



**PROTOLABS**  
Manufacturing. Accelerated.



# Earnings Presentation

Q3 2019

October 24, 2019



# SAFE HARBOR

These slides and accompanying oral presentation contain forward-looking statements. These statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance, or achievements.

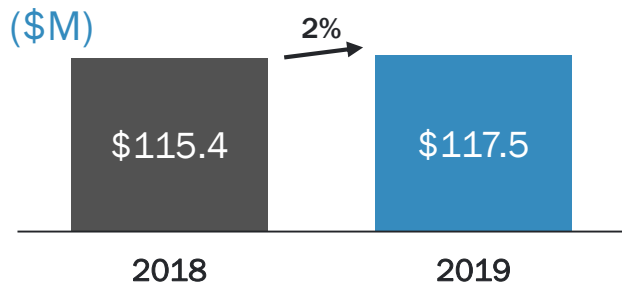
Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in Protolabs' SEC filings, including the Form 10-K for the year ended December 31, 2018 and the quarterly Form 10-Q filings. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you see or hear during this presentation reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

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.



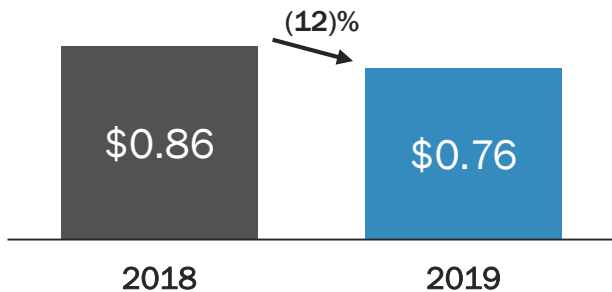
# FINANCIAL HIGHLIGHTS | Q3

## Revenue



- Revenue of **\$117.5 million**, up 2% YoY
  - Constant currency growth of 3%
  - Record quarterly revenue in 3DP
  - Decline in Rapid services

## Non-GAAP EPS\*



- Non-GAAP EPS of **\$0.76**, down **\$(0.10)** YoY
  - Gross Margin compression (legacy and Rapid)
  - Investments in research and development
  - Q3 2018 benefitted from lower effective tax rate

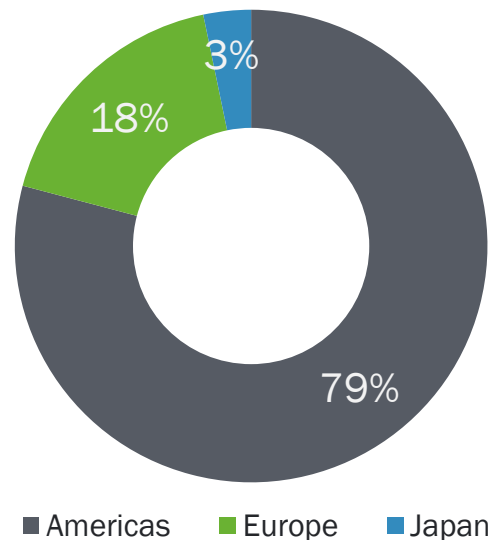
*\*Non-GAAP: adjusted for stock-based compensation, intangible amortization, and unrealized loss on foreign currency. See reconciliation in Appendix.*



# REGIONAL REVENUE | Q3

(\$M)	Q3 19	Q3 18	YoY CHANGE*
Americas	\$92.9	\$90.7	2%
Europe	\$20.7	\$21.3	2%
Japan	\$3.8	\$3.4	7%
<b>TOTAL</b>	<b>\$117.5</b>	<b>\$115.4</b>	<b>3%</b>

## Revenue % by Region Q3 2019



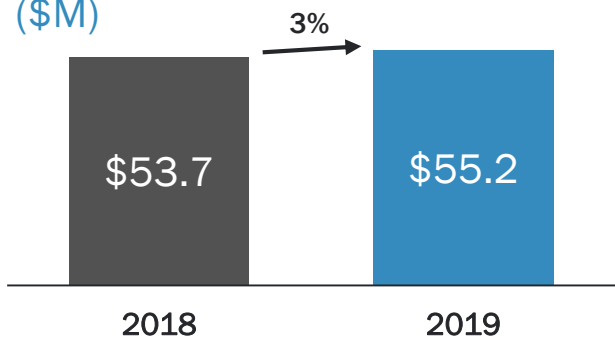
\*YoY CHANGE reflected in constant currency  
See reconciliation in Appendix.



# REVENUE BY SERVICE | Q3

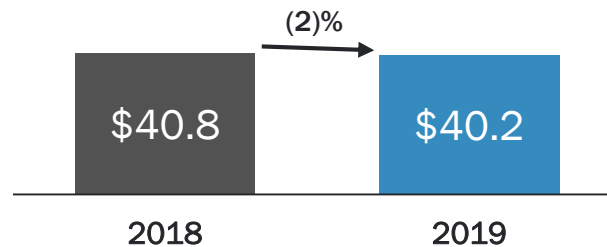
## Injection Molding - Revenue

(\$M)



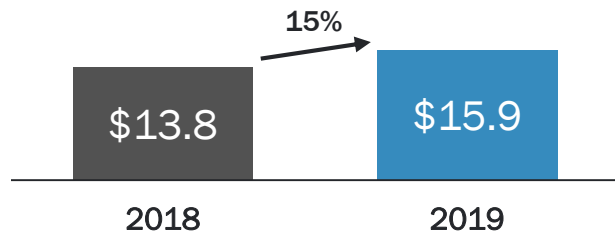
## CNC Machining - Revenue

(\$M)



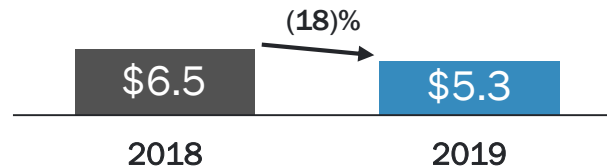
## 3D Printing - Revenue

(\$M)



## Sheet Metal - Revenue

(\$M)





# FINANCIAL RESULTS | Q3

\$M, EXCEPT PER SHARE AMOUNTS	Q3 19	Q2 19	SEQ. CHANGE	Q3 18	YoY CHANGE
Revenue	\$117.5	\$115.9	1%	\$115.4	2%
Gross Margin	50.8%	52.0%	(120) bps	54.1%	(330) bps
Non-GAAP Operating Margin*	21.6%	20.6%	90 bps	24.9%	(340) bps
Non-GAAP Earnings Per Share*	\$0.76	\$0.71	7%	\$0.86	(12)%

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



# QoQ GAAP to Non-GAAP P&L | Q3

\$ in thousands	Three Months Ended September, 2019			Three Months Ended June 30, 2019		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
<b>Revenue</b>	<b>\$117,455</b>	<b>-</b>	<b>\$117,455</b>	<b>\$115,932</b>	<b>-</b>	<b>\$115,932</b>
Cost of Revenue	<u>57,839</u>	<u>(872)</u>	<u>56,967</u>	<u>55,696</u>	<u>(797)</u>	<u>54,899</u>
<b>Gross Profit</b>	<b>\$59,616</b>	<b>\$872</b>	<b>\$60,488</b>	<b>\$60,236</b>	<b>\$797</b>	<b>\$61,033</b>
Marketing and Sales	17,604	(760)	16,844	19,285	(614)	18,672
Research and Development	8,359	(560)	7,799	8,169	(503)	7,666
General and Administrative	<u>12,380</u>	<u>(1,879)</u>	<u>10,501</u>	<u>13,209</u>	<u>(2,435)</u>	<u>10,773</u>
Total Operating Expenses	<u>38,343</u>	<u>(3,199)</u>	<u>35,144</u>	<u>40,663</u>	<u>(3,552)</u>	<u>37,111</u>
<b>Income from Operations</b>	<b>\$21,273</b>	<b>\$4,071</b>	<b>\$25,344</b>	<b>\$19,573</b>	<b>\$4,349</b>	<b>\$23,922</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>	<b>N/A</b>	<b>\$32,352</b>	<b>N/A</b>	<b>N/A</b>	<b>\$30,955</b>
<b><u>% of Revenue</u></b>						
<b>Gross Profit</b>	<b>50.8%</b>		<b>51.5%</b>	<b>52.0%</b>		<b>52.6%</b>
Marketing and Sales	15.0%		14.3%	16.6%		16.1%
Research and Development	7.1%		6.6%	7.0%		6.6%
General and Administrative	<u>10.5%</u>		<u>8.9%</u>	<u>11.4%</u>		<u>9.3%</u>
Total Operating Expenses	<u>32.6%</u>		<u>29.9%</u>	<u>35.1%</u>		<u>32.0%</u>
<b>Income from Operations</b>	<b>18.1%</b>		<b>21.6%</b>	<b>16.9%</b>		<b>20.6%</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>		<b>27.5%</b>	<b>N/A</b>		<b>26.7%</b>

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



# YoY GAAP to Non-GAAP P&L | Q3

\$ in thousands	Three Months Ended September, 2019			Three Months Ended September 30, 2018		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
<b>Revenue</b>	<b>\$117,455</b>	<b>-</b>	<b>\$117,455</b>	<b>\$115,430</b>	<b>-</b>	<b>\$115,430</b>
Cost of Revenue	<u>57,839</u>	<u>(872)</u>	<u>56,967</u>	<u>53,027</u>	<u>(446)</u>	<u>52,581</u>
<b>Gross Profit</b>	<b>\$59,616</b>	<b>\$872</b>	<b>\$60,488</b>	<b>\$62,403</b>	<b>\$446</b>	<b>\$62,849</b>
Marketing and Sales	17,604	(760)	16,844	16,818	(560)	16,258
Research and Development	8,359	(560)	7,799	7,458	(419)	7,039
General and Administrative	<u>12,380</u>	<u>(1,879)</u>	<u>10,501</u>	<u>13,096</u>	<u>(2,335)</u>	<u>10,761</u>
Total Operating Expenses	<u>38,343</u>	<u>(3,199)</u>	<u>35,144</u>	<u>37,372</u>	<u>(3,314)</u>	<u>34,058</u>
<b>Income from Operations</b>	<b>\$21,273</b>	<b>\$4,071</b>	<b>\$25,344</b>	<b>\$25,031</b>	<b>\$3,760</b>	<b>\$28,791</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>	<b>N/A</b>	<b>\$32,352</b>	<b>N/A</b>	<b>N/A</b>	<b>34,568</b>
<b><u>% of Revenue</u></b>						
<b>Gross Profit</b>	<b>50.8%</b>		<b>51.5%</b>	<b>54.1%</b>		<b>54.4%</b>
Marketing and Sales	15.0%		14.3%	14.6%		14.1%
Research and Development	7.1%		6.6%	6.5%		6.1%
General and Administrative	<u>10.5%</u>		<u>8.9%</u>	<u>11.3%</u>		<u>9.3%</u>
Total Operating Expenses	<u>32.6%</u>		<u>29.9%</u>	<u>32.4%</u>		<u>29.5%</u>
<b>Income from Operations</b>	<b>18.1%</b>		<b>21.6%</b>	<b>21.7%</b>		<b>24.9%</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>		<b>27.5%</b>	<b>N/A</b>		<b>29.9%</b>

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





# CASH FLOW and BALANCE SHEET | Q3

\$M	Q3 19	Q2 19	Q3 18
Operating Cash Flow	\$28.9	\$36.9	\$25.6
Capital Expenditures	\$12.0	\$21.4	\$18.7
Share Repurchases	\$12.1	\$4.1	\$0
Cash and Investments*	\$155.0	\$150.7	\$153.4
Debt*	\$0	\$0	\$0



# OUTLOOK | Q4 2019

## Q4 Revenue

Revenue	\$109M - \$115M
% Growth YoY	(3)% - 2%

## Q4 Non-GAAP EPS\*

Non-GAAP EPS*	\$0.59 - \$0.67
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## Q4 Revenue Details

- Holiday season impact challenging to predict
- Foreign currency not expected to have a significant impact

## Q4 Non-GAAP EPS Details

- Tax rate of 21% - 22%
- Stock compensation and amortization expenses of approximately \$2.0 million and \$900k, respectively

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



# THANK YOU

**Investor Relations:** Dan Schumacher  
[daniel.schumacher@protolabs.com](mailto:daniel.schumacher@protolabs.com)





# Appendix



# GAAP to Non-GAAP Reconciliation | EPS

(\$ in thousands;  
except per share figures)

	Three Months Ended		Three Months Ended/Ending	
	September 30, 2018	December 30, 2018	September 30, 2019	December 30, 2019
<b>Revenue</b>	<b>\$ 115,430</b>	<b>\$ 112,769</b>	<b>\$ 117,455</b>	<b>\$109,000 - \$115,000</b>
GAAP operating income as a % of revenue	21.7%	17.9%	18.1%	15.9%-17.3%
Add back:				
Stock-based compensation expense	2.6%	2.6%	2.7%	1.6%-1.7%
Amortization expense	0.7%	0.8%	0.7%	0.7%-0.8%
Non-GAAP operating income as a % of revenue	24.9%	21.2%	21.6%	18.4%-19.6%
GAAP net income per diluted share	\$ 0.77	\$ 0.71	\$ 0.62	\$0.51-\$0.59
Add back:				
Stock-based compensation expense	0.11	0.11	0.12	0.07
Amortization expense	0.03	0.03	0.03	0.03
Unrealized loss on foreign currency	(0.00)	(0.02)	0.02	-
Disposal of business	-	-	-	-
Total adjustments	\$ 0.13	\$ 0.12	\$ 0.17	\$ 0.10
Provisional charges related to the tax effect of deemed repatriation of foreign earnings	-	(0.03)	-	-
Revaluation of net deferred tax assets and liabilities	-	(0.02)	-	-
Income tax benefit on adjustments	(0.04)	(0.04)	(0.03)	(0.02)
<b>Non-GAAP net income per diluted share</b>	<b>\$ 0.86</b>	<b>\$ 0.74</b>	<b>\$ 0.76</b>	<b>\$0.59-\$0.67</b>
Diluted Shares	27,337,886	27,311,988	27,005,341	27,100,000



# GAAP to Non-GAAP Reconciliation | Revenue

(\$ in thousands)

	Three Months Ended			Three Months	%	% Change Constant Currencies <sup>3</sup>
	September 30, 2019			Ended		
	GAAP	Adjustments <sup>1</sup>	Non-GAAP	September 30, 2018		
Revenues						
United States	\$ 92,916		\$ 92,916	\$ 90,732	2.4%	2.4%
Europe	20,721	1,001	21,722	21,273	-2.6%	2.1%
Japan	<u>3,818</u>	<u>(140)</u>	<u>3,678</u>	<u>3,425</u>	<u>11.5%</u>	<u>7.4%</u>
Total Revenue	<u>\$ 117,455</u>	<u>\$ 861</u>	<u>\$ 118,316</u>	<u>\$ 115,430</u>	1.8%	2.5%

<sup>1</sup> Revenue for the three- and nine-month periods ended September 30, 2019 has been recalculated using 2018 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.

<sup>2</sup> This column presents the percentage change from GAAP revenue for the three- and nine-month periods ended September 30, 2018 to GAAP revenue for the three- and nine-month periods ended September 30, 2019.

<sup>3</sup> This column presents the percentage change from GAAP revenue for the three- and nine-month periods ended September 30, 2018 to non-GAAP revenue for the three- and nine-month periods ended September 30, 2019 (as recalculated using the foreign currency exchange rates in effect during the three- and nine-month periods ended September 30, 2018) in order to provide a constant-currency comparison.



# GAAP to Non-GAAP Reconciliation | EBITDA

(\$ in thousands)

	Three Months Ended September 30,		Three Months Ended June 30,	
	2019	2018	2019	2018
GAAP net income	\$ 16,792	\$ 20,937	\$ 16,166	\$ 18,314
Amortization expense	859	808	863	799
Depreciation expense	6,820	5,963	6,678	5,691
Interest income, net	(489)	(475)	(465)	(322)
Tax expense	4,709	4,484	4,532	4,478
EBITDA	<u>28,691</u>	<u>31,717</u>	<u>27,774</u>	<u>28,960</u>
Add back:				
Stock-based compensation expense	3,212	2,952	3,486	2,726
Unrealized (gain) loss on foreign currency	449	(101)	(305)	93
Disposal of businesses	-	-	-	(671)
Total adjustments	<u>3,661</u>	<u>2,851</u>	<u>3,181</u>	<u>2,148</u>
Adjusted EBITDA	<u>\$ 32,352</u>	<u>\$ 34,568</u>	<u>\$ 30,955</u>	<u>\$ 31,108</u>