



PROTOLABS®

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Protolabs Reports Financial Results for the Second Quarter of 2021

July 29, 2021

Record Revenue of \$123.0 million in the Second Quarter of 2021, an increase of 15% over the Second Quarter of 2020

MAPLE PLAIN, Minn.--(BUSINESS WIRE)--Jul. 29, 2021-- Proto Labs, Inc. (NYSE: PRLB), the world's largest ecommerce manufacturer and supplier of on-demand prototype and production parts, today announced financial results for the second quarter ended June 30, 2021.

Second Quarter 2021 Highlights include:

- Revenue for the second quarter of 2021 was \$123.0 million, representing a 15.5 percent increase compared to revenue of \$106.6 million in the second quarter of 2020.
- Hubs generated \$8.9 million of revenue in the second quarter, representing growth of 45.6 percent over the second quarter of 2020.
- Net income for the second quarter of 2021 was \$12.9 million, or \$0.47 per diluted share.
- Non-GAAP net income was \$10.7 million, or \$0.39 per diluted share. See "Non-GAAP Financial Measures" below.

"During the second quarter of 2021, we experienced strong demand, and delivered record revenues despite the challenges of labor availability in the US. We are emerging from the pandemic stronger than ever in the custom parts space," said Rob Bodor, President and Chief Executive Officer. "I want to thank the employees of Protolabs for all that they did in the quarter, and we are confident that the best is yet to come."

Additional Second Quarter 2021 Highlights include:

- Protolabs served 23,253 unique product developers during the quarter, representing a 36.5 percent increase over the second quarter of 2020.
- Gross margin in the second quarter of 2021 was 46.0 percent of revenue; Non-GAAP gross margin was 46.8 percent of revenue. See "Non-GAAP Financial Measures" below.
- EBITDA margin was 21.3 percent of revenue in the second quarter of 2021; adjusted EBITDA margin was 18.8 percent of revenue in the second quarter of 2021. See "Non-GAAP Financial Measures" below.
- Cash and investments balance was \$89.0 million as of June 30, 2021.

"The environment is ripe for growth and our digital manufacturing model is leading the way," added John Way, Chief Financial Officer. "Our profitable business model drives a healthy balance sheet with \$89 million in cash and investments and no debt, giving us the flexibility to continue to invest in future growth and lead the digital custom parts space."

Non-GAAP Financial Measures

The company has included non-GAAP revenue growth that excludes the impact of changes in foreign currency exchange rates and revenue earned from our acquisition of Hubs (collectively, "non-GAAP revenue growth"). Management believes these metrics are useful in evaluating the underlying business trends and ongoing operating performance of the company.

The company has included earnings before interest, taxes, depreciation and amortization ("EBITDA") and EBITDA, adjusted for stock-based compensation expense, unrealized (gain) loss on foreign currency, and transaction costs (collectively, "Adjusted EBITDA"), in this press release to provide investors with additional information regarding the company's financial results.

The company has included non-GAAP operating margin, adjusted for stock-based compensation expense, amortization expense, and transaction costs (collectively, "non-GAAP operating margin"), in this press release to provide investors with additional information regarding the company's financial results.

The company has included non-GAAP net income, adjusted for stock-based compensation expense, amortization expense, unrealized (gain) loss on foreign currency, and transaction costs (collectively, "non-GAAP net income"), in this press release to provide investors with additional information regarding the company's financial results.

The company has provided below reconciliations of GAAP to non-GAAP net income, non-GAAP operating margin, non-GAAP revenue growth and Adjusted EBITDA, the most directly comparable measures calculated and presented in accordance with GAAP. These non-GAAP measures are used by the company's management and board of directors to understand and evaluate

operating performance and trends and provide useful measures for period-to-period comparisons of the company's business. Accordingly, the company believes that these non-GAAP measures provide useful information to investors and others in understanding and evaluating operating results in the same manner as our management and board of directors.

Conference Call

The company has scheduled a conference call to discuss its second quarter 2021 financial results and third quarter 2021 outlook today, July 29, 2021 at 8:30 a.m. EDT. To access the call in the U.S. please dial 877-709-8150 or outside the U.S. dial 201-689-8354 at least five minutes prior to the 8:30 a.m. EDT start time. No participant code is required. A simultaneous webcast of the call and accompanying presentation will be available via the investor relations section of the Protolabs website and the following link: <https://edge.media-server.com/mmc/p/4uqs54z8>. A replay will be available for 14 days following the call on the investor relations section of the Protolabs website.

About Protolabs

Protolabs is the world's leading digital manufacturing source for rapid prototyping and on-demand production. The technology-enabled company produces custom components in as fast as 1 day with automated 3D printing, CNC machining, sheet metal fabrication, and injection molding processes. Its digital approach to manufacturing enables accelerated time to market, reduces manufacturing costs, and enables supply chain agility throughout the product life cycle. Visit protolabs.com for more information.

Forward-Looking Statements

Statements contained in this press release regarding matters that are not historical or current facts are "forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors which may cause the results of Protolabs to be materially different than those expressed or implied in such statements. Certain of these risk factors and others are described in the "Risk Factors" section within reports filed with the SEC. Other unknown or unpredictable factors also could have material adverse effects on Protolabs' future results. The forward-looking statements included in this press release are made only as of the date hereof. Protolabs cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not place undue reliance on these forward-looking statements. Finally, Protolabs expressly disclaims any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Proto Labs, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

| | June 30, 2021 (Unaudited) | December 31, 2020 |
|---|---------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 41,909 | \$ 127,603 |
| Short-term marketable securities | 18,341 | 34,088 |
| Accounts receivable, net | 83,470 | 57,877 |
| Inventory | 9,111 | 10,862 |
| Income taxes receivable | 4,575 | 540 |
| Prepaid expenses and other current assets | 10,107 | 11,032 |
| Total current assets | 167,513 | 242,002 |
| Property and equipment, net | 288,495 | 282,666 |
| Goodwill | 407,191 | 128,752 |
| Other intangible assets, net | 41,674 | 14,350 |
| Long-term marketable securities | 28,700 | 59,357 |
| Operating lease assets | 8,801 | 9,855 |
| Finance lease assets | 2,147 | 2,396 |
| Other long-term assets | 4,769 | 4,826 |
| Total assets | \$ 949,290 | \$ 744,204 |

Liabilities and shareholders' equity

Current liabilities

| | | |
|--|-------------------|-------------------|
| Accounts payable | \$ 26,038 | \$ 18,248 |
| Accrued compensation | 14,930 | 11,989 |
| Accrued liabilities and other | 15,072 | 16,193 |
| Current contingent consideration | 2,936 | - |
| Current operating lease liabilities | 2,847 | 3,272 |
| Current finance lease liabilities | 554 | 552 |
| Income taxes payable | 40 | - |
| Total current liabilities | <u>62,417</u> | <u>50,254</u> |
| Long-term contingent consideration | 2,693 | - |
| Long-term operating lease liabilities | 7,097 | 7,586 |
| Long-term finance lease liabilities | 1,639 | 1,919 |
| Long-term deferred tax liabilities | 36,898 | 33,854 |
| Other long-term liabilities | 6,569 | 6,235 |
| Shareholders' equity | <u>831,977</u> | <u>644,356</u> |
| Total liabilities and shareholders' equity | <u>\$ 949,290</u> | <u>\$ 744,204</u> |

Proto Labs, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|------------------|------------------|------------------|
| | June 30, | | June 30, | |
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Revenue | | | | |
| Injection Molding | \$ 58,168 | \$ 57,894 | \$ 114,527 | \$ 112,670 |
| CNC Machining | 41,592 | 28,760 | 78,295 | 66,645 |
| 3D Printing | 18,170 | 14,236 | 35,405 | 30,184 |
| Sheet Metal | 4,717 | 4,669 | 9,936 | 10,318 |
| Other | 401 | 1,016 | 1,011 | 1,866 |
| Total revenue | <u>123,048</u> | <u>106,575</u> | <u>239,174</u> | <u>221,683</u> |
| Cost of revenue | <u>66,423</u> | <u>54,119</u> | <u>127,219</u> | <u>111,127</u> |
| Gross profit | <u>56,625</u> | <u>52,456</u> | <u>111,955</u> | <u>110,556</u> |
| Operating expenses | | | | |
| Marketing and sales | 21,044 | 16,936 | 40,524 | 35,116 |
| Research and development | 11,060 | 8,648 | 23,241 | 17,635 |
| General and administrative | 8,417 | 12,521 | 27,825 | 26,629 |
| Total operating expenses | <u>40,521</u> | <u>38,105</u> | <u>91,590</u> | <u>79,380</u> |
| Income from operations | <u>16,104</u> | <u>14,351</u> | <u>20,365</u> | <u>31,176</u> |
| Other income (loss), net | <u>137</u> | <u>767</u> | <u>(176)</u> | <u>1,821</u> |
| Income before income taxes | <u>16,241</u> | <u>15,118</u> | <u>20,189</u> | <u>32,997</u> |
| Provision for income taxes | <u>3,326</u> | <u>2,511</u> | <u>3,562</u> | <u>6,406</u> |
| Net income | <u>\$ 12,915</u> | <u>\$ 12,607</u> | <u>\$ 16,627</u> | <u>\$ 26,591</u> |
| Net income per share: | | | | |
| Basic | <u>\$ 0.47</u> | <u>\$ 0.47</u> | <u>\$ 0.60</u> | <u>\$ 1.00</u> |
| Diluted | <u>\$ 0.47</u> | <u>\$ 0.47</u> | <u>\$ 0.60</u> | <u>\$ 0.99</u> |

Shares used to compute net income per share:

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 27,735,732 | 26,660,498 | 27,600,684 | 26,718,652 |
| Diluted | 27,744,870 | 26,760,866 | 27,741,464 | 26,837,938 |

Proto Labs, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

**Six Months Ended
June 30,**

2021 2020

Operating activities

| | | |
|---|---------------|---------------|
| Net income | \$ 16,627 | \$ 26,591 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,127 | 15,855 |
| Stock-based compensation expense | 10,561 | 6,672 |
| Deferred taxes | 419 | 5,651 |
| Amortization of marketable securities | 261 | 129 |
| Realized gain on available-for-sale securities | (117) | - |
| Other | 125 | (854) |
| Changes in operating assets and liabilities | (19,511) | (627) |
| Changes in fair value of contingent consideration | (7,763) | - |
| Net cash provided by operating activities | <u>20,729</u> | <u>53,417</u> |

Investing activities

| | | |
|---|------------------|-----------------|
| Purchases of property, equipment and other capital assets | (23,929) | (33,305) |
| Cash used for acquisitions, net of cash acquired | (127,413) | - |
| Purchases of other assets and investments | - | (3,000) |
| Purchases of marketable securities | (15,159) | (57,212) |
| Proceeds from sales of marketable securities | 47,694 | - |
| Proceeds from maturities of marketable securities | 13,725 | 28,225 |
| Net cash used in investing activities | <u>(105,082)</u> | <u>(65,292)</u> |

Financing activities

| | | |
|--|----------------|-----------------|
| Proceeds from exercises of stock options and other | 3,838 | 2,855 |
| Purchases of shares withheld for tax obligations | (4,209) | (3,367) |
| Repurchases of common stock | (1,210) | (14,686) |
| Principal repayments of finance lease obligations | (275) | - |
| Net cash used in financing activities | <u>(1,856)</u> | <u>(15,198)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 515 | (149) |

Net decrease in cash and cash equivalents (85,694) (27,222)

Cash and cash equivalents, beginning of period 127,603 125,225

Cash and cash equivalents, end of period \$ 41,909 \$ 98,003

Proto Labs, Inc.
Reconciliation of GAAP to Non-GAAP Net Income per Share
(In thousands, except share and per share amounts)
(Unaudited)

**Three Months Ended
June 30,**

**Six Months Ended
June 30,**

| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
|--|------------------|------------------|------------------|------------------|
| Non-GAAP net income, adjusted for stock-based compensation expense, amortization expense, unrealized (gain) loss on foreign currency and transaction costs | | | | |
| GAAP net income | \$ 12,915 | \$ 12,607 | \$ 16,627 | \$ 26,591 |
| Add back: | | | | |
| Stock-based compensation expense | 4,941 | 3,639 | 10,561 | 6,672 |
| Amortization expense | 1,490 | 754 | 3,033 | 1,508 |
| Unrealized (gain) loss on foreign currency | (402) | (139) | 220 | (936) |
| Transaction costs ¹ | (7,655) | - | (5,140) | - |
| Total adjustments ² | (1,626) | 4,254 | 8,674 | 7,244 |
| Income tax benefits on adjustments ³ | (575) | (987) | (3,576) | (1,662) |
| Non-GAAP net income | <u>\$ 10,714</u> | <u>\$ 15,874</u> | <u>\$ 21,725</u> | <u>\$ 32,173</u> |

Non-GAAP net income per share:

| | | | | |
|---------|----------------|----------------|----------------|----------------|
| Basic | \$ 0.39 | \$ 0.60 | \$ 0.79 | \$ 1.20 |
| Diluted | <u>\$ 0.39</u> | <u>\$ 0.59</u> | <u>\$ 0.78</u> | <u>\$ 1.20</u> |

Shares used to compute non-GAAP net income per share:

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 27,735,732 | 26,660,498 | 27,600,684 | 26,718,652 |
| Diluted | 27,744,870 | 26,760,866 | 27,741,464 | 26,837,938 |

¹ Transaction costs include direct costs incurred in our acquisition of Hubs, Inc. and the impact of changes in the fair value of acquisition-related contingent consideration obligations.

² Stock-based compensation expense, amortization expense, unrealized (gain) loss on foreign currency and transaction costs were included in the following GAAP consolidated statement of operations categories:

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|----------------------------|---------------------------|-----------------|-------------------------|-----------------|
| | <u>June 30,</u> | | <u>June 30,</u> | |
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Cost of revenue | \$ 1,011 | \$ 936 | \$ 1,988 | \$ 1,799 |
| Marketing and sales | 929 | 750 | 1,782 | 1,368 |
| Research and development | 744 | 607 | 1,368 | 1,128 |
| General and administrative | (3,908) | 2,100 | 3,316 | 3,885 |
| Total operating expenses | (2,235) | 3,457 | 6,466 | 6,381 |
| Other (income) loss, net | (402) | (139) | 220 | (936) |
| Total adjustments | <u>\$ (1,626)</u> | <u>\$ 4,254</u> | <u>\$ 8,674</u> | <u>\$ 7,244</u> |

³ For the three and six-month periods ended June 30, 2021 and 2020, income tax effects were calculated using the effective tax rate for the relevant jurisdictions. Our non-GAAP tax rates differ from our GAAP tax rates due primarily to the mix of activity incurred in domestic and foreign tax jurisdictions and removing effective tax rate benefits from stock-based compensation activity in the quarter.

Proto Labs, Inc.
Reconciliation of GAAP to Non-GAAP Operating Margin
(In thousands)
(Unaudited)

| <u>Three Months Ended</u> | <u>Six Months Ended</u> |
|---------------------------|-------------------------|
| <u>June 30,</u> | <u>June 30,</u> |

| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------|-------------|-------------|-------------|
| Revenue | \$ 123,048 | \$ 106,575 | \$ 239,174 | \$ 221,683 |
| Income from operations | 16,104 | 14,351 | 20,365 | 31,176 |
| GAAP operating margin | 13.1% | 13.5% | 8.5% | 14.1% |
| Add back: | | | | |
| Stock-based compensation expense | 4,941 | 3,639 | 10,561 | 6,672 |
| Amortization expense | 1,490 | 754 | 3,033 | 1,508 |
| Transaction costs ¹ | (7,655) | - | (5,140) | - |
| Total adjustments | (1,224) | 4,393 | 8,454 | 8,180 |
| Non-GAAP income from operations | \$ 14,880 | \$ 18,744 | \$ 28,819 | \$ 39,356 |
| Non-GAAP operating margin | 12.1% | 17.6% | 12.0% | 17.8% |

¹ Transaction costs include direct costs incurred in our acquisition of Hubs, Inc. and the impact of changes in the fair value of acquisition-related contingent consideration obligations.

Proto Labs, Inc.
Reconciliation of GAAP Net Income to EBITDA and Adjusted EBITDA
(In thousands)
(Unaudited)

| | <u>Three Months Ended</u> <u>June 30,</u> | | <u>Six Months Ended</u> <u>June 30,</u> | |
|--|--|-------------|--|-------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| GAAP net income | \$ 12,915 | \$ 12,607 | \$ 16,627 | \$ 26,591 |
| Amortization expense | 1,490 | 754 | 3,033 | 1,508 |
| Depreciation expense | 8,578 | 7,143 | 17,094 | 14,347 |
| Interest income, net | (65) | (368) | (152) | (928) |
| Tax expense | 3,326 | 2,511 | 3,562 | 6,406 |
| EBITDA | 26,244 | 22,647 | 40,164 | 47,924 |
| Add back: | | | | |
| Stock-based compensation expense | 4,941 | 3,639 | 10,561 | 6,672 |
| Unrealized (gain) loss on foreign currency | (402) | (139) | 220 | (936) |
| Transaction costs ¹ | (7,655) | - | (5,140) | - |
| Total adjustments | (3,116) | 3,500 | 5,641 | 5,736 |
| Adjusted EBITDA | \$ 23,128 | \$ 26,147 | \$ 45,805 | \$ 53,660 |

¹ Transaction costs include direct costs incurred in our acquisition of Hubs, Inc. and the impact of changes in the fair value of acquisition-related contingent consideration obligations.

Proto Labs, Inc.
Comparison of GAAP to Non-GAAP Revenue Growth
(In thousands)
(Unaudited)

| | <u>Three Months Ended</u> <u>June 30, 2021</u> | | | <u>Three Months</u> <u>Ended</u> <u>June 30, 2020</u> | | % | % Change Organic ⁴ |
|---------------|---|---|---|---|---------------------------|------|----------------------------------|
| | <u>GAAP</u> | <u>Foreign</u> <u>Currency¹</u> | <u>Hubs</u> <u>Acquisition²</u> | <u>GAAP</u> | <u>Change³</u> | | |
| Revenues | | | | | | | |
| United States | \$ 95,344 | \$ - | \$ (4,626) | \$ 90,718 | \$ 86,823 | 9.8% | 4.5% |

| | | | | | | | |
|---------------|------------|------------|------------|------------|------------|-------|------|
| Europe | 24,655 | (1,913) | (4,314) | 18,428 | 16,729 | 47.4 | 10.2 |
| Japan | 3,049 | 54 | - | 3,103 | 3,023 | 0.9 | 2.6 |
| Total Revenue | \$ 123,048 | \$ (1,859) | \$ (8,940) | \$ 112,249 | \$ 106,575 | 15.5% | 5.3% |

| | Six Months Ended June 30, 2021 | | | | Six Months Ended June 30, 2020 | | % Change ³ | % Change Organic ⁴ |
|---------------|-----------------------------------|----------------------------------|----------------------------------|------------|--------------------------------------|-------|--------------------------|----------------------------------|
| | GAAP | Foreign Currency ¹ | Hubs Acquisition ² | Non-GAAP | GAAP | | | |
| | Revenues | | | | | | | |
| United States | \$ 186,397 | \$ - | \$ (7,783) | \$ 178,614 | \$ 176,899 | 5.4% | 1.0% | |
| Europe | 46,104 | (3,473) | (6,920) | 35,711 | 37,516 | 22.9 | (4.8) | |
| Japan | 6,673 | (31) | - | 6,642 | 7,268 | (8.2) | (8.6) | |
| Total Revenue | \$ 239,174 | \$ (3,504) | \$ (14,703) | \$ 220,967 | \$ 221,683 | 7.9% | (0.3)% | |

¹ Revenue for the three and six-month periods ended June 30, 2021 has been recalculated using 2020 foreign currency exchange rates in effect during comparable periods to provide information useful in evaluating the underlying business trends excluding the impact of changes in foreign currency exchange rates.

² Revenue for the three and six-month periods ended June 30, 2021 has been recalculated to exclude revenue earned from our acquisition of Hubs, Inc. to provide information useful in evaluating the underlying business trends excluding the impact of acquisitions.

³ This column presents the percentage change from GAAP revenue for the three and six-month periods ended June 30, 2020 to GAAP revenue for the three and six-month periods ended June 30, 2021.

⁴ This column presents the percentage change from GAAP revenue for the three and six-month periods ended June 30, 2020 to non-GAAP revenue for the three and six-month periods ended June 30, 2021 (as recalculated using the foreign currency exchange rates in effect during the three- and six-month periods ended June 30, 2020, excluding the impact of Hubs, Inc. acquisition) in order to provide a constant-currency comparison.

Proto Labs, Inc.
Product Developer Information
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------|------------------|--------|
| | June 30, | | June 30, | |
| | 2021 | 2020 | 2021 | 2020 |
| Unique product developers and engineers served | 23,253 | 17,037 | 37,501 | 29,703 |

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Source: Proto Labs, Inc.