Operator: Greetings, and welcome to The ExOne Company’s Fourth Quarter and Full Year 2014 Earnings Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It’s now my pleasure to introduce your host, Karen Howard, Investor Relations for The ExOne Company. Thank you. Ms. Howard, you may begin.

Karen L. Howard: Thank you, Kevin, and good morning, everyone. We certainly appreciate your time today for our fourth quarter and full year 2014 financial results conference call. On the call with me this morning are Kent Rockwell, our Chairman and Chief Executive Officer; and Brian Smith, Chief Financial Officer and Treasurer of The ExOne Company.

We will be reviewing the results for the year and fourth quarter that were published in the press release distributed after yesterday’s market close. If you don’t have that release, it is available on our website at www.exone.com. The slides that will accompany our discussion today are posted there as well.

Referring to the slide deck, on slide 2 is the Safe Harbor statement. 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 that 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 those documents filed by the Company with the Securities and Exchange Commission. These documents can be found at the Company’s website or at www.sec.gov.

Kent will review the highlights of the year and fourth quarter and Brian will provide a detailed review of the financial results. Then, we’ll turn it back to Kent to discuss our outlook and guidance for 2015 before we open up the line for Q&A.

And with that, I turn it over to you, Kent. Kent?

S. Kent Rockwell: Thank you, Karen, and good morning, everybody. Thank you for joining us on this beautiful morning in Pittsburgh where it’s starting to finally warm up.

With us today, we have our new President, Hans Sack; and also Rainer Hoechsmann, Chief Development Officer and General Manager of our European Operations. Both are fine German individuals; if you want to ask any questions in German, we can give you excellent answers at the end of this presentation.

During our IPO, we characterized ExOne as a Category of One, meaning that we have a dominating technology in what appears to be multibillion dollar market opportunity. In addition to having that dominating technology, we have a very unique competitive position within that technology, inasmuch as right now, we are the leader in binder jetting development. I believe our leadership position is very strong. Finally, we have a well-defined strategy for seizing the opportunities in this marketplace, and moving on to become a dominant player in that market.

ExOne is distinctly positioned as the industrial provider of 3D printing. As we’ve said previously, our focus is still on the industrial manufacturing of a variety of metal components. Our binder
jetting technology has a global installed base of more than 200 units and we believe that most of them are running and in pretty good shape. Some of these units have been in place for over eight or nine years. We have not yet seen any units get retired.

Our machine productivity is increasing. We recognize our obligation to our customers to drive down cost and increase productivity for our machines. We are increasing our cost effectiveness as we begin moving from prototyping to the series-type production that we will now be demonstrating in one of our new machines, the Exerial.

All three of these characteristics are just as valid today as the day that we organized ourselves for this underwriting more than 25 months ago. I think that we’re strengthening our position in each regard. We are in a transformational period, in the sense that when we undertook the underwriting, we said to the marketplace that our intent was to build a very large enterprise, a company that was capable of doing $300 million, $400 million, or $500 million of revenue over the next five years to seven years.

In order to do that, starting from the small company that we were, doing only $12 million to $15 million of revenue, we had to make major investments, such as these you see listed on slide 5, and I’ll discuss each of those in excess in a minute, but it’s not something that just happens in an instant. It’s a tremendous effort and a lot of time. We’re in our 25th month since we got started. I have tremendous confidence that what we’ve done is absolutely going to take this company in the direction that we originally indicated to our IPO shareholders. Fundamental to that is the growing customer validation and the increased acceptance of our technology, which is coming from a variety of different places around the world.

On slide 6 you can see that we’ve had 70% growth in employees since we started in 2013. Managing that kind of growth on a global basis takes an awful lot of effort to make sure you get the right people doing the right things and teaching them the correct processes. I believe that we’ve increased our sales force by probably 50% to 60% in the last year. In our field, it takes about a year for a salesperson to become learned enough to be truly productive. This gives you a little bit of insight as to why we have been classifying this period as transformational and how things are beginning to mature.

Going to the next slide, capacity expansion has been every bit as dramatic as the increase in employees. We have expanded our capacity in the facility that we’ve built in Gersthofen, Germany. We’ve significantly expanded our direct metal printing capabilities here in North Huntingdon. We are making improvements in our facility in Japan. We’ve recently added a leased facility in Italy. The square footage that we operate is up 70% in a 12-month period; we currently operate approximately 340,000 square feet in total. I think we’ve certainly proven that we are prepared to take our technology to a larger customer base.

Moving on to slide 8. We have expanded our direct printing capability. Direct printing is still in its infancy, but we’ve introduced three direct printing machines in 24 months, the most recent being the Innvoent, which is a small educational research tool that has much more capacity than the original R-2s that we had in the marketplace. We’ve also introduced the M-Flex and we continue to improve upon it. We have sold 15 M-Flex machines so far and we anticipate selling more in the 2015 period. We also offer the M-Print, currently in its second generation. We have
one in this facility and I watched it last night as it was printing an approximately 150 pound new design in an Inconel material. And it is moving us toward dramatic new opportunities for the direct metal printing of larger parts and we’re very pleased with the development that’s coming in that regard.

In the indirect printing space, we have a new machine, the design and direction led by Rainer Hoechsmann who is with us today. As you can see on slide 9, the Exerial is an extremely large machine, its output volume is almost four times more than the S-Max series machines that we have. We believe that this machine is the first true series production machine. We sold four of them on a pre-emptive order to a customer at a lower price to give us some funding to facilitate the development of the machine. The machine you see here does not have a lot of the automation features that we believe will ultimately be necessary for high series production, but we’re in the process of developing that.

Additionally, the S-Max, the traditional large machine that we have has been expanded into S-Max phenolic, and S-Max silicate machines that are being used for a variety of different applications, mostly for customers outside the United States at this time. We continue to expand and improve our S-Max efficiencies for our customers and we’ve sold well over 40 S-Max machines in the last 18 to 24 months.

Moving to slide 10 for a look at materials development. We have gone to a wide variety of new materials. We have qualified materials, which are materials that are qualified to be printed on our machines and we also have certain printable materials. There have been situations where customers want a machine in order to direct print in other, non-qualified materials. We have demonstrated to these customers that we can print in these various materials, but we do not do the post-print processing in these situations, instead the customer is responsible.

We’re in the midst of developing many other materials in addition to the ones that you see here; we continue to expand our material qualifications to allow us to sell more machines into a variety of different markets in the 3D printing sector.

The next slide shows the ExCast strategy supporting Sikorsky, a project that we reported on during the past year. We actually lost around $1 million getting this program up and running. We were the only bidder out of eight potential bidders for the casting housings that we made for Sikorsky. Sikorsky has endorsed ExOne and our ExCast program as being absolutely essential to the future of their program, and to others. They are very pleased with our parts and the new level of complexity that we can deliver that had not been available to this market before this point.

We are currently moving into a second effort of this program that is involved with the army. We are no longer experiencing the negative variances that we experienced with Sikorsky as we had to get over the learning curve ourselves. These projects are starting to present very sizable defense and aerospace opportunities. We expect these opportunities to grow very dramatically over the course of this year. We have identified several programs of interest. All government programs require a series of evaluations before they really get in place. We are going through those evaluations now, and we expect these programs will come online as we move into the third and fourth quarters.
We’ve made great progress in qualifying and demonstrating our technology to our customers. We have demonstrated the ability of this technology to cost-effectively meet the needs of the global customer base. It’s been expensive and we’ve made mistakes, some costly. You’ll obviously see that when you go through the statements. In all honesty, while I’m not pleased that these statements are as bad as they are, I think we are in very good shape for being able to develop these markets and to mature successful long-term investments. To have accomplished all we have in only 25 months, I think is a remarkable statement.

Brian is going to talk about numbers and I’m going to come back after that. The last slide that I’ll address for now is slide 12. As we stated in our release, we have seen non-machine revenue increase 51% and machine revenue grow 46%.

With that, I’m going to turn it over to Brian to address the financials of the quarter.

**Brian W. Smith:** Thanks, Kent. I’d first like to make sure I bring your attention to the filing that we’ve made relative to extending the time period to file our 10-K. As you know, we became an accelerated filer as of December 31, 2014. That shortened the time period which we have to produce our 10-K. We are obviously done with our numbers and wanted to move forward with the release, but we did avail ourselves of additional time to complete the 10-K.

If I could speak on slide 14, as Kent said, we had record machine revenues in Q4 14. That brought our revenues per product line split up to 65% machine revenue in the quarter. As you can see, the quarter was led by a strong U.S. performance. We continue to experience softness in other regions.

Turning to slide 15, if you look at 2014 revenue, lower sales of machines brought us close to a 50/50 split between machine and non-machine revenue. That was also coupled with the strong non-machine growth for the year. Again, the revenue by region was led by the Americas. Japan, as we said earlier, was impacted by some government subsidies that gave us some headwind there.

Turning to slide 16. For the quarter-over-quarter non-machine revenue, we saw 51% growth. Again, we had a very strong year for non-machine revenue growth as we had said each quarter, and again we experienced that strong growth in the recurring non-machine revenue stream in the fourth quarter.

We’re growing quarter-to-quarter. Trailing quarter, we are up from about $5.4 million over Q3 2014 and so we experienced continued growth on a trailing quarter basis also.

As Kent said, we had record machine sales for our quarter of $10.2 million and to show the lumpiness, our machine revenue was $4.2 million in Q3. As we’ve seen, large machines do provide some lumpiness quarter-to-quarter. For the year, due to lower machine revenues in earlier quarters, we were down about $2 million for our full year machine sales over the prior year.

On slide 18, you see gross profit and margins. Gross profit was $3.9 million in Q4 2014, slightly higher than Q4 2013 on higher sales volumes. Our gross margin percentage was 24.5% in Q4 2014. We had said we were going to be impacted by a number of things in Q4, consolidating
our German facilities into one facility as well as the expansion here in our North Huntingdon facilities.

While we can point to certain costs relative to moving costs, which were in the neighborhood of $0.2 million and the elimination of our Orion Laser machine line product line, that we felt was non-core for our printing business going forward, of about $0.4 million, it’s very difficult to put your finger on the inefficiencies caused by the moves, the duplicate facility costs and those types of things. Therefore, even though we did not specifically outline, we did tell you earlier in the year that we would have significant costs in the fourth quarter and we think they impacted our margins both in the quarter and then our full year results, which showed roughly a 24% margin. Kent had also mentioned we were impacted by ExCast startup costs for the year of roughly $1 million. The inefficiencies, issues with Sikorsky, and a number of other items have contributed to that.

Page 19. We had higher-than-expected SG&A costs. We pointed out a number of atypical items on the bottom of the page. Our ERP system was approximately $0.5 million. That did include rationalizing some of the direction we were taking and some final decisions we made in the fourth quarter where we accelerated some amortization on some items.

Our bad debt charges were approximately $2.2 million. There were a number of factors, both customer-specific factors, micro factors, as well as macroeconomic factors that impacted the credit quality of some of our customers. And so, we felt it’s appropriate and prudent to take those reserves. We do anticipate that we will pursue vigorous collection on those items. And in addition, in the fourth quarter, we had approximately $400,000 of severance costs running through G&A.

Page 20, our R&D expenses. We talked in prior quarters that we were accelerating our machine technology efforts and we’ve recently announced our Exerial and Innovent machines, so that accelerated effort did culminate in the issuance of our releasing those machines. We’re happy about that.

Page 21, CapEx. We’ve had lengthy discussions around CapEx throughout the year, particularly as it relates to our facility expansions that Kent showed you on slide 7. We also said that we would have a very significant reduction in our spend rate on CapEx on a go-forward basis because we have substantially built out our facilities.

The 2015 estimates are finishing up. We still have some of our build-out here in North Huntingdon and some of our R&D facility build-out to complete, as well as a couple of machines for our own use and continuing with the next phases of our ERP system. Again, I think the reduction shows that we’re substantially done with our investment in our facilities and have the capacity to absorb our future growth.

Page 22, our balance sheet. We started the year with $98 million in cash. We finished the year within what we had projected in the third quarter as far as our cash balance. We have virtually no debt. You’ll see in our guidance that we’ll give you here shortly, we do expect $25 million to $30 million of cash at the end of 2015. If you go through our guidance, you can follow how we would get there.
On page 23, we thought it would be good to give you a pictorial on how we’ve gotten to our current cash balance – the $28.6 million that I just talked about relative to our CapEx, our two acquisitions in Q1 were about $9 million, and the remaining portion, if you look on our balance sheet relative to our working capital growth as well as to fund operations for the year, gets you to $36 million at the end of the year.

With that, I will hand it over to Kent to talk about the outlook for 2015.

S. Kent Rockwell: Thank you. On slide 25, the point I’d like to make is that we are maturing our 2014 investments as we move into 2015 with more momentum. That is to say, you can see that R&D is starting to level off, maybe even dip a little; that SG&A is leveling off, isolating a big one-time charge in SG&A in Q4 associated with the cleaning up of some credit issues with certain customers.

But I’d like to point out that there was a very good McKinsey survey that was just done regarding what’s going on in the world of 3D printing. In that survey, it highlighted that 33% of global manufacturing executives expect that 3D printing is going to gain substantial relevance in the next three years. I think that really tells our story about where we are because in the bottom of it, it says that 40% are still unfamiliar with it. Now, some of those executives may never choose to adopt the technology. But I think a great many will as they see the cost efficiencies starting to really come along.

You can see now that the world has about 50% that gets it, and we’re really starting to move in that direction, and there are about 50% that’s still trying to figure it out. I think that that highlights our position when it comes to the issue of the adoption rate of our technology, because what we have right now is strictly how rapidly can we get this technology adopted. We see it coming along very effectively with customers on a variety of new bases, a lot of the customers that we didn’t have 12 months ago and some opportunities that are multimillion dollar opportunities. We have people that are now making commitments that have bought a machine to buy another machine and buy a machine each year for the next three or four years and four or five instances. The competitiveness of their commitment to the technology is evident.

We brought on some very major customers that have said that they will, within this year, give us large production service center orders to start to use our technology and have also said that they intend to ultimately acquire a machine. This is one of the reasons that we created the production service center strategy. And these are not small companies—these are very major order opportunities.

Whether they start in 60 days or in 120 days is the issue and that really is an issue that’s not built around our technology as much it is just getting them to implement the process change in their organization. We’d like to be able to say we can measure that, but quite often the prominent thing is that we end up with customers who order a machine and then all of a sudden, the building they’re going to put it in doesn’t get completed on time. Then, the machine shipment slips from Q1 to Q3, for example, because it takes customers time to get the building up and running.
We have to tolerate that with customers. Not only that, we have to embrace and help them through it. There are a variety of different things about how to get started. But when you have a customer who has bought two machines, we find that the closing process on their third machine takes 30% of the time they needed to buy their first machine. We see that as part of the acceleration of our adoption process as we move along.

With that, I’m going to move to guidance on slide 26. Our guidance is to have somewhere between 32% and 50% in organic growth this year. And, if we take the $44 million of the 2014 year, that obviously translates into $58 million to $66 million.

Gross margins will run from 36% to 40%, depending on whether we get the absorption of overhead. If we get to the $66 million of revenue, we’ll probably get to the 40%. And if we get the $58 million, we’ll probably get to the 36%. We demonstrated again this year that, if you take out all of the anomalies that passed through, such as things like the Sikorsky ExCast pilot, inefficiencies associated with our facility consolidation and expansions and other such costs, that we’re in that ballpark.

Our SG&A was $24 million at the end of 2014, but a big chunk of that was non-recurrent. We are forecasting $21 million to $23 million, which is allowing about a 10% increase off the normalized 2014 level. It’s still a very high percentage of sales, but when you’re running a global company with offices all over the world and you are running a public company that has to meet all the standards that we have to meet, the expense of SG&A is inordinately high and we accept that. It’s part of our responsibility to manage it. And so, as a percentage, as we were mature, this number should eventually be in the 20% to 22% range.

For R&D expense, we are projecting $6.5 million to $7.5 million for 2015. We were at $8 million last year. There was an awful lot of Exerial™ and other new machine development expense in the R&D accounts that will not be quite so recurrent this year. We believe that we can taper that number down a little bit. We still intend to spend a good bit in R&D at 10% to 13% of sales. I wouldn’t think we would want to go lower than that.

Like prior years, we expect 2015 sales to be weighted between the first and second half. We have said this every year, so I don’t think it should really come as a huge surprise. But we’ve always said 35%/65%. That was the comment we used for both 2013 and 2014. It has to do with the cycle of purchasing machine sales on a global basis, even though in the U.S. it seems to be that everybody does their planning and how they’re going to put machines into place in Q1. We’ve experienced it. If you go back and look at our history, we’ve experienced 35%-40%/60%-65%. Because we have a higher weight of machine sales in our growth due to some of the Exerial sales starting up, we’ve changed it to 30%/70% for 2015. It is important that you grasp the significance of that because it just seems to be the cycle that is in this industry when you’re buying the kind of large machines that we’re selling. Sales always escalate after Q1. We do not provide quarterly numeric guidance.

At the low end, if we hit 32% revenue growth and 36% gross margin and connect those numbers through against $21 million of SG&A and $6.5 million of R&D, you obviously come to a negative profit after tax and a modest loss of EBITDA.
If you go to the midpoint of all of these guidance numbers, we get to a breakeven EBITDA. And if you go to the high end of guidance, we get to positive EBITDA. The emphasis I would like to put on here, is that it’s our responsibility to manage these costs against the adoption rate. We believe that this adoption rate will fall at the high end. We have not been correct about the adoption rate in the past, and so everybody is very skeptical that we don’t know what we’re talking about because in the past haven’t done very well with that.

But the issue here that you must understand is our costs are now very solid and fairly easy to stabilize. It’s all about getting the customers to sign the checks and adopt the technology and the evidence of that continues to grow. Our absolute minimum goal as a company is that if the revenue starts to taper and we don’t see the ability to get to this level of forecast at the mid-point, then we’re going to start to trim costs to make sure that we hit at least a positive EBITDA.

I think we owe that to ourselves. We have the cash to be able to do that and still be able to run well into 2016. And we know that we have some big programs that potentially start in the third and fourth quarter relative to some government-developed programs that will positively impact the 2016 growth rate as well. We have a confident plan. It’s been well thought out. We’ve got an energized management team to make that happen.

I want to talk risks and opportunities for just a minute, and the biggest opportunity we see, noted on slide 27, is a positive adoption rate of our technology, particularly as we start to move from prototyping to production, because we’re starting to drive costs down to where we are now competitive with traditional processes such as blow-mold lines and other processes on a cost basis to be able to get our customers to move to this new technology and the benefits that it brings.

We’ve got the new Exerial machine, as I have said, and the four beta machines going out. And we expect that we’re going to be able to sell a good bit more of these machines and that we’re going to see multiple installations of these machines by OEMs around the world.

We got hit very hard last year by currency. Again, 30% of our market is in the U.S., and so two-thirds of our business is still coming from outside the U.S. That leads to why machine demand was down a little bit. The European economy was very, very soft in capital spending last year but it’s starting to pick up again now.

Similarly, we had the experience in Japan where the Japanese government imposed a sanction against buying ExOne machines while they tried to develop a government program for these machines. Their program is now abandoned, and they’re back buying our machines again. But for three quarters, we didn’t have any activity in Japan.

The opportunities are positive. U.S. economic conditions are still positive for us. Currency is going to hit us positively in terms of the U.S in margin, but negatively in terms of the rest of the world and two-thirds of our market is in the rest of the world. As a global company, it gives us a risk and an opportunity in that regard.

If we look at the risks on slide 28, we have sold a lot of machines in Russia. We continue to have Russian companies visiting us in our German facilities that are approved from sanctions to be able to acquire equipment. But the Russian market, with the hit in the ruble, is 50% of what it
was. We have had recent visits from Russian customers that seem to indicate that they still want to continue with the implementation of our technology in their country.

Another risk is energy CapEx expectations. A lot of our business is in pumps and impellers and the pump business is highly driven by CapEx in the energy markets. And so, that may slow down some of our expectations by some of our buyers. But I would say, right now, we’re still seeing strong demand from most of our pump customers. Even though it hasn’t hit them yet, it could.

The foreign government subsidy issue, I just mentioned, in Japan was a problem for us which we think has gone away. Another thing that’s come up recently is that the Chinese CapEx is supposed to be very, very tight going forward. That’s going to make it a lot harder to sell machines into China. This is a general statement, not one that we’ve experienced, but one that may obviously impact our ability to penetrate the Chinese market. Because we’re a global company we are exposed to some of these fragile conditions as they hit us in the macroeconomic environment.

Before we move to questions, I just want to make one final statement on slide 29. We IPO’ed 25 months ago in February 2013, and we said that we were going to make investments to develop market demand for our technologies and our product. We’ve done that. We’ve made all the investments, we’ve got the capacity: you saw it in our investment in people, you saw it in our expanded square footage, you’ve seen it in new patents that we filed, you’ve seen it in new processes—all of our facilities in the U.S. were certified ISO 9000 during the course of the year. We’re beating ourselves to death with ERP implementations around all of our offices, and so we still have challenges in front of us, but we’ve essentially done what we need to do to be the $100 million plus company within a very short period of time.

Our primary focus now is to get revenues, to maximize that global adoption of the technology. We see it every day coming from customers. We’re under NDAs to not discuss most of their names, but they’re highly qualified Fortune 100, Fortune 500-type customers that are actually coming to us now and saying “we’ve got to go in this direction”. The rate of adoption is evident and it’s growing. We’ve got a good team here and we are very confident in our ability to mature this opportunity. All we need to do is execute on the sales aspects of this plan and keep the rest of our facilities running effectively.

Thank you for your time today and feel free to call in with some questions.

Karen L. Howard: We’re ready for Q&A, Kevin.

Operator: Thank you. [Operator Instructions] Our first question today is coming from Ananda Baruah from Brean Capital. Please proceed with your question.

Ananda Baruah: Hi, guys. Good morning. Thanks for taking the questions. Kent, you mentioned a second program with the Army that should be in revenue this year. I was wondering if that was in your original 2015 guidance that you provided last quarter. Then, to that same extent, these programs that you also alluded to, you said that you expect the revenue in the second half of the year or maybe towards the end of the year that could impact 2016. Are those new to the 2015 guidance as well? I have a couple of follow-ups as well. Thanks.
Kent Rockwell: Okay. Very quickly, we have included some work for the FARDS (Future Advanced Rotorcraft Drive System) program, which has been in our outlook from the beginning. It’s about $1.5 million worth of work that’s being executed as we speak and it’s moving along just fine. We have other large contract opportunities that are coming out of Navy and Army-type activities and some of them are new. We expect them to start probably late third quarter, early fourth quarter.

Ananda Baruah: Got it. That’s helpful. In regards to the cash balance guidance that you gave for exiting 2015, if we take the financial guidance and the CapEx guidance you provided, I think there’s still a few million dollars between that year-end cash balance guidance and the pieces. What is the plug there? How should we think about this?

Brian Smith: This is Brian.

Ananda Baruah: Hey, Brian.

Brian Smith: You’ve got about $5 million of depreciation and amortization and the rest are expected changes in working capital. We’re running at a fairly high rate of working capital if you look at our balance sheet. I think the projected cash balance falls pretty easily within that $25 million to $30 million range.

Ananda Baruah: Okay, great. You have touched on the selling dynamics in your prepared remarks. I was wondering if you could provide a little more detail around what you see the selling process as looking like today, the engagement process when you’re selling to the customers and where are the tension points today? You spoke to some of the educating and coaching that needs to still take place per the McKinsey survey. But how much of a tension point still lies with getting those purchasing managers educated? And the purchasing managers have to go and get approval from the C-level guys. I would love to get a little bit more detail around that mosaic. That would be useful. Thanks.

Kent Rockwell: We have demonstrated our technology to the world and shown them how it works. As a result, people have come back and said that the technology is interesting and indicated that they like it. The next step for them is to do a cost analysis of it and really try to rationalize this economically in their own environment. We run some IRR scenarios for them to show the cost effectiveness that we can get them in terms of driving down their cost per unit output. I think providing that information to the customer helps them make the decision because they see that the technology is working and we’ve got multiple places where they can walk in and they’re very pleased with the output.

It’s all about just driving down cost to get a wider acceptance. The industrial customers are tough to move up or down. They really want to see that it works. They’ve gone from being suspicious to now being pleased enough that they’re ready to look at program installations.

Ananda Baruah: Got it. Thanks a lot. Appreciate it.

Operator: Thank you. Our next question today is coming from Sherri Scribner from Deutsche Bank. Please proceed with your question.
Sherri Scribner: Hi. Thanks. I wanted to get a little detail on the guidance for 30% of revenue in the first half and 70% of revenue in the second half. Just looking at the numbers, it seems like there is no growth in the first half on a year-over-year basis and then we see some accelerated growth in the second half of the year. I just want to make sure that's the right way to think about it.

Kent Rockwell: I think 30%/70% is pretty extreme, but we were trying to not get anybody's expectations too far ahead of themselves because we've been accused of over-guiding. I think we've been a little conservative here. But the fact of the matter is that while we have a good growth rate in non-machines that sits around the 25% to 35% level, it's the machine level that will drive us to the higher levels of performance this year.

And machines are very heavily weighted to being third and fourth quarter installations. We've seen it again today where in Q1 we have orders that we originally anticipated being installed in Q1 and then all of a sudden, our customers have two buildings that aren't completed. The customer ends up moving the shipment into Q2, and that's just what we have to live with. However, we haven't lost the sale, that's the most important thing I can say. We do not lose the sale. The sale has simply become prolonged because of a customer implementation issue.

Sherri Scribner: Okay. That's helpful.

Operator: Our next question today is coming from Weston Twigg from Pacific Crest Securities. Please proceed with your question.

Daniel Baksht: Thanks very much. This is Daniel calling in for Wes. I had a couple of questions. First, on your revenue guidance for the year, what are your revenue expectations for the four beta Exerial machines in 2015? Are any other Exerial machines assumed in your 2015 revenue guidance?

Kent Rockwell: We do not provide price information for a couple of reasons, but the four Exerials will all be delivered in the second and potentially, the third quarter.

We sold them at a discount because the customer was buying them without any of the accessories, and he was helping fund the technology development for us. They're the operator of other ExOne machines, and they're a very pleased user of our technology. The sales price that we'll experience on those machines is probably at least half, particularly because they were sold in euros and the euro significantly devalued since the time that we started.

Daniel Baksht: And then just a quick follow-up. Long term, do you think those sales cannibalize your S-Max printers?

Kent Rockwell: Good question. Everybody is wondering that, including ourselves. But in my own opinion, they serve two different markets and represent two different opportunities. The output of the Exerial is so much larger than what some individuals would require, and also the applications for them are particular to some high-volume interests, such as in automotive production, that wouldn't be applicable where you're doing 400 or 500 pump impellers, or castings. They are for different customers.
There’s going to be a price point differential on them that we’re just concluding. But we’re well aware that if more of them shift from the S-Max to the Exerial because we believe that that will really help drive the overall concept of why binder jetting is so cost effective. The cost effectiveness of the Exerial is very, very much in line with what mass production users are going to be looking for.

**Daniel Baksht:** Okay. That’s helpful. And then finally, just another question on cash. You guided end-of-year cash. I was wondering what you think cash looks like at the end of this quarter or Q2?

**Brian Smith:** We don’t really give any quarterly guidance. Some of our facility CapEx is pointed more toward the first quarter or two. The remainder of our CapEx will be spread throughout the year. I would expect a decline in cash in Q1, and that’s the way we’re trending, and then recovery in Q3 and Q4.

**Kent Rockwell:** Yeah. We’re also building inventories right now for the Q3, Q4 efforts.

**Brian Smith:** Yeah.

**Kent Rockwell:** That does take up some cash.

**Brian Smith:** We have the order for the four Exerials out there, so we are building.

**Daniel Baksht:** All right. Got it. Thanks a lot.

**Operator:** Thank you. Our next question today is coming from Patrick Newton from Stifel. Please proceed with your question.

**Rob Richardson:** Great. Thank you for taking my question. This is Rob, on for Patrick this morning. Sticking around guidance where we know the revenue mix is extremely back-half loaded, I just want your thoughts on how that would impact gross margin throughout the year. Should we see similar weightings or more of a level load?

**Brian Smith:** I think our margins are volume-dependent and they’re also machine-dependent, so they’ll be a little lower in the first quarter, recovering some in the second quarter and then growing pretty strong in third and fourth quarter.

**Rob Richardson:** Got you. Thank you for that. Looking into this quarter from a revenue standpoint, I believe the implied guidance from the initial or full year guidance of $45 million to $50 million for this year, revenue came in a little lower than that for the full year. I just want to get your thoughts on, in the quarter, what impacted that and if there’s any specific events you could point to that brought that revenue for the fourth quarter a little lower than expected, based on full year expectations.

**Brian Smith:** We were a little lower. We got a little bit of FX headwind and that impacted us in our Japanese operations as well as in our German operations that we didn’t really expect. Again, with the lumpiness, it’s also a machine or two that could make a significant difference.

**Kent Rockwell:** Well, I can say specifically, the collapse of the ruble shut down a couple of Russian orders because they keep thinking that the ruble will establish itself if the Ukraine corrects itself. Actually, it has come back a little bit but not enough to cover what their hit was.
And so that’s still a remaining issue. The demand for our machines in Russia is quite high because some of the sanctions have put a lot of pressure on the need to be able to make certain things with our equipment. They are basic to their economy, truck parts and things.

**Rob Richardson:** Sure. Great. Thanks for that. I’m wondering actually, can you quantify what the FX impact was in the quarter?

**Brian Smith:** I can’t quantify it exactly right here. It’s just a few percentage points, but it certainly is there. I think the FX impact is probably a headwind that we’ll have. There’s a little more here in the first quarter with continued decline, down through wherever it is today, $1.05 in the euro and continued decline in yen and it looks like monetary policy would tell you that we’re going to continue to move in that direction since there are differing views between our country and Japan and Germany.

We’ll get a little more headwind, and that’s why we can have both risks and opportunities relative to stabilization of currencies in our forecast.

**Rob Richardson:** Got you. Great. Thanks for taking my questions.

**Operator:** Thank you. Our next question today is coming from Prab Gowrisankaran from Canaccord. Please proceed with your question.

**Prab Gowrisankaran:** Hi, this is Prab calling in for Bobby. I had a quick question. On your PSC strategy, going forward, I know you switched it from expanding PSCs to retrofitting existing PSCs. Is the plan to add Exerials or S-Max+ machines on to the existing ones?

**Kent Rockwell:** At this time, we do not plan on putting Exerial in any of our PSCs, even though that may make sense in, let’s say, in 2016. We’ve got enough capacity with our current machines there that are efficient.

**Prab Gowrisankaran:** Okay. And the second question I had was on the ExCast strategy. You talked about Sikorsky liking the parts. Is the plan to collaborate with other guys in a similar fashion, or would it change? How do you think about ExCast?

**Kent Rockwell:** We have two other similar providers that are in our offices on a fairly regular basis now, discussing how we can help them with utilizing this technology in their marketplace. Those represent multi-million dollar opportunities to Sikorsky--it’s still a very large opportunity once this aircraft is actually in production. And it’s not yet in a production machine.

**Prab Gowrisankaran:** Okay. Great. Thanks for taking the question.

**Operator:** Thank you. Our next question today is coming from Jason North from Jefferies. Please proceed with your question.

**Jason North:** Hello. I was wondering if you could give any sense in terms of the revenue split in 2015 between machines and non-machines.

**Brian Smith:** We anticipate a more traditional alignment. We don’t give specific guidance but it’s probably more traditional alignment than what you’ve seen this past year. We don’t expect a 50/50 split, that’s for sure.
Kent Rockwell: As I mentioned earlier, in the PSCs, the non-machine side of the business, we’re anticipating 25% to 35% growth rates. And regarding machines, the net growth rate for us to get where we need to be obviously has to be much higher. So you have that disparateness although that disparateness does help improve margins.

Jason North: So by traditionally, you mean along the lines of 2013 when that was about a 65%/35% split?

Kent Rockwell: Yeah. You could use that maybe as a spot number.

Jason North: Also, do you have any expectation of revenue from Russia here in 2015 or do you take in those out at this point in the guidance?

Kent Rockwell: No. We’ve had Russian customers that have been in within the last two weeks, approved customers that are not on a restricted list, that have given us indications that they’re going to continue to buy. One of them even said that they’re talking about a four-machine purchase with one of them being an Exerial because demand for output of these machines is going so high.

Now, I will say that we hear that a lot from the Russians and they end up more likely, buying one at a time. But they are real buyers in that market and a lot of our machines have gone into Russia.

Jason North: Okay. And then, last question for me here, in terms of looking at SG&A, you have a full year number here. I was wondering how the linearity of that works because there’s a bunch of one-time items here in Q4. I was wondering how quickly that comes down in the beginning part of the year or is it more evenly spread throughout 2015?

Kent Rockwell: Traditionally, our Q1 is a higher quarter, and Q4 is a higher quarter. There will be some higher numbers relative to commissions coming through with our higher sales in machines in Q3 and Q4, with Q2 and Q3 generally a bit lower.

There are some costs relative to our facility moves that were made in both Germany and in North Huntingdon that will trickle into the first quarter as well as costs associated with our ongoing ERP implementation. You can see some of those parenthetically down in the bottom of slide 26 and in our press release.

Jason North: All right. Great. Thanks very much.

Kent Rockwell: Thank you.

Operator: Thank you. Our next question today is coming from Ajay Kejriwal from FBR Capital Markets. Please proceed with your question.

Ajay Kejriwal: Thank you. Good morning. Just to follow up on that SG&A question; you’re guiding to lower expenses this year. Obviously, you had some one-timers, but then, your head count is up 30% year-on-year. So, maybe just a little bit more color on what gets the SG&A down outside of these one-timers.
Kent Rockwell: I think, Ajay, you’re hitting it. It’s primarily one-timers. It’s running a little more efficiently. It’s the lack of having duplicate facilities and locations. It’s improvements in our processes. It’s all of those, Ajay.

Ajay Kejriwal: Okay. Kent, you mentioned in your prepared remarks that there has been positive adoption in the technology from the outside. As we look at it, you’re selling fewer machines this year. Machine revenue is lower. Can you give us some color on the metrics you might be looking at that suggest there is better adoption of the technology? Is that related to inquiries from customers? Are you seeing better backlog? Maybe there’s some other metrics. Any color like that would be helpful.

Kent Rockwell: A very relevant question, Ajay, because we have to ask ourselves what’s a realistic forecast. But one of the things that we ran into last year that led to the lower sales was the fact that we were withheld from sales activities in Japan while the Japanese government determined whether or not they were going to try and develop a competing product. Our customers there stated that they were told pretty much not to buy any ExOne equipment until they saw what happened.

Now, it appears that opportunity has gone by and they’re not going to be developing that particular application. They are developing some other applications for 3D technology that are not relevant to our binder jetting activity and they’re leaving the binder jetting alone. So that helped.

Secondly, again, the collapse of the ruble hit us and the softness in Europe hit us. It just was a slowdown. The pickup is coming in the U.S. and we do see some other U.S. activities. For us, across the U.S., the main attraction sector appears to be getting a little stronger and they’re getting a little more conscious about spending capital for these kinds of activities.

We have it by name. This isn’t like we’re putting in placeholders. We can identify every single customer by name as to a sale that gets us to the high point of our guidance. The issue we have is, will they all execute? I can’t say, maybe there’s one or two of them, there’s the speculators, but we haven’t had people who turned around and walked away from the technology and said, “This isn’t for me. It’s really not working”. We’re still comfortable that we’ve got the right technology. We just made some tremendous improvements in it. We’ve made the improvements to the silicate and the phenolic machines which will make them much more adaptable, which opens up new market opportunities. And we’re also doing some printing on the large machines in some other materials, such as carbon materials, which is going to, I believe, generate additional sales as well.

Ajay Kejriwal: Thanks for that. One quick one for Brian, and then I’ll pass it on. Brian, you’ve mentioned collections becoming more aggressive with some accounts. Could you maybe clarify that and quantify how much of those receivables might either be at risk or may be looking to be more aggressive and where are those? Are they international customers or U.S.? Any color there?

Brian Smith: Yeah. I’ll tell you it’s principally international customers, although we have specific customers in the U.S. that have their own specific micro situations. We can point to the
events in Eastern Europe as part of that, albeit that I’d be misleading you if I said that’s the whole amount. We felt that, with the decline in their credit worthiness, it was appropriate to take reserves for those receivables. And also, as I said, we will vigorously move to collect them. We haven’t written them off, but we thought it was the right thing under the circumstances to reserve for them at this time.

**Ajay Kejriwal:** All right. Thank you.

**Brian Smith:** Okay.

**Operator:** Thank you. Our next question today is coming from Brandon Wright from Stephens. Please proceed with your question.

**Brandon Wright:** Hey. Thanks, guys. This is Brandon in for Ben. I appreciate you taking my question. The first one is just in reference to the $0.5 million to $1 million in facility integration costs that you’re predicting are going to hit gross margins. What quarters do you expect that to fall in and when do you expect it to taper off?

**Brian Smith:** Yeah. Thanks. It’s a good question. Again, these include finishing the moves in Germany. We have one more facility that will be integrated this month into the new facility in Gersthofen. And then, some of the costs are associated with the final build-out here in North Huntington. That’s really what that will be tied to. So, it’s mainly the first quarter but could also trickle into the second quarter.

**Brandon Wright:** Great. Thanks. And then, just a follow-up. As for your expectations for ExCast going forward, do you think your opportunities will be focused in aerospace and defense here? What kind of contribution do you see the program bringing to the company this year? Thanks.

**Kent Rockwell:** Right now, we have the FARDS program work, which I just said is $1.5 million of volume. We may see some more activity come in late Q3 or early Q4. We still have a little bit to finish up with Sikorsky.

**Brian Smith:** Yeah.

**Kent Rockwell:** But I don’t think it’s more than $200,000.

**Brian Smith:** Yeah, a small amount.

**Kent Rockwell:** We are running those programs in a cost-effective manner now. Sikorsky may still have just a little bit of hair on it, but it’s all cleanup stuff. It’s nothing that we’re worried about. And FARDS appears to be running right on schedule. Margins in that kind of a business are lower because it leads to production volumes where you get very, very high volume. I’m going to guess that we’re going to be holding margins in the 25% range for that work.

**Brandon Wright:** Sounds good. Thanks for the color there.

**Kent Rockwell:** One good order in ExCast right now from one major customer can be a $5 million to $10 million order.

**Brandon Wright:** Great. Thanks.
Operator: Thank you. Our next question today is coming from Holden Lewis from Oppenheimer. Please proceed with your question.

Holden Lewis: Great. Thank you. Good morning.

Kent Rockwell: Hey, Holden.

Holden Lewis: Back in November, you obviously talked about 25% to 35% growth for 2015. Since then, currency issues certainly haven’t gotten better, and neither have energy issues or Russian issues. None of those things seem to have gotten better, but you have ramped your expected growth now to the 32% to 50% range. What exactly has changed over the last five months or so that has allowed you to add that incremental revenue on top of the original, the peek, that you gave?

Kent Rockwell: All right. A valid question. First of all, there is the Exerial machine and the opportunities for sales of that machine, and the Innovent™ is obviously going to help, even though it contributes very small per unit numbers. That's not going to change. We expect to see a slight improvement in M-Flex machine sales. We've seen an awful lot in the S-Max as we moved into the S-Max silica and the S-Max phenolic applications where we have machines and the customers are waiting for them. We have one very large silica machine that we have scheduled for Q3 with a major global customer. If that proves successful, and we've been running it successfully, we believe we’re going to see several more of those within the next several quarters.

Holden Lewis: Okay. Are there any changes into what you’re seeing in the PSCs versus five months ago with the increase in machine revenue?

Kent Rockwell: First and foremost, we’re talking to a whole variety of additional customers that weren’t there a year ago. We’ve got a bunch of customers who bought a couple of things out of our PSCs and evaluated them. They are now saying, okay, give me a machine and let’s start to see how it works. People now have had our machines in place for a year and they have worked well. We now have five customers that have said they want their second or third machine.

Holden Lewis: Okay. I have a related question. The increase in the gross margin, are you able to give us a sense of what gets you there? Obviously, volume is a part of it, but I’m also curious, what’s the total recovery in gross margin just from the absence of identified unusual costs? Can you give us a sense of what the inefficiencies might have been? I’m trying to get a sense of what your baseline margin is, absent all of these unusual items, and then how much improvement is above that and from what sources?

Brian Smith: Yeah. Holden, this is Brian. That’s the one number that we didn’t give out, relative to inefficiencies and we projected that to be $1.5 million to $2.5 million earlier in the year. It’s hard to come to an exact number. We think there is substantial headwind there. The higher volumes will drive better absorption of costs both in the PSCs as well as in our new facilities.

Let me just add that we haven’t talked a lot about FX, and I probably failed to mention, that will help us in SG&A a little bit in some of our foreign locations. If we sell machines that are
produced in Germany to other areas of the world, and we’re able to hold our sales prices in those currencies, we would have lower costs, yet hold U.S. dollars at a higher amount, so we would improve margins. So there’s a combination of factors. We are very focused on the FX impacts and we do model that out going forward. So there are pluses and minuses. Again, volume has a lot to do with it, as we’ve talked in prior quarters.

Holden Lewis: Do you recall what the total identified non-recurring expenses should be? You identified $0.6 million in costs in Q4.

Brian Smith: Well, we’ve said something in the range of $1 million for ExCast startup. We had projected out $1.5 million to $2.5 million relative to inefficiencies. But we can’t really put that number out there, Holden, as a firm number.

Holden Lewis: Got it. All right. Lastly, what should we do with taxes next year? And I’ll jump back in the queue.

Brian Smith: Regarding taxes, we continue to be generally in an NOL position in all of our jurisdictions. As we make money, we will use those benefits. Tax rates will continue to be nominal next year.

Holden Lewis: Okay. So, at a loss position in 2015, you would expect that basically the tax number would be minimal like this year?

Brian Smith: Yeah. We would absorb fully reserved NOLs, we would absorb our tax provisions for next year.

Holden Lewis: Yeah.

Brian Smith: It’ll be a nominal number like it is now.

Holden Lewis: All right. Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session. I would like to turn the floor back over to management for any further or closing comments.

S. Kent Rockwell: I want to close by thanking everybody for joining us. We are proud of the progress we’ve made this year and we’re thankful to all our global employees for all that they’ve added in advancing our strategy this year.

We’re excited about 2015. We think we’ve got some customer activity that will change the way people see us as we go through the upcoming year. Our unique binder jetting capabilities are still setting us apart—we’re in a different world than the people that we consider our peers in the 3D marketplace.

Thank you for your time today, and we look forward to speaking with you as we progress through 2015.

Operator: Thank you. That does conclude today’s teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.