



**PROTOLABS**  
Manufacturing. Accelerated.



# Earnings Presentation

Q4 2019

February 6, 2020



# 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.

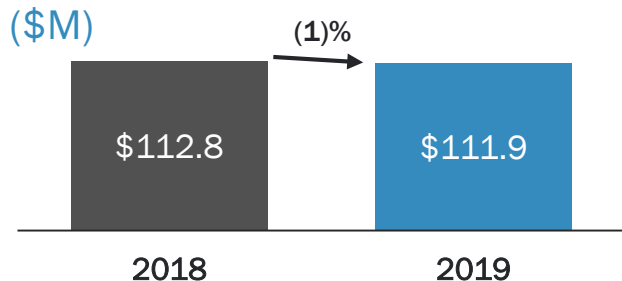


# Q4 2019 Overview



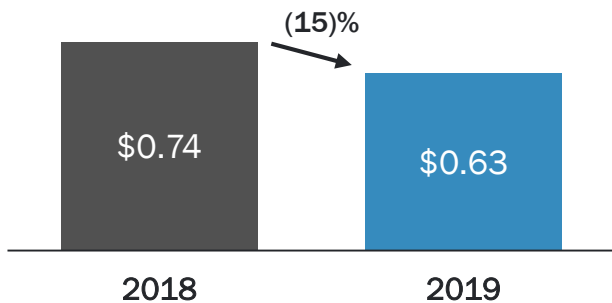
# FINANCIAL HIGHLIGHTS | Q4

## Revenue



- Revenue of **\$111.9 million**, down **(1)% YoY**
- Middle of our guidance range
- Unique Product Developer growth of 1%

## Non-GAAP EPS\*



- Non-GAAP EPS of **\$0.63**, down **\$(0.11) YoY**
- Middle of our guidance range
- Gross Margin compression
- Investments in R&D
- Q4 2018 included favorable tax impact of \$0.03

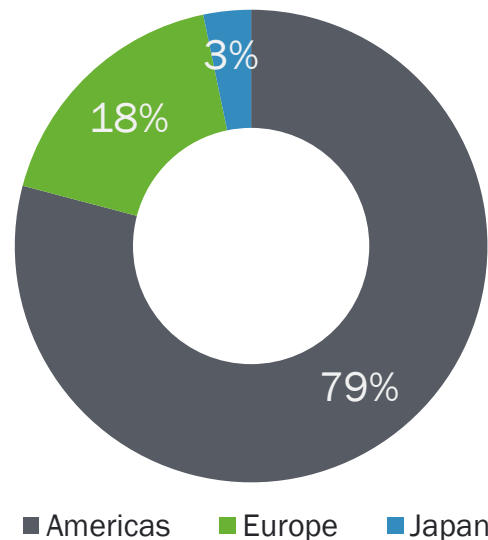
*\*Non-GAAP: adjusted for stock-based compensation, intangible amortization, unrealized (gain) loss on foreign currency and disposal of businesses. See reconciliation in Appendix.*



# REGIONAL REVENUE | Q4

(\$M)	Q4 19	Q4 18	YoY CHANGE*
Americas	\$88.3	\$89.3	(1)%
Europe	\$19.9	\$19.5	4%
Japan	\$3.7	\$4.0	(12)%
<b>TOTAL</b>	<b>\$111.9</b>	<b>\$112.8</b>	<b>(1)%</b>

Revenue % by Region  
Q4 2019



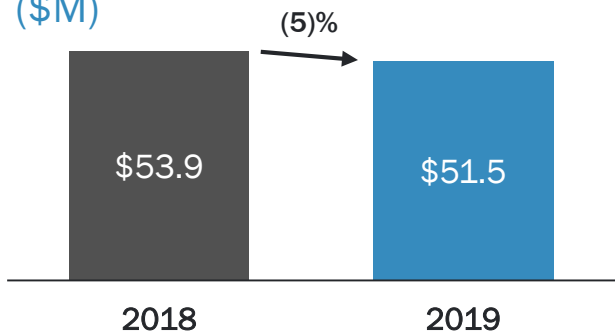
\*YoY CHANGE reflected in constant currency  
See reconciliation in Appendix.



# REVENUE BY SERVICE | Q4

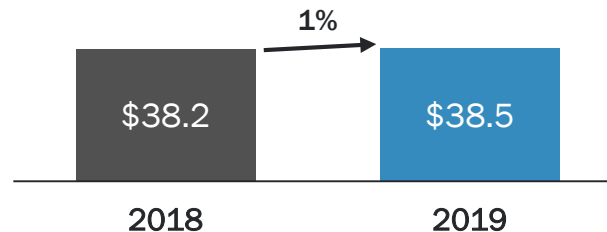
## Injection Molding - Revenue

(\$M)



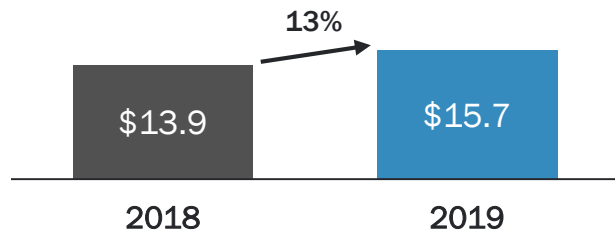
## CNC Machining - Revenue

(\$M)



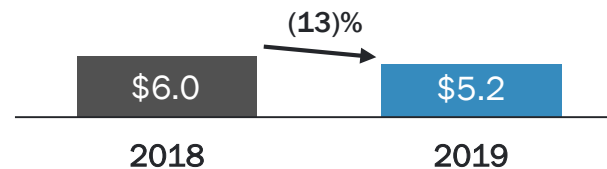
## 3D Printing - Revenue

(\$M)



## Sheet Metal - Revenue

(\$M)



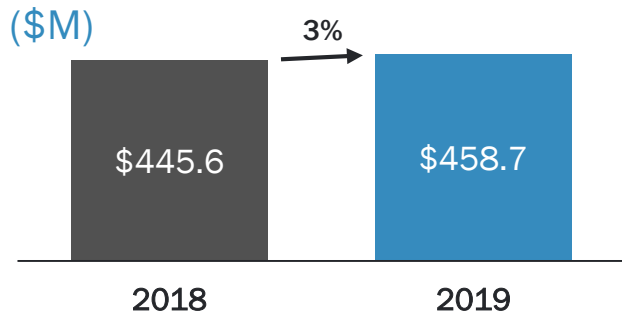


# FY 2019 Overview



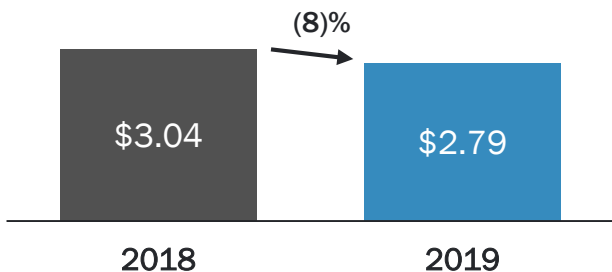
# FINANCIAL HIGHLIGHTS | FY 2019

## Revenue



- Revenue of \$458.7 million, up 3% YoY
  - Constant currency growth of 4%
  - Moderate growth despite difficult macroeconomic climate
  - Unique Product Developer growth of 4%

## Non-GAAP EPS\*



- Non-GAAP EPS of \$2.79, down \$(0.25) YoY
  - Gross Margin compression
  - Investments in Sales & Marketing and R&D

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

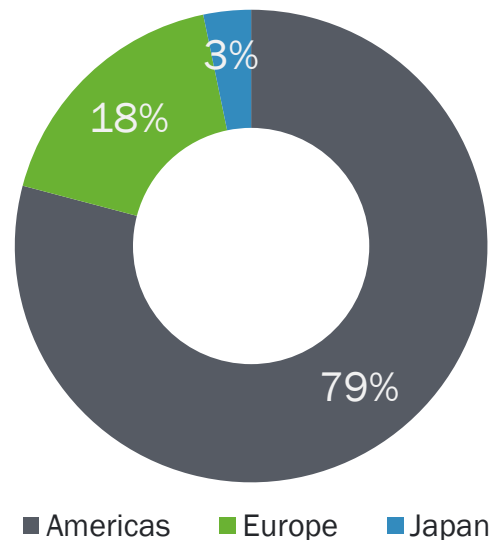




# REGIONAL REVENUE | FY 2019

(\$M)	FY 19	FY 18	YoY CHANGE*
Americas	\$360.2	\$350.5	3%
Europe	\$82.8	\$80.9	8%
Japan	\$15.7	\$14.2	10%
<b>TOTAL</b>	<b>\$458.7</b>	<b>\$445.6</b>	<b>4%</b>

Revenue % by Region  
FY 2019



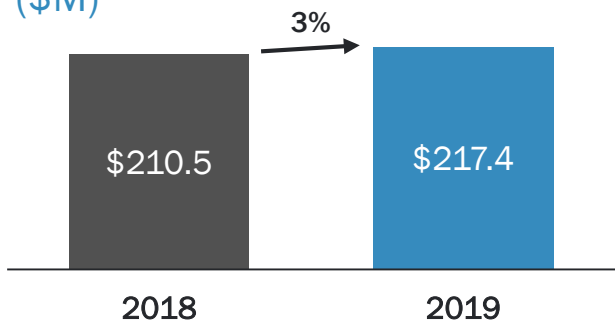
\*YoY CHANGE reflected in constant currency  
See reconciliation in Appendix.



# REVENUE BY SERVICE | FY 2019

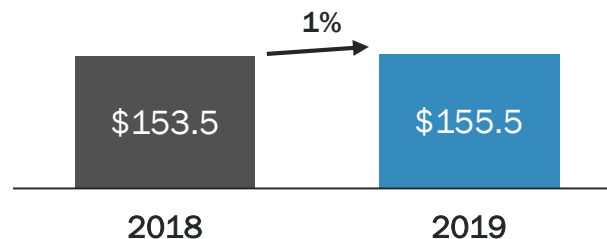
## Injection Molding - Revenue

(\$M)



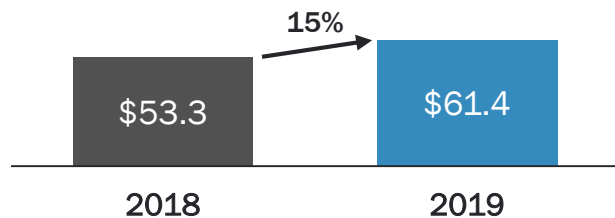
## CNC Machining - Revenue

(\$M)



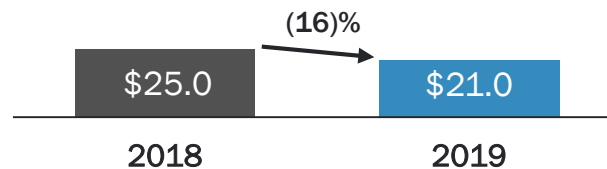
## 3D Printing - Revenue

(\$M)



## Sheet Metal - Revenue

(\$M)





# Q4 2019 Financial Information



# FINANCIAL RESULTS | Q4

\$M, EXCEPT PER SHARE AMOUNTS	Q4 19	Q3 19	SEQ. CHANGE	Q4 18	YoY CHANGE
Revenue	\$111.9	\$117.5	(5)%	\$112.8	(1)%
Gross Margin	50.6%	50.8%	(20) bps	52.5%	(190) bps
Non-GAAP Operating Margin*	19.2%	21.6%	(240) bps	21.2%	(200) bps
Non-GAAP Earnings Per Share*	\$0.63	\$0.76	(16)%	\$0.74	(15)%

\*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 | Q4

\$ in thousands	Three Months Ended December 31, 2019			Three Months Ended December 31, 2018		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
<b>Revenue</b>	<b>\$111,889</b>	<b>-</b>	<b>\$111,889</b>	<b>\$112,769</b>	<b>-</b>	<b>\$112,769</b>
Cost of Revenue	<u>55,311</u>	<u>(933)</u>	<u>54,378</u>	<u>53,614</u>	<u>(448)</u>	<u>53,166</u>
<b>Gross Profit</b>	<b>\$56,578</b>	<b>\$933</b>	<b>\$57,511</b>	<b>\$59,155</b>	<b>\$448</b>	<b>\$59,603</b>
Marketing and Sales	17,510	(708)	16,802	17,586	(562)	17,024
Research and Development	8,151	(365)	7,786	7,580	(407)	7,173
General and Administrative	<u>11,355</u>	<u>74</u>	<u>11,429</u>	<u>13,834</u>	<u>(2,387)</u>	<u>11,447</u>
Total Operating Expenses	<u>37,016</u>	<u>(999)</u>	<u>36,017</u>	<u>39,000</u>	<u>(3,356)</u>	<u>35,644</u>
<b>Income from Operations</b>	<b>\$19,562</b>	<b>\$1,932</b>	<b>\$21,494</b>	<b>\$20,155</b>	<b>\$3,804</b>	<b>\$23,959</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>	<b>N/A</b>	<b>\$28,308</b>	<b>N/A</b>	<b>N/A</b>	<b>\$30,544</b>
<b><u>% of Revenue</u></b>						
<b>Gross Profit</b>	<b>50.6%</b>		<b>51.4%</b>	<b>52.5%</b>		<b>52.9%</b>
Marketing and Sales	15.6%		15.0%	15.6%		15.1%
Research and Development	7.3%		7.0%	6.7%		6.4%
General and Administrative	<u>10.1%</u>		<u>10.2%</u>	<u>12.3%</u>		<u>10.2%</u>
Total Operating Expenses	<u>33.1%</u>		<u>32.2%</u>	<u>34.6%</u>		<u>31.6%</u>
<b>Income from Operations</b>	<b>17.5%</b>		<b>19.2%</b>	<b>17.9%</b>		<b>21.2%</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>		<b>25.3%</b>	<b>N/A</b>		<b>27.1%</b>

\*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 | Q4

\$ in thousands	Three Months Ended December 31, 2019			Three Months Ended September 30, 2019		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
<b>Revenue</b>	<b>\$111,889</b>	<b>-</b>	<b>\$111,889</b>	<b>\$117,455</b>	<b>-</b>	<b>\$117,455</b>
Cost of Revenue	<u>55,311</u>	<u>(933)</u>	<u>54,378</u>	<u>57,839</u>	<u>(872)</u>	<u>56,967</u>
<b>Gross Profit</b>	<b>\$56,578</b>	<b>\$933</b>	<b>\$57,511</b>	<b>\$59,616</b>	<b>\$872</b>	<b>\$60,488</b>
Marketing and Sales	17,510	(708)	16,802	17,604	(760)	16,844
Research and Development	8,151	(365)	7,786	8,359	(560)	7,799
General and Administrative	<u>11,355</u>	<u>74</u>	<u>11,429</u>	<u>12,380</u>	<u>(1,879)</u>	<u>10,501</u>
Total Operating Expenses	<u>37,016</u>	<u>(999)</u>	<u>36,017</u>	<u>38,343</u>	<u>(3,199)</u>	<u>35,144</u>
<b>Income from Operations</b>	<b>\$19,562</b>	<b>\$1,932</b>	<b>\$21,494</b>	<b>\$21,273</b>	<b>\$4,071</b>	<b>\$25,344</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>	<b>N/A</b>	<b>\$28,308</b>	<b>N/A</b>	<b>N/A</b>	<b>\$32,352</b>
<b><u>% of Revenue</u></b>						
<b>Gross Profit</b>	<b>50.6%</b>		<b>51.4%</b>	<b>50.8%</b>		<b>51.5%</b>
Marketing and Sales	15.6%		15.0%	15.0%		14.3%
Research and Development	7.3%		7.0%	7.1%		6.6%
General and Administrative	<u>10.1%</u>		<u>10.2%</u>	<u>10.5%</u>		<u>8.9%</u>
Total Operating Expenses	<u>33.1%</u>		<u>32.2%</u>	<u>32.6%</u>		<u>29.9%</u>
<b>Income from Operations</b>	<b>17.5%</b>		<b>19.2%</b>	<b>18.1%</b>		<b>21.6%</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>		<b>25.3%</b>	<b>N/A</b>		<b>27.5%</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 | Q4

\$M	Q4 19	Q3 19	Q4 18
Operating Cash Flow	\$32.3	\$28.9	\$38.0
Capital Expenditures	\$16.1	\$12.0	\$25.2
Share Repurchases	\$0	\$12.1	\$12.2
Cash and Investments*	\$173.6	\$155.0	\$155.4
Debt*	\$0	\$0	\$0



# FY 2019 Financial Information





# FINANCIAL RESULTS | FY 2019

\$M, EXCEPT PER SHARE AMOUNTS	FY 19	FY 18	YoY CHANGE
Revenue	\$458.7	\$445.6	3%
Gross Margin	51.3%	53.6%	(230) bps
Non-GAAP Operating Margin*	20.5%	23.1%	(260) bps
Non-GAAP Earnings Per Share*	\$2.79	\$3.04	(8)%

*\*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 | FY 2019

\$ in thousands	Twelve Months Ended December 31, 2019			Twelve Months Ended December 31, 2018		
	GAAP	Adjustments	Non-GAAP*	GAAP	Adjustments	Non-GAAP*
<b>Revenue</b>	<b>\$458,728</b>	-	<b>\$458,728</b>	<b>\$445,596</b>	-	<b>\$445,596</b>
Cost of Revenue	<u>223,438</u>	<u>(3,335)</u>	<u>220,103</u>	<u>206,917</u>	<u>(1,543)</u>	<u>205,374</u>
<b>Gross Profit</b>	<b>\$235,290</b>	<b>\$3,335</b>	<b>\$238,625</b>	<b>\$238,679</b>	<b>\$1,543</b>	<b>\$240,222</b>
Marketing and Sales	72,976	(2,631)	70,345	68,533	(1,942)	66,591
Research and Development	32,692	(1,851)	30,841	28,735	(1,517)	27,218
General and Administrative	49,766	(6,446)	43,320	52,513	(9,159)	43,354
Total Operating Expenses	<u>155,434</u>	<u>(10,928)</u>	<u>144,506</u>	<u>149,781</u>	<u>(12,618)</u>	<u>137,163</u>
<b>Income from Operations</b>	<b>\$79,856</b>	<b>\$14,263</b>	<b>\$94,119</b>	<b>\$88,898</b>	<b>\$14,161</b>	<b>\$103,059</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>	<b>N/A</b>	<b>\$121,421</b>	<b>N/A</b>	<b>N/A</b>	<b>\$126,582</b>
<b><u>% of Revenue</u></b>						
<b>Gross Profit</b>	<b>51.3%</b>		<b>52.0%</b>	<b>53.6%</b>		<b>53.9%</b>
Marketing and Sales	15.9%		15.3%	15.4%		14.9%
Research and Development	7.1%		6.7%	6.4%		6.1%
General and Administrative	<u>10.8%</u>		<u>9.4%</u>	<u>11.8%</u>		<u>9.7%</u>
Total Operating Expenses	<u>33.9%</u>		<u>31.5%</u>	<u>33.6%</u>		<u>30.8%</u>
<b>Income from Operations</b>	<b>17.4%</b>		<b>20.5%</b>	<b>20.0%</b>		<b>23.1%</b>
<b>Adjusted EBITDA</b>	<b>N/A</b>		<b>26.5%</b>	<b>N/A</b>		<b>28.4%</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 | FY 2019

\$M	FY 19	FY 18
Operating Cash Flow	\$116.1	\$122.9
Capital Expenditures	\$62.2	\$87.1
Share Repurchases	\$33.5	\$12.2
Cash and Investments*	\$173.6	\$155.4
Debt*	\$0	\$0



# Protolabs 2.0



# PROTOLABS 2.0 – OVERVIEW

## Background

- Legacy systems evolved slowly and incrementally
  - Based on architecture from early 2000s
- 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

## Future

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



# PROTOLABS 2.0 – BENEFITS



## Customer Experience

- More intuitive user experience
- Fewer clicks, better buying experience



## Internal Productivity

- Less system maintenance
- More focus on innovation and future growth



## Speed & Scalability

- Ability to launch new services faster
- Easier to integrate acquisitions



## Business Insights

- Easier access to data across the enterprise, enabling value add analysis

**Protolabs 2.0**



# Financial Outlook



# OUTLOOK | Q1 2020

## Q1 2020 Revenue

Revenue	\$111M - \$117M
% Growth YoY	(2)% - 3%

## Q1 2020 Non-GAAP EPS\*

Non-GAAP EPS*	\$0.50 - \$0.58
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## Q1 2020 Revenue Details

- Reflects the current global economy, specifically muted manufacturing and industrial production data
- Foreign currency not expected to have a significant impact

## Q1 2020 Non-GAAP EPS Details

- \$0.08 - \$0.10 per share compensation expense impact
  - Driven by increased incentive compensation, payroll tax seasonality, and a partial quarter of annual merit increase
- Tax rate of 21% - 22%
- Stock compensation and amortization expenses of approximately \$3.5 million and \$750k, respectively

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





# IMPACT OF PROTO LABS 2.0 | 2020

## 2020 Impact

Expense

~\$10M

## 2020 Impact Details

- Costs related to system preparedness, such as training and change management activities, including overtime, travel and contractor support
- Consultant support during launch and a period of time after; these costs will largely be capitalized until go-live and expensed during the support period
- Amortization of software asset with a value of ~\$40 million; recurring quarterly amortization estimated at \$1.3 million to \$1.5 million



# 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	
	December 31, 2018	March 31, 2019	December 31, 2019	March 31, 2020
<b>Revenue</b>	<b>\$ 112,769</b>	<b>\$ 113,452</b>	<b>\$ 111,889</b>	<b>\$111,000 - \$117,000</b>
GAAP operating income as a % of revenue	17.9%	17.1%	17.5%	11.6%-13.0%
Add back:				
Stock-based compensation expense	2.6%	2.7%	0.9%	3.0%-3.2%
Amortization expense	0.8%	0.8%	0.8%	0.6%-0.7%
Non-GAAP operating income as a % of revenue	21.2%	20.6%	19.2%	15.4%-16.6%
GAAP net income per diluted share	\$ 0.71	\$ 0.57	\$ 0.56	\$0.38-\$0.46
Add back:				
Stock-based compensation expense	0.11	0.11	0.04	0.13
Amortization expense	0.03	0.03	0.03	0.03
Unrealized loss on foreign currency	(0.02)	0.01	0.01	-
Disposal of business	-	-	-	-
Total adjustments	\$ 0.12	\$ 0.15	\$ 0.08	\$ 0.16
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)	(0.03)	(0.01)	(0.03)
<b>Non-GAAP net income per diluted share</b>	<b>\$ 0.74</b>	<b>\$ 0.69</b>	<b>\$ 0.63</b>	<b>\$0.50-\$0.58</b>
Diluted Shares	27,311,988	27,177,039	26,945,927	27,000,000



# GAAP to Non-GAAP Reconciliation | Revenue

(\$ in thousands)

	Three Months Ended			Three Months Ended		
	December 31, 2019			December 31, 2018		
	GAAP	Adjustments <sup>1</sup>	Non-GAAP	GAAP	% Change <sup>2</sup>	% Change Constant Currencies <sup>3</sup>
Revenues						
United States	\$ 88,329	\$ -	\$ 88,329	\$ 89,282	(1.1)%	(1.1)%
Europe	19,889	385	20,274	19,458	2.2%	4.2%
Japan	3,671	(131)	3,540	4,029	(8.9)%	(12.1)%
Total Revenue	<u>\$ 111,889</u>	<u>\$ 254</u>	<u>\$ 112,143</u>	<u>\$ 112,769</u>	(0.8)%	(0.6)%

	Year Ended			Year Ended		
	December 31, 2019			December 31, 2018		
	GAAP	Adjustments <sup>1</sup>	Non-GAAP	GAAP	% Change <sup>2</sup>	% Change Constant Currencies <sup>3</sup>
Revenues						
United States	\$ 360,205	\$ -	\$ 360,205	\$ 350,535	2.8%	2.8%
Europe	82,805	4,353	87,158	80,889	2.4%	7.8%
Japan	15,718	(150)	15,568	14,172	10.9%	9.9%
Total Revenue	<u>\$ 458,728</u>	<u>\$ 4,203</u>	<u>\$ 462,931</u>	<u>\$ 445,596</u>	2.9%	3.9%

<sup>1</sup> Revenue growth for the three-month and year-ended periods ended December 31, 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 growth for the three-month and year-ended periods ended December 31, 2018 to GAAP revenue growth for the three-month and year-ended periods ended December 31, 2019.

<sup>3</sup> This column presents the percentage change from GAAP revenue for the three-month and year-ended periods ended December 31, 2018 to non-GAAP revenue for the three-month and year-ended periods ended December 31, 2019 (as recalculated using the foreign currency exchange rates in effect during the three-month and year-ended periods ended December 31, 2018) in order to provide a constant currency comparison.



# GAAP to Non-GAAP Reconciliation | EBITDA

(\$ in thousands)

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
GAAP net income	\$ 15,186	\$ 19,286	\$ 63,655	\$ 76,588
Amortization expense	889	862	3,482	3,233
Depreciation expense	7,317	6,372	27,383	23,521
Interest income, net	(560)	(641)	(2,095)	(1,704)
Tax expense	<u>4,147</u>	<u>2,250</u>	<u>17,538</u>	<u>15,067</u>
EBITDA	<u>26,979</u>	<u>28,129</u>	<u>109,963</u>	<u>116,705</u>
Add back:				
Stock-based compensation expense	1,043	2,942	10,781	10,928
Unrealized (gain) loss on foreign currency	286	(527)	677	(380)
Disposal of businesses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(671)</u>
Total adjustments	1,329	2,415	11,458	9,877
Adjusted EBITDA	<u>\$ 28,308</u>	<u>\$ 30,544</u>	<u>\$ 121,421</u>	<u>\$ 126,582</u>