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PRESENTATION

Operator

Greetings, and welcome to The ExOne Company Fourth Quarter 2019 Financial Results Call. (Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Karen Howard, Investor Relations for ExOne. Thank you. You may begin.

Karen L. Howard - *Kei Advisors LLC - EVP*

Thank you, Melissa, and good morning, everyone. We appreciate your time today for The ExOne Fourth Quarter and Full Year 2019 Financial Results Conference Call.

Referring to Slide 2 in our slide deck, on the line with me today are our presenters, John Hartner, our Chief Executive Officer; and Doug Zemba, our Chief Financial Officer and Treasurer. John and Doug will be reviewing the results that were published in the press release distributed yesterday afternoon. If you don't have that release, it's available on our website at www.exone.com. The slides that accompany our discussion today are also posted on our website.

On Slide 3 is our safe harbor statement. As you may be aware, we will make some forward-looking statements during this presentation and may also during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's release.

John will get us started providing a business update. Doug will go through a detailed review of the financial results, and then John will provide perspective on our outlook for the rest of the year before we open up the line for questions and answers.

And with that, it's my pleasure to turn the call over to John to begin. John?



John F. Hartner - *The ExOne Company* - CEO

Thank you, Karen. Good morning, everybody. Thanks for joining us for ExOne's fourth quarter report. First, I want to acknowledge the unprecedented current environment and reassure our customers, employees, partners and investors that we, at ExOne, are well positioned and moving forward proactively.

Let's move to Slide 5 with a summary of our financial results for the quarter. Then I'll update you on the progress of our technological developments. From a high level standpoint, I'm pleased that we reported solid gross margins and positive adjusted EBITDA for the quarter. We also closed the year with a record backlog.

We realized \$17.5 million of revenue for the fourth quarter, our highest quarter in 2019, but down from last year's record fourth quarter. This revenue is short of our expectations as the timing and duration of installations of our newly introduced machines took longer than anticipated.

Our cost structure continues to be at stable level, well suited to drive operating leverage on growth. At this revenue level, we were able to generate slightly positive adjusted EBITDA for the quarter. We finished the year with \$31.1 million of backlog. That's more than 2.5x prior year backlog. Together with our pipeline, we believe we are well positioned for growth in 2020, even in light of the market uncertainty. I'll touch on that further towards the end of the presentation.

From a capital perspective, I want to extend my thanks to the Finance team, who worked very hard to successfully complete a sale leaseback of our facility in Germany last month. This gives us confidence that we have adequate capital to support our growth plans for the foreseeable future.

Finally, from a business perspective, during the fourth quarter, we shipped our first S-MAX Pro sand printers and our first X1 25Pro metal printer. I'll talk more about those in a moment.

Now please turn to Slide 6. As I reflect on the year, there was a significant amount of change in our organization, and I would characterize 2019 as a transition year. First and foremost, I congratulate our R&D teams as we rolled out new product and material developments at a record pace. We introduced 3 new machines, 2 of which we started shipping. Internally, we made investments in our leadership team, and we also expanded our customer-facing resources. We now have more touch points than ever with customers around the globe.

While we accelerated our technology development and customer-facing resources, we continued to prudently and efficiently manage our cost. This positions us well to realize operating leverage as we grow.

Finally, from an external perspective, the softening manufacturing economy impacted the timing of customer decision-making for capital purchases, including 3D printers. That made it a tougher backdrop for the year as well.

Please turn to Slide 7. I want to remind you of our strategic pillars. You will see how our operational progress aligns with our strategy. Our first pillar addresses our focus on customers' needs. Investing in more customer facing people, as we have been doing, will drive new market penetration, leading to expanded margins.

Our second pillar addresses our binder jetting technology core. This relates to the new machines and materials that we've been introducing, reducing the total cost of ownership and expanding applications in addressable markets.

Our third pillar focuses our attention on recurring revenue growth. A solid level of recurring revenue will provide us with more stability at the top and bottom line, helping to balance fluctuation in machine revenue.

We renew our focus on government contracts, and I will share with you how this is paying off later.

So to summarize, our team is focused on executing our strategic plan and realizing our long-term financial goals.



Please turn to Slide 8, and you can see, we've clearly had a busy year. I'm proud to say that more than half of our current machine lineup is now new, introduced over the past year or so. The S-Max Pro sand printer, shown in the upper photo, is our fastest and smartest industrial production system yet. It has a full range of capabilities for prototyping large molds and cores as well as for serial production. This printer is currently available as a stand-alone solution, where several units can be connected to create a fully automated volume production line. We patented it and launched a new methodology for our printers, which we refer to as the Triple ACT or advanced compaction technology. This patented methodology delivers industry-leading density and repeatability, significantly enhancing the performance of our printers using fine metal powders.

Our new X1 25Pro mid-sized metal printer enables users to print with a diverse range of powders at an increased production volume. This platform addresses the needs of metal injection molding, or MIM, powder metallurgy and manufacturing customers seeking a larger platform solution for producing in a production environment.

And last, on the machine front, but certainly not least, we announced our X1 160Pro metal production printer, our fastest and largest system for direct printing of metal and ceramic parts. We're really excited about the introduction of this platform, which is more than 2.5x the build volume of competing systems. It is capable of printing more than a dozen metal, ceramic and composite materials. It also has Industry 4.0 cloud connectivity and process linking capabilities enabled by Siemens MindSphere. We believe this platform is particularly attractive for the Automotive, Defense and Aerospace industries. It's truly revolutionary. We have also launched new materials and binders with an updated qualification process that I'll review in a few moments.

Please turn to Slide 9, and I will provide an antidote about a key production user. This customer has several of our M-Flex metal printers. They are one of the first to order and receive a new X1 25Pro metal printer shipped in Q4. Given their satisfaction with that printer, they have ordered additional X1 25Pro printers to expand their production volumes, and also an Innovent+ to expand their development activities to new sites.

Additionally, they are expressing their commitment and have reserved several more systems for later in the year. We believe that this pattern demonstrates ExOne's ability to help customers move innovative direct metal products from development to scaled production.

Please turn to Slide 10. And I'll briefly describe our new material qualification process. Our direct printers have been capable to print dozens of materials, metals, ceramics and composites. They fall into 3 categories, as shown here. First, we have 7 materials that have been qualified by third parties, meaning they have full marketplace readiness. Examples include common materials, such as 316 L and 17-4 stainless steels.

Next, we have 14 more materials that have been qualified by our customers for their own application. Several of these are proprietary materials, serving as differentiators for those customers.

The third category includes more than 24 materials that are printable in an R&D setting, but are undergoing further development to get them to the top of the pyramid, including -- examples include aluminum, H11 tool steel and Tungsten carbide. We believe ExOne has the widest pallet of materials, and this, in turn, leads to growing many new applications in many new markets.

Please turn to Slide 11. In the past, we've talked about recurring revenue mostly related to consumables and parts. While those efforts continue, today, I will touch upon our expanded focus on R&D contracts. We've been increasing our joint development programs with commercial customers to advanced binder jetting applications. Beyond the contract revenues, several of these R&D projects should lead to opportunities for our X1 160Pro printer.

Next, our renewed focus on government R&D is paying off. In 2019, we won several small SBIR awards. And already in 2020, we have a new contract with the U.S. Department of Energy. This is a multiyear grant, amounting to over \$4 million. It is to develop innovative, high-temperature ceramic heat exchangers that operate in extremely harsh service conditions.

Some of these contracts involve innovative materials, such as Silicon Carbide, which I've talked about before, but aluminum is now a big focus, and we are showing steady progress there. This is really exciting, considering the light weighting opportunities that this material opens up for our customers, especially those in the Automotive sector.



I'm now going to let Doug walk through the details of our financial results. Doug?

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

Thanks, John. Good morning, everyone. If you could please turn to Slide 13, we'll start with revenue. Revenue was down to \$17.5 million in Q4 2019 compared with our Q4 2018 record quarter. For the year, as John mentioned, revenue was \$53.3 million compared with \$64.6 million in 2018. The decrease in revenue was attributable to both of our product groups, which you can see on the next slide.

Now let's go to Slide 14. Here, you can clearly see the driver of the revenue shortfall in the quarter and full year. The Machine Sales were \$10.7 million in the current quarter, down from \$19 million in last year's fourth quarter. This is primarily due to the timing of finalizing machine installations at customer facilities, including our newly released S-MAX Pro and X1 25Pro platforms introduced during Q4 2019. In addition, we continue to experience the impact of the broader manufacturing slowdown in 2019 compared to 2018, which has resulted in general delays in customer purchasing decisions for capital equipment. We finished the year with \$27.2 million of Machine Sales compared to \$36.4 million in the prior year period.

Now, if we can turn to Slide 15, we'll review Machine unit sales. As a reminder, our Direct Machines directly print components, such as metal and ceramic parts, for industrial and other applications and include our Innovent+, M-Flex and X1 25Pro platforms as well as our newly introduced X1 160Pro platform, which is expected to come online in late 2020. Our Indirect Machines print tools such, as sand cores and molds and include our S-MAX Pro, S-Max and S-Print platforms.

Our Indirect Machines are our larger footprint systems, with such systems generally achieving a higher average selling value. We sold 14 machines in the 2019 fourth quarter compared with 28 in the prior year quarter. Our 2019 fourth quarter Machine Sales included significantly fewer and a lower proportion of our Direct Machines than the fourth quarter of 2018. As you can see on the charts on the left, we sold 3 fewer Indirect Machines and 11 fewer Direct Machine in the 2019 fourth quarter as compared with the prior year quarter. This volume decrease unfavorably impacted the Machine revenue dollar decrease we saw on the last slide. Our Machine Sales during the 2019 fourth quarter continue to represent a diverse set of global geographies and customer applications, and included a mix of industrial and research and development users. During the full year 2019 period, we sold 44 machines as compared to 56 in 2018. The decrease driven by the fourth quarter factors I previously explained.

Now let's turn to Slide 16. Recurring revenue, which includes our 3D printer and other products, materials and services, was \$6.8 million in the fourth quarter of 2019, reflecting an 8% increase over the prior year period. For full year 2019, recurring revenue was \$26.1 million, down from \$28.2 million in 2018.

Beginning on the left, the 2019 fourth quarter reflects the stability shown in our 2019 second half. The growth, as compared to the 2018 fourth quarter, was driven by an increase in aftermarket sales resulting from our increased global installed base of machines and contributions from a funded research and development project with an automotive manufacturer.

On the right, for the 2019 full year, the decline is primarily attributed to a lower volume of orders from -- for both Direct and Indirect printing projects in the first half of the year, plus the impact of the exit of our Houston facility, which contributed just under \$1 million in 2018.

We also experienced lower realized pricing for our sale of consumable materials. These decreases were offset by an increase in our aftermarket sales based on our growing global installed base of machines.

Turning to Slide 17, we'll talk about gross profit and margin. Gross profit was \$6.8 million, resulting in a strong 38.6% gross margin for the fourth quarter of 2019, down from a 40.2% margin for the fourth quarter of 2018. The decline was primarily driven by lower revenue volume in the quarter, partially offset by higher realized pricing on machine sales. For the year, we realized gross profit of \$17.4 million and a gross margin of 32.7% compared to \$20.9 million and 32.4% in the prior year period. The 2019 gross margin expansion was driven by a reduction in fixed costs resulting from our 2018 global cost realignment program initiated in June 2018. The improvement also benefited from lower net inventory impairment charges and the absence of facility exit costs recorded in 2018.

Please turn to Slide 18, and we'll discuss SG&A. Comparing the fourth quarter of 2019 to 2018, our SG&A expenses were up about \$300,000 to \$5.7 million. This increase is primarily driven by our investment in our global sales and marketing infrastructure. We continue to see stability in our operating expenses in general following our 2018 global cost realignment program. For the year, our SG&A decreased by approximately \$600,000 to \$22.6 million. The improvement was driven by employee and consulting cost reductions associated with our 2018 global cost realignment program, which were offset by costs incurred for executive management changes and our investment in selling and marketing efforts, including costs associated with the GIFA Trade Fair, which we discussed during our prior calls.

Please turn to Slide 19, and we'll discuss our investment spending in R&D. Fourth quarter R&D expense increased by about \$200,000 to \$2.5 million, whereas annual 2019 R&D expense declined by \$800,000 to \$9.9 million. The 2019 full year reflects the benefits of our 2018 global cost realignment program, resulting in lower employee-related and consulting costs. These savings were offset partially by costs associated with our development of the X1 25Pro and S-MAX Pro printer platforms.

Now if you'll turn to Slide 20, I'll review backlog. To remind you, our backlog includes firmly committed orders received from our machine and recurring revenue customers. It includes our machine maintenance contracts as well as the non cancelable portion of our operating lease agreements. Backlog also includes orders from our global direct and indirect printing operations and other contractual services, including funded research and development. We ended the year with a record backlog balance of approximately \$31.1 million compared to \$12.3 million at the end of 2018. We expect the combination of our backlog at December 31, 2019, and acceleration in market adoption of our newly introduced printer platforms to provide the basis for growth in 2020 despite certain negative macroeconomic trends for global manufacturing, including the global market impact of the coronavirus. We remain confident in our business given our expanding product portfolio and our leading position within the additive manufacturing space for binder jetting technology.

Turning to Slide 21. This chart represents a waterfall of our first 9 months and fourth quarter 2019 cash flows. Since I reviewed the first 9 months previously, I won't repeat that here. Instead, I'll walk you through the fourth quarter section on the right. We turned a net positive cash flow of approximately \$100,000 during the 2019 fourth quarter. This net increase was primarily driven by proceeds received from the sale of our European headquarters and operating facility in Gersthofen, Germany, and the sale of our former Houston, Texas operating facility, which combined generated \$3.2 million in cash for the quarter. This cash generation allowed us to repay our outstanding borrowings on our related party revolving credit facility, which was fully available at December 31.

While we narrowed our net loss in Q4, we still had net cash outflows from operations, mostly due to unfavorable working capital changes, primarily an increase in inventories tied to our machine installation activities. Our cash capital expenditures for the fourth quarter were limited to \$100,000. We anticipate approximately \$2 million to \$3 million of planned cash CapEx spending in 2020.

If you'll turn to Slide 22, you will see our total liquidity at year-end 2018, 2019 as well as the pro forma 2019, which takes into account certain liquidity actions we took in early 2020. At the end of 2019, we had \$20.2 million of total liquidity compared with \$22.6 million at the end of 2018.

On the right, you can see the pro forma chart, which takes our December 31, 2019, total liquidity position and rolls in remaining proceeds from the completion of the sale leaseback of our European headquarters and operating facility in Gersthofen, Germany, which closed in February 2020. This transaction resulted in total unrestricted net proceeds to us of approximately \$18.5 million, of which approximately \$2.2 million was included in cash and cash equivalents at December 31, 2019. Separately, we entered into an amendment to our \$15 million related party -- revolving credit facility, which reduced the amount available under the revolving credit facility to \$10 million and extended the term of the facility through March 2024. This generates a total pro forma liquidity of approximately \$31.6 million.

In 2019, we significantly cut our cash burn rate as compared to 2018, and our focus remains centered on profitable growth and operating cash flow generation for the business. We've shown the ability to modify our operating model, when necessary, our 2018 global cost realignment program as an example. We remain focused on effective and efficient cost management within our business. We've also shown the ability to identify and execute on low-cost sources of non dilutive liquidity to support our growth initiatives. We continue to believe that we have sufficient liquidity to support our near-term growth plans.

Turning to Slide 23. We wanted to provide an additional overview of the liquidity actions we completed in February 2020 and the related pro forma impacts on our operating model. We expect to incur annual rent expense associated with the completed sale leaseback of approximately \$1.7 million, which replaces our \$600,000 annual depreciation run rate. We also expect to recognize a gain on the sale of approximately \$1.4 million in our 2020 first quarter.

That concludes my prepared comments. And now, I'll turn it back to John.

John F. Hartner - *The ExOne Company* - CEO

Thanks, Doug. Please turn to Slide 25, and I'll discuss the current economic backdrop as we see it. As noted in the chart here, initial predictions for 2020 were that manufacturing production would grow. However, that was before the outbreak of COVID-19, which has caused significant uncertainty. With respect to ExOne, our priority remains the health of our employees and our business as well as continuity for our customers and our partners.

At the present time, our supply chain has not been impacted, but we note that certain subcontractors supplies, particularly electronics, do have a risk. From a market perspective, we -- given our global reach, revenues from highly impacted countries, China, South Korea, Italy, are only about 10% to 15% annually of our business. We are monitoring the situation closely and dynamically adjusting where needed.

With that, let me turn to Slide 26, where I will discuss our outlook. We have several positive attributes driving favorable momentum into 2020. These include our record backlog entering the year, followed by a solid pipeline, driven by our new machine lineup and expanded customer-facing team.

Also, our operational and capital spending remains under control. We believe these factors position us well for growth and solid margins in 2020.

Finally, our balance sheet is strong and well-capitalized to support our growth. However, there's so much macro uncertainty, including the unknown economic impact of COVID-19. We currently don't feel it's prudent to provide quantitative guidance for a specific time period. We remain focused on continuing to execute our strategic plan and may give quantitative guidance in future periods.

Please turn to Slide 27, and I will close with our commitment to sustainability. We, at ExOne, have always realized that our binder jetting technology is green. And we've recently expanded our communication to stakeholders on the sustainability value that we provide.

Our vision is to deliver sustainable manufacturing without limitations. Compared to traditional manufacturing processes, our binder jetting technology lends itself to a number of sustainability drivers. As listed here, these include less waste, lighter weight components, consolidation of parts and even using recycled materials.

Sustainable supply chains are becoming really important. Supply chains that are shorter, more decentralized, closer to the end customer and with less risk. These factors are not new, but they are qualities, we want to be sure that our customers and our stakeholders are aware of.

That concludes my prepared comments. And now let's open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Chris Van Horn with B. Riley FBR.



Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

So I know it's a fluid situation, and it's hard to kind of look at 2020 from a quantitative level. But maybe just what are you seeing in the marketplace right now, our customers somewhat shutting down our suppliers making alternative plans. And I guess, where are you kind of seeing real time?

John F. Hartner - *The ExOne Company - CEO*

I'll start with that. So I'd say it varies by region. Obviously, Asia was the earliest impacted and some calls with customers in China. Their facilities are starting up again at this point. So they're looking to stabilize production and then move to expand capacity with digital manufacturing. And that is similar across the rest of the region. In Asia, Japan has not been as impacted and is a very strong market for us. Europe, it has recently seen significant uncertainty. And those customers there, although we continue to be in good conversations, do have an attitude of pausing, I would say. In North America, in which we have significant pipeline and opportunity as well as the expanded customer facing organization, customers appear to be moving forward in many ways. We had customers here this week, finalizing programs and projects. So I feel, in the Americas, there's good confidence to move forward. But it does vary by region, and sometimes you wake up and then the next day's news may change people's minds. But the combination of our backlog, our new products, our sales force, our well-capitalized balance sheet, we feel pretty confident about this year.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay, great. And then focusing on the backlog, really strong growth, obviously. Could you give us a little bit of color on maybe the end-market mix of that backlog? And then some perspective on your visibility into the backlog?

John F. Hartner - *The ExOne Company - CEO*

Yes, I'll start there. As far as the mix by industry, again, one of the positive things about our technology is its very broad. So we have a business with Aerospace, Automotive industrial. I mean, there's a lot of general industrial customers, people that built pumps and brackets for utilities, things that are very broad and not as cyclical and related to consumer spending. So it is both geographically and industry broad. So there's no particular concentration. Yes, I think -- Doug, would you add anything else?

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

I think that, that's fair. We certainly saw an uptick related to that backlog based on the product introductions that we did sort of mid-year in 2019. So we've got a nice share of the S-MAX Pro and the 25 PRO are starting to take flight for us. So you do see that as a component there, and that really sets us up for the early part of 2020.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay, got it. And then just on the timing of that backlog is you give good visibility of when that comes to the P&L?

John F. Hartner - *The ExOne Company - CEO*

Yes, sure. So of the \$31.1 million that's there at the end of the year, \$27.1 million is, from our perspective, is something we expect to recognize in 2020.



Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay, got it. And then just to put some perspective on last year, do you know what -- do you break out kind of what you booked and shipped during the year?

John F. Hartner - *The ExOne Company - CEO*

We don't typically disclose that. And the reason being that the variability from one transaction to the next from the time we take an order to the time we actually finished the project. It's quite wide. Some of these can be multiyear where we start discussions in one period and then work through a process and ultimately deliver a product in a separate period. That can take a bunch of different forms. In other cases, we take on an order and turn it rather quickly, which the discussions may have had at Genesis well before that. So it's not a statistic that we use to run operationally just because we're so fluid in how many different discussions with customers and where they're at in their adoption cycle.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay, fair enough. And then from a capital perspective, looks like you're in pretty solid shape here. I think you mentioned \$2 million to \$3 million in CapEx spend for 2020. And so you -- anything else that you might use that cash for continued working capital, investments, et cetera?

John F. Hartner - *The ExOne Company - CEO*

Yes. And I think the capital investments that we talk about, a lot of that is related to our expanding our parts business, which is a recurring revenue. So that's a positive, and we're seeing opportunities there. As a matter of fact, from a working capital standpoint, we have several projects from a machine standpoint to implement lean processes and reduce lead times. So we don't see a large increase there, but it is lumpy sometimes quarter-to-quarter. So we're -- at this point, with the uncertainty, we're quite happy to have a large capital and cash back capabilities.

Operator

Our next question comes from the Brian Kinstlinger with Alliance Global Partners.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

I appreciate how difficult the environment is. With the limited business travel, unless it's critical right now for most companies, I assume fewer prospective customers are coming to your facility to evaluate your printers. How can the company adjust its sales strategy should this environment continue for extended period? And should we expect very few printer sales in the next few months while we wait for more clarity?

John F. Hartner - *The ExOne Company - CEO*

Well, thanks for the question, Brian. Firstly, you're right. There is a fluid situation, but the positive thing is the large backlog we have, and also, order activity that's already occurred in the first quarter. As we also talked about our expanded customer facing team, for the most part, that team is forward deployed. Previously, we had a strategy of having folks inside of our facility in sales. Now our team is forward deployed closer to customers. So that, firstly, allows us to better serve customers across the -- all regions. Secondly, I would say that we've enhanced our ability to use digital tools. We have very wide use of video conferencing and teamwork type meeting rooms. So we've been expanding that as well as on the marketing side. There are several trade shows that are being canceled. And we're flipping that to a digital trade show. And our ability to continue to talk to customers even whenever they may not be able to travel. How that impacts orders in the short term? I mean, we'll see. I described earlier in my Q&A little bit about the geographic differences. But I would say the Americas seems to be the most positive as far as moving forward, and we have plenty of things in the pipeline. So we anticipate, we'll be able to close things. And remember, we're sitting here in a situation where there's been a disruption of the supply chain, whether it's because of tariffs, whether it's because of viruses. The aspect of digital manufacturing and bringing supply chains

closer to the end-use is a -- kind of a macro trend that we're going to see continue to play to our strengths. And so I think a lot of customers are looking at that long-term trend and continuing to make decisions for the future.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Great. And with that said, you talked about the confidence with your backlog. Of the \$27 million that you expect in 2020, how much of that is from Machine Sales versus other sources?

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

Sure. So machine sales would be, roughly, let's say, \$23 million. So we turn our recurring revenue, as you would imagine, a lot quicker than a system sale. So the large chunk of it is geared toward Machine.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Great. And then again, to John's answer from the first question, with the first quarter almost complete and the uncertainty in the market, can you quantify how many printers you've sold thus far in the first quarter? And if you can sell anymore, what kind of revenue do you already have in hand?

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

Yes. So with a few weeks to spare, there's a lot of -- that's going on related to the company. It's a pretty fluid state. So I don't want to give any type of number or specific range. What I can tell you is that the prior year comp is pretty low. It was not our best quarter. And we feel pretty confident that we've got the firepower to knock that number out for the first quarter. Looking at the backlog and considering where we were in a lot of these machine projects hanging over from the end of '19. That's our runway for the first half of 2020. Obviously, with the uncertainty that's out there right now, we're continuing to -- we've continued to pick up contracts in the first part of 2020. In the first quarter, we've had more order flow than we certainly did in the same period during 2019. So that really sets us up well to sustain a period of time. We're not a company that sells product off the shelf and turns it fairly quickly. So we were already into a number of these projects. It's just incumbent upon us to execute.

Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Great. And then you mentioned in your prepared remarks that some subs that make electronics for your systems, I assume, are sourced, I think, from China or maybe sourced from China. Still, so can you highlight what supplies those are? And are you able to access those supplies right now to build -- to manufacture new machine?

John F. Hartner - *The ExOne Company - CEO*

Yes. So we have modules and various things that may contain electronics. We've gone through with our suppliers, our direct suppliers, and they have told us they have adequate supply and our supplies should not be impacted. However, they do note that some embedded components may be ultimately sourced from China. Our primary kind of controls vendor, Siemens, we've reached out and had good conversations with them. They are obviously a large sophisticated company that has redundancy in their supply chain and feel positive with our ability to serve us well through this year. And again, with that backlog, I mean, a majority of that, we are ready. We already have that built and ready to go. So it's really more oriented towards the future orders in the second half of the year.



Brian David Kinstlinger - *Alliance Global Partners, Research Division - Head of TMT Research, MD & Senior Technology Analyst*

Great. Last question I've got is can you remind us the price points of your 2 new printers? And how customers are reacting to that, but I think, are some higher prices compared to your older technology?

John F. Hartner - *The ExOne Company - CEO*

Well, in some cases, one of the things I want to remind everybody is in our enhancements of the binder jetting core. Our objective is to drive better cost of ownership. That broadens the application. So that is the way we're moving forward. Relevant to the S-MAX Pro, those tend to be over \$1 million. That price point was held from the prior system. But the machine is 20% faster, as far as output, in addition to multiple other features, such as Industry 4.0 capabilities. In the 25 PRO, that system is approximately \$600,000. That is higher than a similar system that had less capability from a material set standpoint. But productivity-wise, compared to a smaller system, it has a better cost of ownership compared to our smaller systems that were able to do Ampower.

Operator

Our next question comes from the line of Jed Dorsheimer with Canaccord Genuity.

Jonathan Edward Dorsheimer - *Canaccord Genuity Corp., Research Division - MD & Analyst*

I guess, just to -- given the fluid situation and sort of how it's hitting different geographies or the timing of different geographies is vastly different. Do you think that's going to change the contribution between sand and metal? And what are your thoughts in terms of, as you were coming in, given that you feel confident in the backlog, do you think that there will be some movement around?

John F. Hartner - *The ExOne Company - CEO*

Okay. I'll get it started. I mean, I guess, we don't see a shift between sand and metal other than the normal expectation that metal continues to be a long-term adoption opportunity for direct metal parts, where -- which were never really printed in a production environment from a 3D standpoint. So we don't see broadly this virus or other changes impacting that mix. Geographically, again, I mean, one of the things I'm -- in some ways, the investment we made in the customer-facing resources in the global footprint we have, gives us an ability for different regions to, let's say, speed up and be -- and go higher or manage the situation compared to maybe some other companies. So being closer to the customer is always good. And we don't see a shift from a product area. I mean, geographically, quarter-to-quarter, we obviously may see some slowness in Asia initially. But then later in the year, we would hope and anticipate that, that comes back up.

Jonathan Edward Dorsheimer - *Canaccord Genuity Corp., Research Division - MD & Analyst*

Got it. Second question, just with respect to your customers' contracts and how those are written, are there forced major clauses in there that put any of that backlog at risk?

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

In -- I mean, our terms and conditions are standard, relative to that. And we've taken on a lot of cash down payments and other money. Certainly, we've not had any discussions at this point about customers backing out of their prior commitments. So we feel pretty good about that.

John F. Hartner - *The ExOne Company - CEO*

Okay. We have a significant deposit down and customers. Again, the -- I just want to remind that this element of supply chain disruption, digital manufacturing and getting -- using 3D printing to get closer to the customer, closer to the point-of-use really is the long-term solution. We're getting more and more discussions where senior executives are understanding that. And so projects -- long-term projects really continue to be funded in that regard.

Jonathan Edward Dorsheimer - *Canaccord Genuity Corp., Research Division - MD & Analyst*

That's helpful. Could you remind me of what the -- when we look at the 2020, what the geographic breakdown will look like between Asia, North America and Europe?

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

So we've been -- we predominantly had U.S. or, I guess, the Americas, from a regional perspective, has been our leader. That's anywhere from 35% to, let's say, what they have just above 40% of our split. 2019 was actually a pretty strong year for us for Asia. We expect that to maybe come down a little bit as a total percentage of our revenues in 2020. And Europe has been pretty balanced in the low 30%. So we have -- because we're decentralized in terms of operations and how we deliver to customers, we have a pretty decent balance with no specific exposure to any one region globally.

Jonathan Edward Dorsheimer - *Canaccord Genuity Corp., Research Division - MD & Analyst*

Yes. No, I'm just trying to -- that's helpful. I'm just trying to get the -- it seems like Asia has come through the worst. And so, providing you don't get a second wave, it would seem like that's the area of strength, where North America and Europe seemed to be more of a wildcard at this point. And that's why I was trying to better understand what that might look like and how it might shift. And I'm assuming that you can -- you would be able to shift some of that relatively quickly in terms of that backlog.

Douglas D. Zemba - *The ExOne Company - CFO, CAO & Treasurer*

Yes, I think the way that John explained it, I mean, certainly, we're feeling the effects in Asia currently or -- that was the first short shoe to drop for us related to 2020 already. What's going to happen in the other regions, it's sort of a little bit of an unknown at this point. But again, these are typically pretty long-term projects. 6 months. In some cases are longer. So there's a there's a period of time that we're already into something, if it gets stretched out for 30, 90 days that we recovered within the same fiscal year, Jed.

John F. Hartner - *The ExOne Company - CEO*

Yes. And I would just, again, the -- it's both that supply chain point where digital manufacturing wins. And so customers want to follow those long-term programs. The other thing that I'm reminded of is a number of the customers I've talked to, their products that they're going to build with these direct metal machines, they cannot design or manufacture them in traditional methods. So if they want to launch a certain vehicle that has lightweight components in 2021, 2022, they need to continue that program to be able to ensure that the supply chain is ready to launch that product. So we continue to see those long-term programs in deep discussions. And as Doug said, they do take a while to develop, but we're not seeing any sign that they're stopping.

Operator

Our next question comes from the line of Luke Gittemeier with Nokomis Capital.



Luke Gittemeier

Just a quick question on the recurring revenue versus the, sort of, I guess, printer revenue. Can you talk a little bit about the margin profile difference between those 2 gross margin and what gets sort of down to the EBITDA line?

John F. Hartner - *The ExOne Company* - CEO

Sure. So we pretty much are operating as a singular operation. So we don't really break out margins per our product groups. So -- but the recurring revenues generally follow a similar stream to what the system sell for. So we don't see a lot of -- there's not a lot of dispersion between the 2 lines of business.

Operator

(Operator Instructions) Our next question comes from the line of (inaudible) with (inaudible) Investment Manager.

Unidentified Analyst

1 -- I have 1 question. I've heard that binder jet printing maybe the desirable way of going in the additive manufacturing areas, especially for industrial end-product manufacturing. And you've been in this area for a number of years, but now there appear to be other companies in -- getting into the binder jetting areas such as desktop metals with a huge market cap, and Hewlett-Packard getting in there and GE. How does your binder jet offering compared with the others? And what effect might the new entrants be having on the time it takes to get the orders and, of course, on ExOne? And of course, how do you see your offering, et cetera, comparing with this? And what are your advantages and you're selling points against them?

John F. Hartner - *The ExOne Company* - CEO

So that's -- there's a number of points there. I would just say, you're absolutely right. People in the industry, people that are manufacturers are recognizing that binder jet printing is the right way to expand into production applications for direct metal parts. That's a real positive. We've known that for a long time. We've been building our knowledge base for more than 20 years. The advent of the other competitors joining is a recognition of that is the case. So that is positive validation of what we've done. When you say they are entering, they are entering and they are announcing, but the reality is to buy real products today, that's from us. And that's really where one of our main advantages is, the installed base we have, the experience we have, the productivity of our systems. Binder jetting is that long-term solution for production. It's not a simple process. And so we recognize that it will take other competitors' time to fully get into the market. And in that particular time, we can continue to expand our presence and relate to aspects of the business. I'd say competitively, the new machines we've launched. Those are all being very well received. I had an antidote in the deck that related to the 25 PRO. And the 160 Pro that we have announced and will deliver at the end of this year that has modular technology. So therefore, we've actually proven out core components in other platforms that will be scaled up, is getting a lot of attention from production customers. Why? Because it has that experience level they know and they can rely on our experience and the ability to run production parts. It has Industry 4.0 connectivity. They're putting these not one-off, but multi-off -- multi-systems in production facilities, and. They need that ability to make this robust and scalable. And therefore, we feel we're in a great position. So thanks for the question.

Operator

This concludes today's teleconference -- I'm sorry. This concludes our question-and-answer session. I'll now turn the floor back to management for any final comments.



John F. Hartner - *The ExOne Company* - CEO

Good. Thank you for your time today, and thanks to our team members around the world who work hard to drive collaboration, innovation and acceleration for the digital transformation of manufacturing.

We look forward to updating you on our first quarter progress in May. Thank you again for your interest in ExOne, and have a great day.

Operator

This concludes our conference today. You may now disconnect your lines. Thank you for your participation.

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