Why 3D Systems Could Still Keep Falling

May 7, 2014 by Jon C. Ogg

Source: Jon Ogg

3D Systems Corp. (NYSE: DDD) is signaling all the metrics of a burst bubble for its stock. That is a view that is still hotly debated, and the opinions on this matter likely will be fought over for quite some time. Now we have word from a short-selling exchange traded fund (ETF) that the portfolio manager is still shorting 3D Systems — even after the price has fallen 50% from its high.

John Del Vecchio, co-manager of the AdvisorShares Ranger Equity Bear ETF (NYSEMKT: HDGE) is still shorting 3D Systems. This is a call that was made well under the peak, but those who have followed the call would have either made a lot from the downside or they would have saved against massive losses because the stock drop has been severe.

As a reminder, Barron's bashed the 3D printing bubble on at least two occasions recently. Neither report was met with a warm reception by 3D Systems believers.

Del Vecchio said that the ETF portfolio has not covered a share. In fact, the accounting grade by their own internal metrics still ranks an "F" in the Del Vecchio Earnings Quality Model. This is from results being second-half loaded for the year in revenue and earnings guidance, additionally troubled by a higher risk that 3D Systems could miss its targets if business does not accelerate. Other noted issues against 3D Systems by Del Vecchio were as follows:

- Some 50% of the organic revenue growth was due to building inventory in the sales channel.
- Days sales outstanding (DSO) jumped eight days year-over-year to the highest level in years.
- On a sequential basis, revenue fell about $7 million, but A/R increased by nearly $10 million.
- Growth in the U.S. has stalled — down by 19% from 55% year-over-year growth in the prior quarter, possibly due to a result of stuffing the channel domestically.
- The days sales in inventory also rose by 26 to 109 days, a multiyear high, and finished goods surged nearly 100% year-over-year, a big negative inventory divergence.
- And finally, 3D Systems barely generated any operating cash flow.

The AdvisorShares Ranger Equity Bear ETF has had a hard time having a broad diverse short selling strategy

ETF because of the bull market. That being said, you keep hearing over and over that we are entering what is the "stock picker's market phase" now. Despite the markets challenging new highs routinely, the markets are mixed so far in 2014.

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3D Systems shares have not taken kindly to the remarks — or maybe just to the broad market's treatment of high-flyers and high-beta stocks. Its shares were down 3.4% at $48.77 in early Wednesday trading. Volume was light at only 1.1 million shares after the first hour of trading. 3D Systems shares have traded in a range of $39.55 to $97.28 in the past 52-weeks.

Keep in mind that this stock still has a market cap of $5 billion, even after being cut in half. This stock still trades at close to 60 times expected 2014 adjusted operating earnings and nearly seven times expected 2014 revenue.

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The big question is whether 3D Systems will get its history of warnings behind it. If so, then investors may actually want to be in the stock again. Earnings growth is expected to be almost 50% in 2015 ($1.21 EPS vs. $0.82 EPS) and sales growth is expected to be almost 30% ($915 million vs. $706 million).

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