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STRATASYS INC. Eden Prairie, Minnesota

Manufacturer Known For Quality, Adaptability

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When students at Kentucky's Owens Technical College create designs in computer-aided drafting class, within hours they can actually see models of what they develop.

It's one of the more than 100 high schools and colleges that use a three-dimensional rapid prototyping machine, called Dimension, made by Stratasys Inc.

Launched in February 2002, Dimension is a networked 3-D printer that lets users quickly create models in their offices with a durable thermoplastic material. The Dimension outputs prototype parts directly from computer-aided design systems at the desk.

Because students can actually see what they've designed, the printer helps them better understand what they've created. Teachers can use the model to point out where a design needs to be improved.

The Price Is Right

Students aren't the only ones using the Dimension system. In the product's first year on the market, Stratasys shipped more than 300 units.

Analyst Brion Tanous of RTX Securities figures that's three times more than any competitor in the market's lower-priced space, including top rival 3D Systems Corp.

The Dimension costs \$29,900. It's the lowest-priced 3-D printer on the market and costs half as much as 3D Systems' ThermoJet model, Tanous says.

"We're seeing a real uptake in the Dimension because of its low price point vs. everyone else," he said. "It's now down to the point where people can afford and justify the product . . . which is (helping) Stratasys break into new markets like universities and high schools."

Another key reason for Dimension's success is the high quality of parts it produces, he says. Though 3D Systems' ThermoJet printer's output has better feature definition and surface finish, Dimension produces more durable models because they're made of plastic.

Stratasys is also the second-largest maker of rapid prototyping machines, which it distributes through more than 100 resellers. 3D Systems ranks No. 1.

Automakers and other manufacturers use Stratasys' systems to speed up product development and cut costs. The gear lets engineers see and test their plans for new products or parts before they're launched.

That way, engineers learn if they need to rework a design. That can save manufacturers a lot of potential money to correct a flaw at a later stage.

The Dimension printer competes in the growing market for smaller machines. Traditional models are used on the shop floor.

"The potential for the Dimension is huge because you're talking about a lot of pent-up demand for this type of product," said analyst Jim Gentrup of Provident Equity Research.

He places the global market for 3-D printers at about \$2 billion.

Stratasys Chief Executive Scott Crump sounds confident his firm can cash in on that potential.

"We're very excited about our prospects (because) we think we're serving an untapped market with Dimension," he said. "We also sell the materials the Dimension consumes, and this should allow us to get some real growth."

Financial Rebound

The Dimension has helped Stratasys emerge from the financial doldrums. Earnings have grown by at least 71% the past two quarters.



Officials at Stratasys Inc. look to the firm's low-priced Dimension 3D printer to help drive future sales growth.

Stratasys Inc.

stratasys.com

Ticker	SSYS
Share price	Near 19
12-month sales	\$39 mil
5-year profit growth rate	30%

IBD SmartSelect Corporate Ratings

Earnings Per Share	96
Relative Price Strength	99
Industry Group Relative Strength	A+
Sales+Profit Margins+ROE	C
Accumulation/Distribution	A

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It's taken awhile to get there, however. Profit growth stalled in 1997 and was erratic until the second half of last year.

The slowdown was tied in part to weakness in the market for rapid prototyping machines, Tanous says.

Making matters worse, Stratasys was having problems with its Genesis 3-D printer, the first priced at less than \$60,000.

Launched in 1997, the Genesis was based on technology Stratasys acquired from IBM Corp.

The machine enjoyed brisk sales its first year out, but it later flopped. Problem was, it didn't produce a high quality, reliable model, says Stratasys Chief Financial Officer Tom Stenoien.

So Crump and his team redesigned the system from the ground up with new technology and materials. They invested about \$10 million to develop the product. They also did a lot of testing in the field to make sure it was reliable.

Last year they pulled Genisys from the market and replaced it with the Dimension.

"It took us awhile and a lot of (research and development) dollars, but we finally got it right this time with Dimension," Crump said.

Stratasys' 2002 earnings grew 22% to 56 cents a share. Revenue was up 6% to \$40 million.

Analysts polled by First Call see earnings rising 30% to 73 cents this year, then reaching 85 cents in 2004.

"I think they'll keep up the momentum," Tanous said. "What will drive growth is further penetration into the low-end (3-D printer) market."

Stratasys is trying to expand Dimension's reach into new applications.

One possibility is selling the machines to medical device makers, which use rapid prototyping machines. In time, they might turn to the 3-D printer to create models for hearing aids, Gentrup says.