with 2012. The gross profit was $2.8 million in the first quarter of 2013, and that was up from $800,000 in the first quarter of 2012. Higher volume, favorable sales mix, as well as efficiency and capacity upgrades of our PSCs led to gross margin as a percentage of sales of 35.8% in 2013’s first quarter, improved over the gross margin of 30% in the first quarter of 2012.

During the quarter, we sold our first Orion Laser machine, as David said. The Orion uses a concentrated laser pulse to drill very small holes into metal. This is our only 3D machine.

Please turn to slide 12. Operating expenses for the first quarter of 2013 were $4.4 million, which consisted of $3.6 million of SG&A, and about $850,000 of research and development. This compares with operating expenses of $2.2 million in the first quarter of 2012, which consisted of $1.7 million of SG&A and $500,000 of R&D. SG&A as a percentage of sales was 45% in the first quarter of 2013, and 62% in the first quarter of 2012, as we realized some operating leverage on our higher sales volume. Our increased research and development expenses were primarily for our new materials development, and we will continue to invest in these new materials, as well as increasing machine efficiencies as we move on.

On slide 13, let me talk to you about our balance sheet. On March 31, 2013, we had $2.3 million of debt on the balance sheet after paying down $15.8 million of debt during the first quarter. Cash used in operations during the first quarter of 2013 was $3.0 million. Our cash balance was $71 million at the end of the quarter and shareholders' equity was $85.7 million. We continue to plan on investing approximately $40 million to $50 million during 2013 and 2014 to fund the expansion of our global manufacturing capacity and our PSC development.

So, with that, let me turn this back over to Mr. Rockwell. Kent?

Kent Rockwell: Thank you, John. I just want to cover some of the tactical issues and some of the strategic issues that we're facing as we move along.

First, I'll remind you that we are truly, even though we're a small Company, we're a truly a Global Company. David provided you with what the revenues were in this past quarter, but again, less than 30% in U.S. dollar revenues, and so, the preponderance of it is in the Eurozone and in Asia.

Within the Eurozone, we actually saw a softening of capital spending reported in Germany, France, and some of the other Eurozone countries. Starting back in November and decreasing in December, we saw a reflection of that somewhat in some of our pricing in the PSCs. That continued to be a little soft in January and February, but in March it's appeared to pick up, and I think that it's showing signs of getting stronger. We had a similar experience in
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the U.S., actually, where spending was lower than we had anticipated in January. In February it was fairly flat, and then March, April, it’s picked up quite a bit. So I think that that may actually be more of a seasonal issue as we start to examine how the revenues flow in and out of these PSCs.

The yen devaluation hit us in terms of revenues and, to a certain degree, in profits in this quarter. But the impact of the yen in Japan, in particular, is probably positive for us over the long run, and so we are seeing increased capital spending visibility with our Japanese customers and some of the other Asian customers. So, overall, it’s been a little slow getting started. We actually saw that same thing in the prior year, so again, that may be more of a seasonal fluctuation in the PSCs, and we’ll have to analyze it further as we move along so that we are still a highly strategic, involving Company.

The PSC network development David described for you briefly, I think, frankly, we’re doing fine, and if there was anything that was an issue for me there is that we may end up buying more of these facilities than we will be leasing them, and that may take us a little bit longer to get them turned on. We’re talking about a 60 to 90-day timeframe on some of that, but it’s all moving positively. I think the facilities that we’re looking at, we recognize basic customer demand at each one of these new facilities.

The M-Flex production has been initiated. We’ve changed over our facility here. Those of you that are coming to the RAPID show will have the opportunity to see that when you visit us during the RAPID show, which is here in Pittsburgh in June, and we invite you all to come visit us at that time. My biggest concern is that I believe demand could exceed our expectation for those machines, and so we’re trying to determine how we can expand machine output beyond our initial concepts to scale up, perhaps, a little bit more in 2014. I think it’s an important thing that we do that. The reason I say that relates to the materials, David also touched on that, the materials—we will have materials coming online that will open up new customer opportunities for us. This year, we’re working on some IP-related to the processing of these new materials, but I’m generally very comfortable that we’re on track for all that.

Operating expenses are stabilizing, they’re a little higher than we’d like them to be, but when you’re trying to be a global Company, when you’re trying to be a high-growth Company, and when you’re trying to be a GAAP-reporting Company, you don’t have a choice about your operating expenses at this size. You have to scale up to do it professionally, so the first thing is to make sure that we’re doing everything proper and in doing that, our operating expenses are of necessity, a lot higher than they were in a prior period because we’re now a public Company and we have a lot of additional reporting responsibilities. But I don’t think they’re, by any sense, out of whack with where they should be, as we look at our strategic plan moving into the next three-year period as a percentage of sales, and they’ll obviously come down as a percentage of sales as we move forward.

Taking a more strategic perspective, the demand for 3D printing is increasing globally, across the board, and there’s absolute clear evidence everywhere—most of you who are listening to this are probably evidencing that in other articles and other companies that are in the 3D world. So additive manufacturing is moving very positively, and we’re enthusiastic about our opportunity to play an important role in that field.
I want to remind you that our moniker says direct parts materialization, but in fact, when we produce sand molds and cores, that's what we consider to be indirect parts materialization, in as much as those molds have to be taken to a foundry and poured, and so, probably 90% of our business is in the sand side of the equation. That means that 10% is in the metal side. So, metals, in my opinion, offers the largest growth for us, but I want to make it clear that we have put a real foundation in place in the foundry businesses of the world that, the processes that we're providing into the casting industry are now being adopted more and more readily, and the big machines that are going out, all are going into global casting operations and the operating opportunity, just within sand, truly has to represent well in excess of $100 million per annum as we look forward. And so we're seeing good growth in that area. Metals is small but a much higher growth because it's so small. But the opportunity for metals, I believe, the opportunity in that it will surpass that of sand itself. So we're working very hard in there, as David mentioned, we are very focused on gaining some IP positioning, and that's moving on pretty well.

Key to our strategic success here is to expand our capacities, particularly in Germany, where we're in five buildings and we are moving as rapidly as we can to get closure on moving into a much larger, more cost-efficient facility. That is being worked every day and we're hoping to have that breaking ground this year, certainly, and in place by the end of 2014, if not before.

The same thing is true in Japan where we have facilities that we've going to have to rework, a new facility that we're going to have to build, because you can't find it at least where our customers are asking us to come. So we do have some facilities in place that we've got to examine. Even within North Huntingdon here, if we're going to expand our M-Flex production, we have to look at the facility expansion there as well, so capacity expansion for machine production is a key focus for us, and we're moving forward.

The most gratifying thing at this point in time is the customer development. David's forays into China continued to lead to some real large opportunities, so obviously they have to be well thought through. We're not rushing into that market until we have a good understanding of how we will manage the penetration into that market, and also how we'll manage the flow of materials. So within the customer development, we have a lot of new customers that have come to us, certainly in the last four to five months, for which we now have NDAs in place, and we're doing exploratory development. We're in industrial markets, these people don't turn around and buy something in two weeks or order it off the Internet, or go to some distributors like Staples or something, they spend a lot of time evaluating this, and so the evaluation process is taking place, and I think that we're making very good progress with that.

Having said that; we are maintaining our guidance for the year, which ranged between $48 million and $52 million in revenue. As we have said previously, two-thirds of our business comes in the second half of the year. It's just in the nature of the capital spending cycle for machinery. And so, when we look at the first half, we think, frankly, we're right on target for hitting these numbers and we've got some visibility into the second and third quarters, and we're optimistic about that.

Obviously the gross margins were a little soft in this first period. They were depressed a little bit by the fact that we had the Laser machine go out and we've had to absorb more non-recurrent expenses associated with the first machine. So, operating expenses should be in
the $18 million to $21 million range. We are running with that assumption, and we have the ability to manage that so that we will achieve some degree of profitability in the year.

So that's our review as we have it at this point in time. The Operator could certainly open the line to questions, and we look forward to speaking with you.

Operator: Thank you. We will now be conducting a Question and Answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key.

One moment, please, while I poll for questions.

Our first question comes from the line of Chris Godby with Stephens Inc. Please proceed with your question.

Chris Godby: Morning, thanks for taking my call.

Kent Rockwell: Morning.

Chris Godby: Could you just, first of all, can you give us any additional color on how machine sales are setting up, maybe in the second quarter and the third quarter, obviously you've talked about the second quarter and your expectations there previously, but could you give us any additional color there?

Kent Rockwell: David could address that.

David Burns: Yes, sure. Morning, Chris.

Chris Godby: Morning.

David Burns: At this point, if we simply talk about raw volume numbers, I think on the last call, we concluded together that the number was about 30 machines sold for the year would get us to the sales range we were talking about, and we've said all along, it's a third first half, two-thirds second half.

The second quarter is, at this point, locked in. We've got—we've secured all the purchase orders we need to support our second quarter plan and, at this point, there's two machine units that we're counting on for third quarter shipment to support our third quarter plan, but we believe those POs will be in place, and we've already got a machine sold for the fourth quarter.

So, if I reflect on the pipeline, the strength of the prospects that are out there that we need to reach the revenue targets that we've discussed, I feel as confident as I did the last time we talked, that we have an adequate number of prospects. Of course, the closed-end prospects we're tracking with great regularity. I think I may have mentioned in the last call that I manage, basically, the sales effort directly around the world on machines, and so, the prospects that we need are developing at the rate they need to, to support our guidance.

It was gratifying here, in the last six weeks, we've had two programs that were both—they popped up and they realized within a six week period, and the actual, sort of, even inquiry date to shipment date was less than ten weeks; one for the Americas and one for a Japanese customer. Quite honestly, the robust export nature of this Japanese customer's business
allowed them to accelerate some capital spend on their part, so we're going to get some of these kind of closed-end surprises, and that's really good news for us. But the core of the machine business is managed in these year cycles with planning and budgets and Board approvals, because these machines cost $1 million to $1.5 million. So, at this point, I can say I feel pretty confident about where we are and we certainly feel confident we're going to reach our guidance.

**Chris Godby:** Great. Thanks for the details there. And then, thinking about the sales of materials and other consumables, obviously not a core part of your strategy, but where do you think that they can grow, as a percentage of revenue, long-term?

**David Burns:** Well, Chris, this is Dave again. We have settled on a number in our own heads of about 10% and I think that that number will remain, that's our sense of how the market will develop. There are certainly markets where we will struggle to deliver consumables because for some of them, it's tough to ship sand thousands and thousands of miles from one pit to another country to be used in our sand printers. That said, there's other places where we've got great supply chain linkages to our customers, and we do expect to have strong consumable sales. But generally speaking, from a modeling perspective, we think it's going to remain at about 10% of our gross revenues.

**Chris Godby:** Great. Thank you very much for taking my call.

**David Burns:** Thanks, Chris.

**Operator:** Thank you. Our next question comes from the line of Holden Lewis with BB&T Capital Markets. Please proceed with your question.

**Holden Lewis:** Thank you, good morning.

**Kent Rockwell:** Morning, Holden.

**Holden Lewis:** Wanted to find out in your first quarter—or, in your fourth quarter slides, you included slides of the long-term guidance. In your first quarter, that slide seems to have been absent and I didn't know if that was a reflection of the fact that nothing has changed, so it goes without saying, or whether you're thinking along the lines that maybe you would rather spend more money to cap growth faster and maybe those long-term guidance ranges are either not enforced at this point or pushed out further to the right as to not make it worth discussing.

**Kent Rockwell:** All right. Well, first of all, I want you to know that our IR staff professionally added that slide in there and I deleted it for the simple reason that I don't like to just talk to the same slides over and over again if there's nothing to change about them. So the reason it's not in there is just because I didn't think it was necessary to cover long-term goals on an every 90-day basis. And so, we can continue to address that if you think it's relevant for the investing public to understand that, but our goals are still the same.

They're long-term, and we're a very young and incubated business, and we're very, very chunky. When you're at $50 million revenues selling $1.5 million machines, it's chunky and you just have to expect that and live with that, and that's why we opted not to really get into quarterly guidance, because there's no sense trying to refine it that much. It'll happen, we're there, and frankly, it seems to me that it's moving rather well. So, I apologize that that slide's not there, we certainly haven't changed any of the thinking with regards to the revenue
expectations, the growth expectations at this time, it's certainly not tempered by demand from our customers.

I think that it's more going to be the issue of our ability to deliver while we have to get this capacity in place. The gross margins are realistic margins, that we currently enjoy, even though we have unabsorbed margins, because we have some higher operating expenses while we're revving up the system to run at a higher level. And so, that depletes some of your gross margin performance in the short run, but it should be ironed out, and it also should be ironed out as the PSCs get to the higher levels of capacity, the incremental margin that comes on is very high. So, we have no reason to believe that around 50%, and somebody threw the word "exceed" in there one day, and I don't know that I ever used that, but I do know that we're going to see very good margins in line with what we should be expecting and what the industry should expect. And then it gets down to if that's your margin, you can achieve your revenue growth, as long as you don't spend your money like drunken sailors, you're going to be able to make some money. And that's sort of our plan, and we don't have any sailors here with us.

Holden Lewis: Okay, and just to follow-up. You had mentioned seeing some closed-end surprises, you got a couple of shipments—your unit shipments that you sort of didn't expect, it came in at fast cycle time; are all of the closed-end surprises at this point on the positive side or do we have any sort of closed-end surprises one the negative side with people falling out? I'm asking, obviously because we set up a goal of sort of these 30 machines, you kind of had the customer list I think that you thought that would come from, do these closed-end surprises represent potential upside, or are you seeing some closed-end negative surprises that are sort of offset to that?

David Burns: This is Dave, Holden. Good morning.

Holden Lewis: Good morning.

David Burns: I would say, if we step back to how we think about our business going into an annual cycle, we would expect the machine shipments to be populated by a greater than 50% grouping of projects that we worked on for a year or two or even longer that finally come to fruition. And then, we have a set of expectations that we're going to get some number of opportunistic capital spends, where a customer manages to achieve a contract and suddenly he needs capacity. So we're going to have a blending of the two, and without some of these closed-end surprises, we probably would struggle to get to our numbers. There will be some surprises on the downside before the year's over, a program somewhere that we're counting on for whatever reason will not happen, but on balance, we're not dealing with exactly the number of prospects we need to fill out the plan, we obviously have more prospects in queue than we need to fill out our plan.

So, on balance, if we've got no downside surprises and a bunch of closed-end stuff, it would give us upside. Since we're looking, though, at the preponderance of our machine shipments late in the year, I think it's way too early to be talking about upside versus downside, I believe right now the pipeline supports the forecasts that we've created, and I'm pretty confident in that.

Kent Rockwell: Holden, I might add that, in addition to David's comments, is that we don't have any downsides where we're losing business competitively. It's really where customers
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make certain capital spending decisions and then we get the message that we've had, several times before, that the building won't be done for another six months or something like that, and it ends up being deferred to a future period. But I think that again, demand is growing and positive in the large machines; and the small machines, we really won't even get a real read on that until we move into 2014, but I'm enthusiastic that that's going to come pretty well too.

Holden Lewis: Okay. Thanks, I'll jump back in queue.

Kent Rockwell: Thank you.

Operator: Thank you. Our next question comes from the line of Ajay Kejriwal, with FBR Capital Markets. Please proceed with your question.

Ajay Kejriwal: Thank you, good morning. Just on that sales cycle, if I can follow up, so average sales cycle selling like a year, but then you're getting some machines shipped in less than 10 weeks. So, maybe a little bit more color on what makes the sales cycle a year? Is it educating the customers, versus in a 10 week cycle, is it availability of funding? Do you see that sales cycle coming down over time?

David Burns: Ajay, this is Dave, good morning. I think you have to think about—big ticket capital manufacturing technology spending is a bimodal sort of business. There is a clear set of customers that go through an annual budgeting process. They spend part of a year doing qualification and the creation of a project within their company, many times that takes three or six months. They'll go in and apply for annualized budget to support that project. Many times, that budget isn't released until the beginning of the next fiscal year, and then there's some number of months to realization. That's not going to change. I've been in the machine tool business a long time selling big ticket machine tools, and this cycle has been with us forever. So if you're talking about an OEM somewhere, they have a very rigid annualized budgeting process, and you need to get on the highway and drive the speed every other car is driving. That's just the way it's going to be. That said, as I tried to stress before, there is some portion—the other mode of the bimodal distribution is, there is some portion of our business which will be opportunistic which will be based on somebody getting a contract and needing to fill it, or a smaller company that doesn't have the same kind of capital planning and spending cycle that may come out on a much shorter basis. There isn't much in between. So we count on the fact that we're going to get some quick turnaround stuff, but the platform upon which we build the machine business is on a very rigid annual planning cycle, which is why it's so important that we stay in touch with our customers, because we have to know what that cycle is, where they are in the cycle, and where we believe they are with approvals.

Ajay Kejriwal: So, I guess the follow-up there would be, in the past you have talked about your sales cycle kind of extending for the year, kind of in the June-July timeframe. Is that still how you would think about the full year, or would the shorter cycle shipments kind of extend it to the rest of the year?

David Burns: Well, the cycle that we face with a lot of our OEMs is that their budgets get released in January, and you work with planning engineers and purchasing people through much of the first half of the year. They release orders and they expect the fulfillment of those orders in the second half. So I think I said on the last call, the big booking time for products like ours tends to be April through about July or August. We're in the early portion of that, and
I think right now, with what we understand is in the pipeline, that we have enough projects to support the projections we've done.

**Ajay Kejriwal:** Good. And can you talk about the ASPs in the quarter? It looks like they came in a little bit sequentially but maybe that's mix? Just any color by platform, if you could provide. The average selling price for the machine, sorry.

**David Burns:** Yes, sure, and this is Dave again. We sold one of our Lab platforms inside of the five machines, and of course the Lab platform market price is $100,000 to $150,000, so it's not as simple as dividing 4.2 million by 5 and getting an average. If you subtract out $100,000 for one platform and divide out the rest, you kind of get the same million-plus average price for everything else.

**Ajay Kejriwal:** Right. And even that math looked like it came down a little bit sequentially, so I was just wondering if it's the Laser, so you're saying that the prices of the rest of the platforms kind of remain similar to the fourth quarter.

**David Burns:** Yes, all of our machines that we've sold for the quarter we would view as having sold at or above price point. There was a Print machine in there which, of course, carries a little bit lower book price, which would have brought the average down, but again, we sold it actually above book. So my view of pricing for the quarter is we sold at or above price book on average for all machines.

**Ajay Kejriwal:** Good. And then, is there an update on the discussions with the German automaker, this is something that had come up at the time of the road show. What's the progress? Are you any closer to the finish line on that order?

**David Burns:** We continue to make progress. We have viewed this as a multi-year project. The intention of talking about that was to give color to the fact that we believe that we're going to transform from being a single-unit sale machine company to a multiple-unit sale machine company over time and I got an update, actually yesterday, on where we were, and we continue to have monthly meetings. We are going back and forth in terms of project specification. I think it's going to find its maturity sometime in the next 24 months, but it's not the kind of thing that every six or eight weeks we're going to have an update on, because it's not going to move that fast.

**Ajay Kejriwal:** Got it. So you expect the order in the next 24 months, or you expect something, smaller orders meantime, and then something bigger at the end of the 24 months?

**David Burns:** There is no timing on the order whatsoever at this point. It's a development project where we're co-developing a concept for a production line. I wouldn't even begin to speculate when it might happen.

**Ajay Kejriwal:** Got it. Thank you.

**Kent Rockwell:** Ajay, one more thing is that we do have a group of customers that are currency-sensitive sometimes, because they have to get government approvals for funds to be released to make payment. And so, we get subject to the fact that the customer may want the product, but the currency doesn't get released from their country, and so we have to remind you that they're upset, we're upset, but it's the parent country that controls the flow of funds.
Hendi Susanto: Good morning. Thank you for taking my questions.

David Burns: This is Dave, good morning. The Laser machine so we understand what it is, that the machine itself is designed to use a high-power low-frequency laser pulse that we capture inside of an optical system, and we use the optical system to direct and shape the beam for machining operations. Fuel system development is a prime target for the Laser machine, the drilling of fuel system components. As well, there's a variety of aerospace applications which are likely targets for the machine. There are many materials nowadays that are being created, some of them composite matrix materials that are not easy to machine in any other way and we really need laser-based processes to machine them. I would say that the applications in aerospace are nascent and emergent but positive, and the fuel system development work we're doing, of course, is much more mature in terms of the development cycle, and we're finding a variety of places where people have great interest in using this technology.

Hendi Susanto: Okay. And then, earlier you mentioned that you expect positive impact on the Japan exchange rate in the long run. I believe that sales are done in local currency, so would you elaborate your statement that it would make a positive impact in the long run?

David Burns: Sure, Hendi, this is Dave. And I guess, what I want to do is—let me just start with the statement that all constituents of our universe of ExOne need to understand that we sell in local currency in Europe and in Japan, and then of course in the United States. The fact that we're a U.S.-based Company will always cause us to have translation effects of those currencies, to begin with, and that's just part of being a global Company. I mean, even when we have hedging strategy, the fact of the matter is, sooner or later you have to convert to dollars for financial statement purposes.

In Japan specifically, our view of the depreciation of the yen relative to both the euro and the dollar, depress local statement of local revenues since they're stated in yen, and can in fact have a depressive effect in the short-term on margins and profits. Having said that, the depreciation of the yen, in our view, is largely intended to stimulate the exporting economy of Japan to increase its overall business vitality and volumes; and as such, since we sell directly to many exporting companies, we would expect a stimulating effect for the demand for some of our products at those companies. Net-net... I don't know. The fact that we sell one extra machine is going to bring a lot of revenue to us, and yet our PSC sales will be stated at lower levels, et cetera. So I don't think there's an easy way to forecast what the net effect might be, but overall, the interest we're seeing from exporting Japanese companies would indicate to us that the depreciation of the yen relative to the dollar and the euro probably is having an upside effect for us as a Company.

Kent Rockwell: I would agree that the increase in volume would more than offset the decrease in margin.
Hendi Susanto: Okay. And then, ExOne is targeting 30 machines in 2013. and then in the last call, you said that you were planning to raise your capacity from 40 machines to 50 machines exiting 2013. Considering manufacturing with time and sell cycle, how much extra capacity do you have beyond your targeted 30 machines throughout the remaining of 2013?

David Burns: Well, capacity, of course, is measured in many facets. One would be floor space, another would be people, and another would be the supply chain and its ability to support it. And so there's no singular answer to the question. Of course, we're not going to bring on more staff than we need to support what appear to be the current sales plans. So if you said, what staffing do we have in place? The answer would be it's to execute our internal plan.

In terms of floor space, we probably have capacity to get 10% or 20% more machines than we have targeted, and the supply chain, while it's very flexible, from our perspective, of course has lead times built in, and so if we don't make lead time decisions to increase production rates by the early third quarter we wouldn't be able to for the year. So obviously it's a bit of a chess game to figure out which of those capacities we need in place. I mean, generally speaking, if we hired a bunch more people and we jacked up the supply chain, we could probably produce 20% more machines than we have in the plan, but we won't do that unless there's clear demand for them. Again, I want to steer back, though, to the fact that we are targeting a certain volume for the year, a certain revenue level, we're confident in that, we're guiding to that, and I don't want any of these comments to be interpreted as we are aiming for a different number than the one we're talking about.

Hendi Susanto: That's helpful. One question for John, how should we think of corporate taxes in 2013, and its long-term progressions?

John Irvin: Hi, I think I talked about this on the last quarter. Our tax situation is relatively complex, which puts it at odds with what I said in my presentation, where I said our income statement, our financials, are relatively easy. The reason why it's complex is we're a taxpayer in Germany, we're moving toward being a taxpayer in Japan, and we're at a loss position in the U.S. And so, when you take that tax effect and you put it together, it's possible that our effective tax rate could be well over 50% in some quarters or for the year. We've—in the past 60 days, we've worked hard with some tax planning people, working on solid tax strategies that might reduce that effective tax rate, but you should expect that our tax rate, I think, for this year, will be anomalous, and over the course of two or three years would move to a more normalized effective tax rate.

Hendi Susanto: Thank you, gentlemen.

Operator: Thank you. Our next question comes from the line of Cindy Shaw with DISCERN. Please proceed with your question.

Cindy Shaw: Hi, thank you for taking my call. Could you give us some color on the gross margin expansion during the quarter? You've broke out a number of factors, can you give us any sense for how much the sales mix played a role versus, say, PSC productivity improvements in the foreign exchange?

David Burns: Okay, this is Dave, Cindy, good morning.
Cindy Shaw: Good morning.

David Burns: If we try to look at it in its most global aspect and then focus it down toward a more discrete discussion, when we bring a machine sale into a quarter where we have gross margins that are in the range we keep talking about, that's a huge effect on margin performance right away. So, I would say that the increase that we see in margin performance is largely driven by the fact that we've got multiple machine units that we've shipped, and as the machine volumes grow throughout the year, we're going to inexorably be dragging up our gross margin performance.

Cindy Shaw: Okay, and you won't break down, during the first quarter, how much it was sales mix and in PSC productivity and things like that?

John Irvin: Cindy, this is John, no we will not.

Cindy Shaw: If we think about SG&A as you go through the year, it sounds like you're going to basically play it by ear and see how things are going in terms of staffing up. Is that fair, and how should we think about the trajectory; how much is the sales commissions and tax payments and sales fluctuating, just how do we think about that in general?

John Irvin: All right. Cindy, this is John. Let me just give you a baseline to kind of center the conversation. I think Kent did it in his comments; we're reaffirming guidance on the SG&A for the year, annual guidance, at the $18 million to $21 million range. So, with that being said, how do we expect the SG&A to—I think your question is how does it kind of ramp up during the course of the year? And you should expect it to ramp up modestly during the course of the year. Certainly as David develops his sales force for all the global demand that we have, I think that's going to put some pressure on the SG&A. I think we finally have our professional expenses as a result of being public under control and are able to reasonably forecast those, so you would expect it to modestly ramp up during the course of the year.

Cindy Shaw: And it sounds like—were there any IPO expenses in the first quarter?

John Irvin: Yes, there was, and I don't have a number for you, but going out in the market in February, we certainly had some expenses in that first quarter.

Cindy Shaw: Okay, so we should expect to back a little bit out for that and then ramp up. And it sounds like, as the year goes, you might pull in some hiring or push up some hiring depending on how the year is looking. Is that fair?

John Irvin: Yes.

Kent Rockwell: This is Kent. I just wanted to make the point that in our present scenario, where we have the opportunity to accelerate certain spending, particularly in R&D, if we think that we're going to capture some process or some value, that it is going to be of long-term significance to us, and I think that it's important enough that I'm willing to spend the couple extra bucks to pay you to do it then we're going to do that because it's in the best interest of our shareholders long-term. Having said that, we recognize that the most important thing we can do is get to some element of profitability and stability with reporting profits as we start to size up here a little bit. So we're very mindful that that's our goal, and as we move through 2013, if we had to trim the hedge a little bit because it was starting to accelerate in spending, we would do that.
Cindy Shaw: Okay, that's helpful. Thank you. And then, another question, when you ship a machine into your own PSC, does that count as a sale or is that basically not showing up at all in the revenue?

Kent Rockwell: No, it does not. It just goes over to a book asset.

Cindy Shaw: Okay. Thank you very much.

Kent Rockwell: Thank you.

Operator: Thank you. Our next question comes from the line of Jeff Osher with Harvest Capital. Please proceed with your question.

Jeff Osher: Hey guys. Hey Kent, sorry to come back to the ASP question, but I think it would be helpful, given the reaction of your stock, to clarify that. What was the delta, and perhaps it was—can be explained by currency. I know you said selling was roughly in line, if not better, than list price. Has something changed relative to the list price you had in (audio interference), because if we take the suggested price from the 10-K and multiply that by the number of units, right, listed in the press release, we get a $4.7 million expected system revenue number for Q1 versus the $4.2 million reported, so if there was no discounting, was that delta of about 12% explained by yen weakness?

David Burns: No. This is Dave, I'm sitting here scratching on a piece of paper to make sure that I understand your question.

Jeff Osher: Sorry. If we take the $1.4 million, the U.S. for S-Max. Right, times 2 units, that's $2.8 million, plus 1 S-Print at $800K, which is what you ask, right, plus 1 M-Lab which is $100,000 that this $4.7 million.

David Burns: This is actually a great moment to pause in this conversation, because what I want to emphasize is that when we originally talked about pricing, we were asked for average pricing. Average pricing can span plus or minus 20% or 30% based on the option packages that are included with any given machine. I will tell you that every machine we've sold, we sold at or above book price for the configuration of the machine that we sold. And I don't think in the end you can take a simple average across many machines over the whole year and assume that every one of them is going to be plus or minus a few percent of that number, because they're going to bounce around a lot depending on the option set that's included. So what I'll say to you is that, and the margins clearly support this, when you look at margin performance on the machines we ship, we know that we've sold at or above book, and we came in at the cost we would have expected. So from my perspective, we were right on plan.

Jeff Osher: Right, but you can understand that, in response to Cindy's question, where you're not willing to breakout the margin contribution from systems versus PSC and where the upside was specifically delivered. We can follow up offline, but it sounds like the numbers you've posted publicly, we should think about kind of a 20% to 30% band around that with the number listed, just kind of bracketing the middle.

David Burns: Yes, and the other thing I just—somebody just handed me a note. One of the machine sales that we had in Q1 was a used S-Print that came out of our PSC in Japan and went directly to a customer, so actually, the pricing on that machine was a little bit lower than a new machine, but it was well above book for the machine, and so, the margin itself that was in
the machine was fine from our perspective. I understand your comments, but I think, at this point, we've probably addressed it as fully as we can address it.

Jeff Osher: Okay. Thank you guys for taking the time and showing the patience with my question.

David Burns: Oh, thank you. I appreciate the question.

Operator: Thank you. Ladies and gentlemen, as a reminder, please limit yourself to one question as we would like to get through as many questions as possible. Our next question comes from the line of Philip Lemigra a Private Investor. Please proceed with your question.

Philip Lemigra: Yes. Good morning, gentlemen. I have just a quick question. I wanted to know if you can address who your main competition is currently, and the strategy you're taking to win business against this competition?

David Burns: Good morning, this is Dave. We have said regularly, and I'm just going to repeat the mantra here, that our main competition is the install base of industrial production equipment that's spread around the world. Our job as a Company, since we've chosen this strategic position we have, is to compete directly with, on a unit-cost basis, on a reliability basis, and on a quality basis with the installed base that exists. If we can compete on that basis and deliver all the other benefits of additive manufacturing, we believe that there's significant market potential that we can capture. So oft times, and it seems many conversations people try to ask, well, who in additive do you compete with? And our answer, continuously, is that's not our competition. We don't lose orders to another additive company. We lose orders because the capital spending cycle shifted or we were unable to displace traditional processes in some way. And I've been invariable in that mantra, and I'm going to just keep repeating it, because we believe that to be true. When we do our job well, we get orders.

Operator: Thank you. Our last question comes from the line of Holden Lewis with BB&T Capital Markets. Please proceed with your question.

Holden Lewis: Thank you. I just wanted to make sure, you'd commented that you're still looking at two or three PSCs here, but you also said that you were maybe looking at five. Are we accelerating the rate at which you're looking at the PSC development at this point from perhaps where we had been before? And I'm also kind of curious, the PSC revenues look like they were sort of flattish sort of quarter-to-quarter, and I was curious if that just reflects layering on costs, building out, that sort of thing.

John Irvin: Okay. Holden, let me do the last one first, I think you're talking about sequentially from fourth quarter to first quarter. In my comments I was going first quarter of '12 to first quarter of '13, but on the sequential side, it's a simple matter of the demand for our parts and molds in the fourth quarter, it's probably always going to be stronger than the first quarter. So, it's, I wouldn't say irrelevant, but I think it's really difficult to try to draw any kind of conclusions when you go sequentially from first quarter to first quarter—fourth quarter to first quarter.

Back to your first question, I think you heard five possible locations from David. I think you should know that there's more than five. I think what David meant is that we're now centered on five possible sites, still with the expectation that we'll do two this year, and it's a
matter of sorting through those sites and picking the best possible sites for 2013. So when you say is there an expansion or should I read something into this when I heard five, I don't think you should read anything into it other than the fact that we're constantly looking at sites. There are plenty of sites, and we're sifting through them all the time.

Operator: Thank you. Mr. Rockwell, there are no further questions at this time. I'd like to turn the floor back over to you for closing comments.

Kent Rockwell: Okay, thank you. Again, we are reaffirming our guidance for the year, and I think that we're on track for the ranges that I've already provided $48 million to $52 million in revenues, two thirds of this business will occur, the transactional side of the business is predominantly in the third and fourth quarters and that still seems to be the case as we move forward. Gross margins are improving towards that 50% goal, and I think that we'll see them, getting up, again, in the low or mid 40s. Operating expenses are under control, we did have, again, a lot of non-recurrent operating expenses in the first quarter, hopefully some of that will start to trim down a little bit. We are making increases in the expenses to get this IP positioning, which I think is very important, but we remain enthusiastic about our performance for the year, and I think that we're doing all the right things at this point in time. So with that, I'll ask the Operator if there's anything more. If not, we'll close up. Thank you.

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