



Earnings Presentation

Q3 2020

October 29, 2020





SAFE HARBOR

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Non-GAAP Financial Measures: Protolabs management believes that presenting certain non-GAAP financial measures provides meaningful information to investors in understanding operating results and may enhance investors' ability to analyze financial and business trends. Non-GAAP measures are not a substitute for GAAP measures and should be considered together with the GAAP financial measures. As calculated, our non-GAAP measures may not be comparable to other similarly titled measures of other companies. In addition, Protolabs management believes that these non-GAAP financial measures allow investors to compare period to period more easily by excluding items that could have a disproportionately negative or positive impact on results in any particular period. GAAP to non-GAAP reconciliations are included in this presentation.

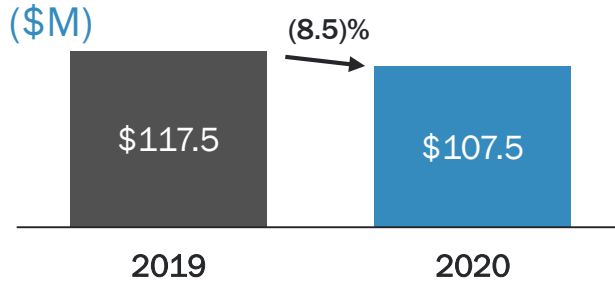


Q3 2020 OVERVIEW



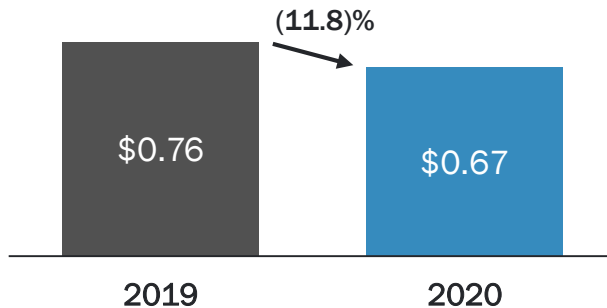
FINANCIAL HIGHLIGHTS | Q3

Revenue



- Revenue of \$107.5 million, down (8.5)% YoY
 - Sequential revenue increase of 0.9%
 - 18,800 unique product developers served

Non-GAAP EPS*



- Non-GAAP EPS of \$0.67, down \$(0.09) YoY
 - YoY decline primarily due to lower volume
 - Non-GAAP gross margin improved to 51.7%
 - Non-GAAP EPS increased \$0.07 over Q2 2020

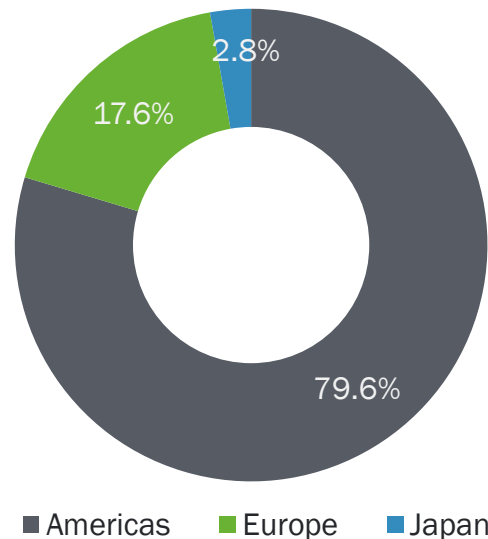
*Non-GAAP: adjusted for stock-based compensation, intangible amortization, and unrealized (gain) loss on foreign currency. See reconciliation in Appendix.



REGIONAL REVENUE | Q3

(\$M)	Q3 20	Q3 19	YoY CHANGE*
Americas	\$85.6	\$92.9	(8)%
Europe	\$18.9	\$20.7	(13)%
Japan	\$3.0	\$3.8	(22)%
TOTAL	\$107.5	\$117.5	(9)%

Revenue % by Region
Q3 2020

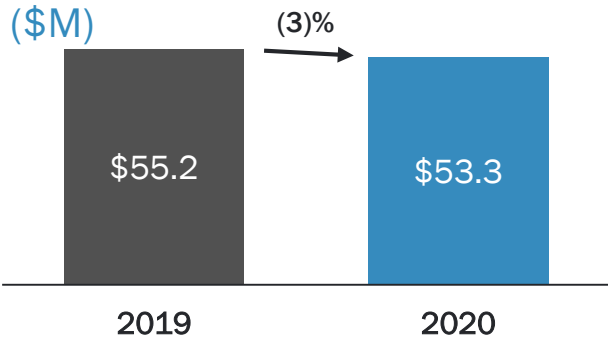


*YoY change reflected in constant currency
See reconciliation in Appendix.

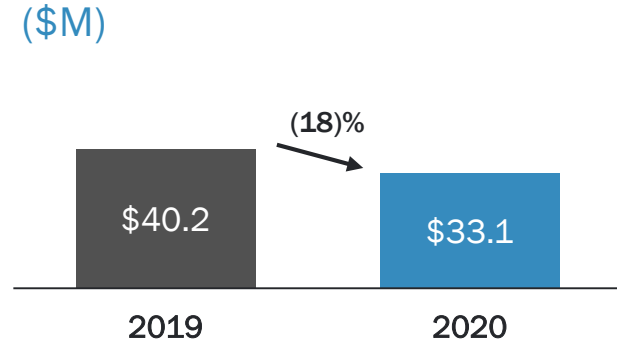


REVENUE BY SERVICE | Q3

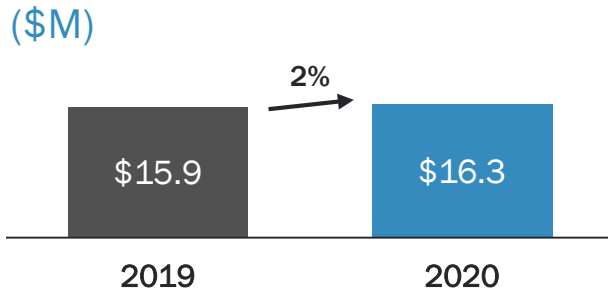
Injection Molding - Revenue



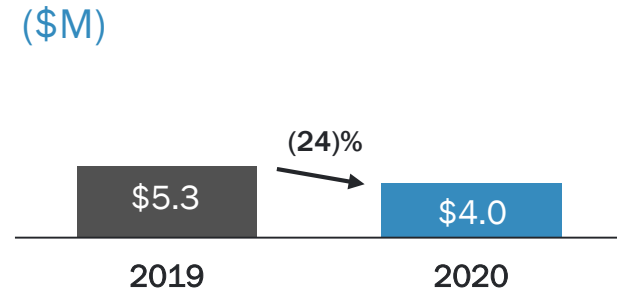
CNC Machining - Revenue



3D Printing - Revenue



Sheet Metal - Revenue





Q3 2020

DETAILED FINANCIAL INFORMATION



FINANCIAL RESULTS | Q3

\$M, EXCEPT PER SHARE AMOUNTS	Q3 20	Q2 20	SEQ. CHANGE	Q3 19	YoY CHANGE
Revenue	\$107.5	\$106.6	0.9%	\$117.5	(8.5)%
Gross Margin	50.8%	49.2%	160 bps	50.8%	10 bps
Non-GAAP Operating Margin*	20.8%	17.6%	320 bps	21.6%	(80) bps
Non-GAAP Earnings Per Share*	\$0.67	\$0.59	12.5%	\$0.76	(11.8)%

*Non-GAAP: adjusted for stock-based compensation, intangible amortization, and unrealized gain/loss on foreign currency. See reconciliation in Appendix.



YoY GAAP to Non-GAAP P&L | Q3

\$ in thousands	Three Months Ended Sept. 30, 2020			Three Months Ended Sept. 30, 2019		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
Revenue	\$107,504	-	\$107,504	\$117,455	-	\$117,455
Cost of Revenue	<u>52,861</u>	(989)	<u>51,872</u>	<u>57,839</u>	(872)	<u>56,967</u>
Gross Profit	\$54,643	\$989	\$55,632	\$59,616	\$872	\$60,488
Marketing and Sales	16,705	(865)	15,840	17,604	(760)	16,844
Research and Development	7,915	(638)	7,277	8,359	(560)	7,799
General and Administrative	<u>12,354</u>	<u>(2,207)</u>	<u>10,147</u>	<u>12,380</u>	<u>(1,879)</u>	<u>10,501</u>
Total Operating Expenses	<u>36,974</u>	<u>(3,710)</u>	<u>33,264</u>	<u>38,343</u>	<u>(3,199)</u>	<u>35,144</u>
Income from Operations	\$17,669	\$4,699	\$22,368	\$21,273	\$4,071	\$25,344
Adjusted EBITDA	N/A	N/A	\$30,039	N/A	N/A	\$32,352
<u>% of Revenue</u>						
Gross Profit	50.8%		51.7%	50.8%		51.5%
Marketing and Sales	15.5%		14.7%	15.0%		14.3%
Research and Development	7.4%		6.8%	7.1%		6.6%
General and Administrative	<u>11.5%</u>		<u>9.4%</u>	<u>10.5%</u>		<u>8.9%</u>
Total Operating Expenses	<u>34.4%</u>		<u>30.9%</u>	<u>32.6%</u>		<u>29.9%</u>
Income from Operations	16.4%		20.8%	18.1%		21.6%
Adjusted EBITDA	N/A		27.9%	N/A		27.5%

*Non-GAAP: adjusted for stock-based compensation, intangible amortization, and unrealized gain/loss on foreign currency. See reconciliation in Appendix.



QoQ GAAP to Non-GAAP P&L | Q3

\$ in thousands	Three Months Ended Sept. 30, 2020			Three Months Ended June 30, 2020		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
Revenue	\$107,504	-	\$107,504	\$106,575	-	\$106,575
Cost of Revenue	<u>52,861</u>	<u>(989)</u>	<u>51,872</u>	<u>54,119</u>	<u>(936)</u>	<u>53,183</u>
Gross Profit	\$54,643	\$989	\$55,632	\$52,456	\$936	\$53,392
Marketing and Sales	16,705	(865)	15,840	16,936	(750)	16,186
Research and Development	7,915	(638)	7,277	8,648	(607)	8,041
General and Administrative	<u>12,354</u>	<u>(2,207)</u>	<u>10,147</u>	<u>12,521</u>	<u>(2,100)</u>	<u>10,421</u>
Total Operating Expenses	<u>36,974</u>	<u>(3,710)</u>	<u>33,264</u>	<u>38,105</u>	<u>(3,457)</u>	<u>34,648</u>
Income from Operations	\$17,669	\$4,699	\$22,368	\$14,351	\$4,393	\$18,744
Adjusted EBITDA	N/A	N/A	\$30,039	N/A	N/A	\$26,147
<u>% of Revenue</u>						
Gross Profit	50.8%		51.7%	49.2%		50.1%
Marketing and Sales	15.5%		14.7%	15.9%		15.2%
Research and Development	7.4%		6.8%	8.1%		7.5%
General and Administrative	<u>11.5%</u>		<u>9.4%</u>	<u>11.7%</u>		<u>9.8%</u>
Total Operating Expenses	<u>34.4%</u>		<u>30.9%</u>	<u>35.8%</u>		<u>32.5%</u>
Income from Operations	16.4%		20.8%	13.5%		17.6%
Adjusted EBITDA	N/A		27.9%	N/A		24.5%

*Non-GAAP: adjusted for stock-based compensation, intangible amortization, and unrealized gain/loss on foreign currency. See reconciliation in Appendix.



CASH FLOW and BALANCE SHEET | Q3

\$M	Q3 20	Q2 20	Q3 19
Operating Cash Flow	\$29.0	\$31.0	\$28.9
Capital Expenditures	\$7.2	\$19.9	\$12.0
Share Repurchases	\$0.0	\$2.7	\$12.1
Cash and Investments*	\$200.6	\$175.3	\$155.0
Debt*	\$0	\$0	\$0

*Balance Sheet items as of the end of the period.



PROTOLABS 2.0



PROTOLABS 2.0 | OVERVIEW

Background

- Legacy systems evolved slowly and incrementally
 - Based on architecture from early 2000s
 - Inefficient to add new functionality
- Protolabs 2.0 is a different approach
 - Will allow our systems to scale and support evolving customer needs

Approach

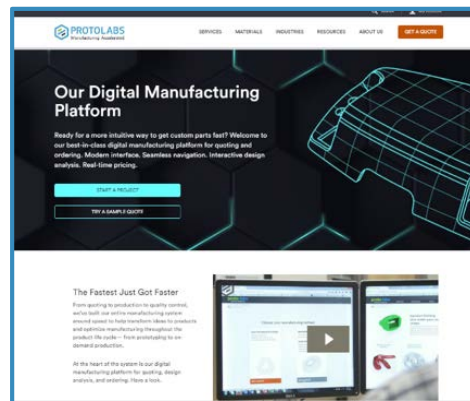
- Two components:
 - Customer-facing eCommerce platform
 - Back-end systems
- Moving to modern software architecture and development
 - Allows enhancements with more frequent releases without disrupting other business process

Future

- Better support our customers and strategy
- Enhanced functionality from external vendors
- Easier path from R&D to the eCommerce platform



PROTOLABS 2.0 | OCTOBER UPDATE



- **Planned Launch**

- Europe: November 2020
- Americas: Q1 2021

- **Customer Benefits**

- More intuitive interface and easier to understand part configurations
- Improved workflow and collaboration – parts organized into projects
- Customer quotes are easier to understand – allowing non-technical colleagues to better understand



FINANCIAL OUTLOOK



Q4 2020 | OUTLOOK

Q4 2020 Revenue

Revenue	\$96M - \$106M
% Growth YoY	(14)% - (5)%

Q4 2020 Revenue Details

- Seasonality: Q4 traditionally lower than Q3
- Anticipate Q4 COVID-19 related revenue will be lower than Q3 (\$3 million)
- Do not expect foreign currency to have a significant impact on Q4 revenue

Additional Q4 2020 Outlook Commentary

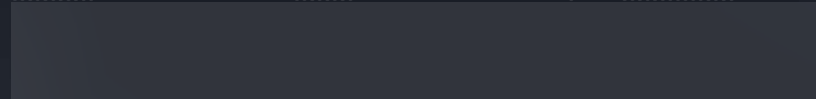
- Non-GAAP gross margin of ~51% +/- 50 bps
- Non-GAAP operating expenses of \$36 million to \$37 million
 - Includes ~\$3 million related to Protolabs 2.0
- Non-GAAP add-backs for the quarter will include stock compensation costs of approximately \$4.0 million and amortization of approximately \$750,000
- Non-GAAP tax rate between 19% and 20%

THANK YOU



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Manufacturing. Accelerated.[®]





APPENDIX



GAAP to NON-GAAP RECONCILIATION | Revenue

(\$ in thousands)

	Three Months Ended			Three Months		% Change Constant Currencies ³
	September 30, 2020			Ended	%	
	GAAP	Adjustments ¹	Non-GAAP	Sept 30, 2019		
				GAAP	Change ²	
Revenues						
United States	\$ 85,608	\$ -	\$ 85,608	\$ 92,916	(7.9)	(7.9)
Europe	18,897	(828)	18,069	20,721	(8.8)	(12.8)
Japan	2,999	(36)	2,963	3,818	(21.5)	(22.4)
Total Revenue	<u>\$ 107,504</u>	<u>\$ (864)</u>	<u>\$ 106,640</u>	<u>\$ 117,455</u>	(8.5)	(9.2)

¹ Revenue for the three and nine-month periods ended September 30, 2020 has been recalculated using 2019 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 This column presents the percentage change from GAAP revenue for the three and nine-month periods ended September 30, 2019 to GAAP revenue for the three and nine-month periods ended September 30, 2020.

³ This column presents the percentage change from GAAP revenue for the three and nine-month periods ended September 30, 2019 to non-GAAP revenue for the three and nine-month periods ended September 30, 2020 (as recalculated using the foreign currency exchange rates in effect during the three- and nine-month periods ended September 30, 2019) in order to provide a constant-currency comparison.



GAAP to NON-GAAP RECONCILIATION | EBITDA

(\$ in thousands)

	Three Months Ended September 30,	
	<u>2020</u>	<u>2019</u>
GAAP net income	\$ 14,697	\$ 16,792
Amortization expense	754	859
Depreciation expense	7,282	6,820
Interest income, net	(255)	(489)
Tax expense	<u>3,700</u>	<u>4,709</u>
EBITDA	<u>26,178</u>	<u>28,691</u>
Add back:		
Stock-based compensation expense	3,945	3,212
Unrealized (gain) loss on foreign currency	<u>(84)</u>	<u>449</u>
Total adjustments	3,861	3,661
Adjusted EBITDA	<u>\$ 30,039</u>	<u>\$ 32,352</u>
Adjusted EBITDA % of Revenue	27.9%	27.5%



GAAP to NON-GAAP RECONCILIATION | EPS

(\$ in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2020	2019
Non-GAAP net income, adjusted for stock-based compensation expense, amortization expense and unrealized (gain) loss on foreign currency		
GAAP net income	\$ 14,697	\$ 16,792
Add back:		
Stock-based compensation expense	3,945	3,212
Amortization expense	754	859
Unrealized (gain) loss on foreign currency	(84)	449
Total adjustments ¹	4,615	4,520
Income tax benefits on adjustments ²	(1,368)	(882)
Non-GAAP net income	\$ 17,944	\$ 20,430
Non-GAAP net income per share:		
Basic	\$ 0.67	\$ 0.76
Diluted	\$ 0.67	\$ 0.76
Shares used to compute non-GAAP net income per share:		
Basic	26,736,709	26,846,030
Diluted	26,886,433	27,005,341

¹ Stock-based compensation expense, amortization expense and unrealized (gain) loss on foreign currency were included in the following GAAP consolidated statement of operations categories:

	Three Months Ended September 30,	
	2020	2019
Cost of revenue	\$ 989	\$ 872
Marketing and sales	865	760
Research and development	638	560
General and administrative	2,207	1,879
Total operating expenses	3,710	3,199
Other income, net	(84)	449
Total adjustments	\$ 4,615	\$ 4,520

² For the three and nine-month periods ended September 30, 2020 and 2019, 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.