

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): October 25, 2018

Proto Labs, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction
of incorporation)

001-35435

(Commission File Number)

41-1939628

(IRS Employer
Identification Number)

5540 Pioneer Creek Drive
Maple Plain, Minnesota

(Address of principal executive offices)

55359

(Zip Code)

Registrant's telephone number, including area code:

(763) 479-3680

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02. Results of Operations and Financial Condition.

On October 25, 2018, Proto Labs, Inc. issued a press release announcing its third quarter 2018 financial results. A copy of the press release is furnished as Exhibit 99.1 to this report.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

99.1 [Press release of Proto Labs, Inc. dated October 25, 2018.](#)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Proto Labs, Inc.

Date: October 25, 2018

By: /s/ John A. Way
John A. Way
Chief Financial Officer



3D Printing
CNC Machining
Sheet Metal Fabrication
Injection Molding

Protolabs Reports Record Revenue and Net Income for Third Quarter 2018

Record Quarterly Revenue of \$115.4 million, an increase of 31% over Q3 2017
Record Quarterly Net Income of \$20.9 million, an increase of 58% over Q3 2017

MAPLE PLAIN, Minn. – October 25, 2018 – Proto Labs, Inc. (NYSE: PRLB), a leading online and technology-enabled, quick-turn, on-demand manufacturer, today announced financial results for the third quarter ended September 30, 2018.

Third Quarter 2018 Highlights include:

- Revenue for the third quarter of 2018 was a record \$115.4 million, representing a 31.0 percent increase over revenue of \$88.1 million in the third quarter of 2017.
- The number of unique product developers and engineers served through our web-based customer interface totaled 20,792 in the third quarter of 2018, an increase of 23.0 percent over the third quarter of 2017.
- Net income for the third quarter of 2018 was a record \$20.9 million, or \$0.77 per diluted share.
- Non-GAAP net income was \$23.4 million, or \$0.86 per diluted share. See “Non-GAAP Financial Measures” below.

“We are pleased to deliver another quarter with over 30 percent growth,” said Vicki Holt, President and Chief Executive Officer. “Protolabs again demonstrated strong performance across all of our geographies and in each of our services.”

Additional Third Quarter 2018 Highlights include:

- Gross margin was 54.1 percent of revenue for the third quarter of 2018, compared with 56.0 percent for the third quarter of 2017.
- GAAP operating margin was 21.7 percent of revenue during the third quarter of 2018, compared to 22.0 percent for the third quarter of 2017.
- Non-GAAP operating margin was 24.9 percent of revenue during the third quarter of 2018, compared to 24.6 percent for the third quarter of 2017. See “Non-GAAP Financial Measures” below.
- The company generated \$25.6 million in cash from operations during the third quarter of 2018.
- Cash and investments balance was \$153.4 million at September 30, 2018.

“As a result of continued strong operations and growth in each of our individual service offerings, we are becoming more of a total solution for some of our customers. The majority of our top customers have utilized every one of our core services in 2018. With our unique ability to deliver parts at unprecedented speed, we are helping more customers deliver their products to market faster and in new ways,” concluded Holt.

Non-GAAP Financial Measures

The company has included non-GAAP revenue growth that excludes the impact of changes in foreign currency exchange rates. Management believes these metrics are useful in evaluating the underlying business trends and ongoing operating performance of the company.

The company has included non-GAAP operating margin, adjusted for stock-based compensation expense and amortization expense (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 foreign currency activity, disposal of businesses and legal settlement (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, operating margin and revenues, 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 third quarter 2018 financial results today, October 25, 2018 at 8:30 a.m. ET. 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. start time. No participant code is required. A simultaneous webcast of the call will be available via the investor relations section of the Protolabs website and the following link: <https://edge.media-server.com/m6/p/ep72okh4>. 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 fastest digital manufacturing source for rapid prototyping and on-demand production. The technology-enabled company produces custom parts and assemblies in as fast as one 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 development and production costs, and minimizes risk 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.

.Source: Proto Labs, Inc.

Investor Relations Contact:

Protolabs

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or

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

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 62,593 | \$ 36,707 |
| Short-term marketable securities | 57,561 | 57,424 |
| Accounts receivable, net | 62,131 | 51,503 |
| Inventory | 9,608 | 11,271 |
| Income taxes receivable | - | 1,832 |
| Other current assets | 8,639 | 6,267 |
| Total current assets | 200,532 | 165,004 |
| Property and equipment, net | 210,053 | 166,440 |
| Long-term marketable securities | 33,224 | 37,034 |
| Goodwill | 128,752 | 128,504 |
| Other intangible assets, net | 19,713 | 19,084 |
| Other long-term assets | 3,590 | 2,672 |
| Total assets | <u>\$ 595,864</u> | <u>\$ 518,738</u> |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 17,300 | \$ 15,876 |
| Accrued compensation | 14,462 | 12,100 |
| Accrued liabilities and other | 14,843 | 8,408 |
| Short-term debt obligations | - | 5,000 |
| Income taxes payable | 2,763 | 2,371 |
| Total current liabilities | 49,368 | 43,755 |
| Long-term income taxes payable | 2,181 | 2,181 |
| Long-term deferred tax liabilities | 8,732 | 6,966 |
| Other long-term liabilities | 4,377 | 4,621 |
| Shareholders' equity | 531,206 | 461,215 |
| Total liabilities and shareholders' equity | <u>\$ 595,864</u> | <u>\$ 518,738</u> |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | | | | |
| Injection Molding | \$ 53,681 | \$ 49,480 | \$ 156,610 | \$ 144,187 |
| CNC Machining | 40,845 | 27,166 | 115,364 | 73,318 |
| 3D Printing | 13,845 | 11,102 | 39,418 | 32,061 |
| Sheet Metal | 6,452 | - | 19,002 | - |
| Other | 607 | 357 | 2,433 | 746 |
| Total revenue | 115,430 | 88,105 | 332,827 | 250,312 |
| Cost of revenue | 53,027 | 38,793 | 153,303 | 109,358 |
| Gross profit | 62,403 | 49,312 | 179,524 | 140,954 |
| Operating expenses | | | | |
| Marketing and sales | 16,818 | 13,846 | 50,947 | 41,463 |
| Research and development | 7,458 | 5,877 | 21,155 | 17,784 |
| General and administrative | 13,096 | 10,222 | 38,679 | 28,256 |
| Total operating expenses | 37,372 | 29,945 | 110,781 | 87,503 |
| Income from operations | 25,031 | 19,367 | 68,743 | 53,451 |
| Other income, net | 390 | 291 | 1,376 | 1,779 |
| Income before income taxes | 25,421 | 19,658 | 70,119 | 55,230 |
| Provision for income taxes | 4,484 | 6,438 | 12,817 | 17,724 |
| Net income | <u>\$ 20,937</u> | <u>\$ 13,220</u> | <u>\$ 57,302</u> | <u>\$ 37,506</u> |
| Net income per share: | | | | |
| Basic | <u>\$ 0.77</u> | <u>\$ 0.50</u> | <u>\$ 2.13</u> | <u>\$ 1.41</u> |
| Diluted | <u>\$ 0.77</u> | <u>\$ 0.49</u> | <u>\$ 2.10</u> | <u>\$ 1.40</u> |
| Shares used to compute net income per share: | | | | |
| Basic | 27,038,585 | 26,617,349 | 26,963,205 | 26,600,174 |
| Diluted | 27,337,886 | 26,802,034 | 27,268,311 | 26,716,553 |

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

| | Nine Months Ended September 30, | |
|---|--|--------------------------|
| | 2018 | 2017 |
| Operating activities | | |
| Net income | \$ 57,302 | \$ 37,506 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 19,520 | 13,539 |
| Stock-based compensation expense | 7,986 | 6,159 |
| Deferred taxes | 1,770 | 715 |
| Gain on sale of businesses | (671) | - |
| Amortization of held-to-maturity securities | 336 | 851 |
| Other | 160 | 21 |
| Changes in operating assets and liabilities | (1,441) | 209 |
| Net cash provided by operating activities | <u>84,962</u> | <u>59,000</u> |
| Investing activities | | |
| Purchases of property, equipment and other capital assets | (61,898) | (24,164) |
| Cash used for acquisitions, net of cash acquired | (90) | - |
| Proceeds from sale of businesses | 284 | - |
| Purchases of marketable securities | (41,384) | (20,037) |
| Proceeds from maturities of marketable securities | 44,721 | 34,090 |
| Purchases of other assets and investments | (126) | (514) |
| Net cash used in investing activities | <u>(58,493)</u> | <u>(10,625)</u> |
| Financing activities | | |
| Payments on debt | (5,000) | - |
| Proceeds from exercises of stock options and other | 5,248 | 5,749 |
| Repurchases of common stock | - | (4,410) |
| Net cash provided by financing activities | <u>248</u> | <u>1,339</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>(831)</u> | <u>774</u> |
| Net increase in cash and cash equivalents | <u>25,886</u> | <u>50,488</u> |
| Cash and cash equivalents, beginning of period | <u>36,707</u> | <u>68,795</u> |
| Cash and cash equivalents, end of period | <u><u>\$ 62,593</u></u> | <u><u>\$ 119,283</u></u> |

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 September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Non-GAAP net income, adjusted for stock-based compensation expense, amortization expense, unrealized loss (gain) on foreign currency, disposal of businesses and legal settlement | | | | |
| GAAP net income | \$ 20,937 | \$ 13,220 | \$ 57,302 | \$ 37,506 |
| Add back: | | | | |
| Stock-based compensation expense | 2,952 | 2,201 | 7,986 | 6,159 |
| Amortization expense | 808 | 106 | 2,371 | 394 |
| Unrealized loss (gain) on foreign currency | (101) | 266 | 147 | (83) |
| Disposal of businesses | - | - | (671) | - |
| Legal settlement | - | - | - | (417) |
| Total adjustments ¹ | 3,659 | 2,573 | 9,833 | 6,053 |
| Income tax benefits on adjustments ² | (1,213) | (747) | (4,574) | (1,824) |
| Non-GAAP net income | \$ 23,383 | \$ 15,046 | \$ 62,561 | \$ 41,735 |
| Non-GAAP net income per share: | | | | |
| Basic | \$ 0.86 | \$ 0.57 | \$ 2.32 | \$ 1.57 |
| Diluted | \$ 0.86 | \$ 0.56 | \$ 2.29 | \$ 1.56 |
| Shares used to compute non-GAAP net income per share: | | | | |
| Basic | 27,038,585 | 26,617,349 | 26,963,205 | 26,600,174 |
| Diluted | 27,337,886 | 26,802,034 | 27,268,311 | 26,716,553 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of revenue | \$ 446 | \$ 263 | \$ 1,096 | \$ 698 |
| Marketing and sales | 560 | 417 | 1,380 | 1,024 |
| Research and development | 419 | 295 | 1,109 | 796 |
| General and administrative | 2,335 | 1,332 | 6,772 | 4,035 |
| Total operating expenses | 3,314 | 2,044 | 9,261 | 5,855 |
| Other income, net | (101) | 266 | (524) | (500) |
| Total adjustments | \$ 3,659 | \$ 2,573 | \$ 9,833 | \$ 6,053 |

² For the three- and nine-months ended September 30, 2018 and 2017, 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)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 115,430 | \$ 88,105 | \$ 332,827 | \$ 250,312 |
| Income from operations | 25,031 | 19,367 | 68,743 | 53,451 |
| GAAP operating margin | 21.7% | 22.0% | 20.7% | 21.4% |
| Add back: | | | | |
| Stock-based compensation expense | 2,952 | 2,201 | 7,986 | 6,159 |
| Amortization expense | 808 | 106 | 2,371 | 394 |
| Total adjustments | 3,760 | 2,307 | 10,357 | 6,553 |
| Non-GAAP income from operations adjusted for stock-based compensation expense and amortization expense | \$ 28,791 | \$ 21,674 | \$ 79,100 | \$ 60,004 |
| Non-GAAP operating margin | 24.9% | 24.6% | 23.8% | 24.0% |

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

| | Three Months Ended September 30, 2018 | | | Three Months Ended September 30, 2017 | % Change ² | % Change Constant Currencies ³ |
|---------------|--|--------------------------|-------------------|--|--------------------------|---|
| | GAAP | Adjustments ¹ | Non-GAAP | GAAP | | |
| Revenues | | | | | | |
| United States | \$ 90,732 | \$ - | \$ 90,732 | \$ 67,490 | 34.4% | 34.4% |
| Europe | 21,273 | 162 | 21,435 | 18,094 | 17.6% | 18.5% |
| Japan | 3,425 | 16 | 3,441 | 2,521 | 35.9% | 36.5% |
| Total Revenue | <u>\$ 115,430</u> | <u>\$ 178</u> | <u>\$ 115,608</u> | <u>\$ 88,105</u> | 31.0% | 31.2% |

| | Nine Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2017 | % Change ² | % Change Constant Currencies ³ |
|---------------|---|--------------------------|-------------------|---|--------------------------|---|
| | GAAP | Adjustments ¹ | Non-GAAP | GAAP | | |
| Revenues | | | | | | |
| United States | \$ 261,253 | \$ - | \$ 261,253 | \$ 191,019 | 36.8% | 36.8% |
| Europe | 61,431 | (3,825) | 57,606 | 51,224 | 19.9% | 12.5% |
| Japan | 10,143 | (211) | 9,932 | 8,069 | 25.7% | 23.1% |
| Total Revenue | <u>\$ 332,827</u> | <u>\$ (4,036)</u> | <u>\$ 328,791</u> | <u>\$ 250,312</u> | 33.0% | 31.4% |

¹ Revenue growth for the three- and nine-month periods ended September 30, 2018 has been recalculated using 2017 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 growth for the three- and nine-month periods ended September 30, 2017 to GAAP revenue growth for the three- and nine-month periods ended September 30, 2018.

³ This column presents the percentage change from GAAP revenue growth for the three- and nine-month periods ended September 30, 2017 (calculated using the foreign currency exchange rates in effect during that period) to non-GAAP revenue growth for the three- and nine-month periods ended September 30, 2018 (as recalculated using the foreign currency exchange rates in effect during the three- and nine-month periods ended September 30, 2017) in order to provide a constant currency comparison.

Proto Labs, Inc.
Product Developer Information
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Unique product developers and engineers served | 20,792 | 16,909 | 38,823 | 31,307 |