



PROTO LABS INC.

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About Proto Labs Inc. (NYSE:PRLB)

- ❖ Proto Labs Inc. is the world's largest and fastest digital manufacturer of custom prototypes and on-demand production parts.
- ❖ Targets unique product developers and engineers who use 3D CAD in their design process.
- ❖ Accelerate product development, reduce risk, optimise supply chains.

Current Price	\$103.67	Market Cap	\$2.79B
52 Week Range	\$88.75 - \$163.03	Enterprise Value	\$3.63B
Dividend Yield	N/A	Forward P/E	31.51

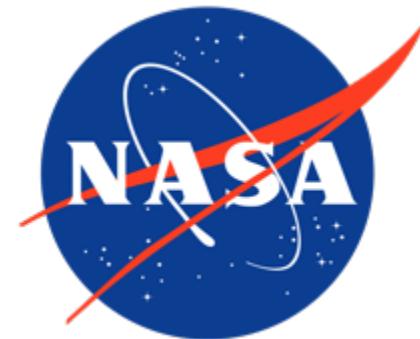


Why Do Customers Go to Proto Labs?

- ❖ Prototype components as part of product development
- ❖ Initial supply of parts for product testing/pilot production.
- ❖ Initial supply of parts to support production while high-volume production mould is being prepared.
- ❖ Meet customers' variable demand in a competitive timeframe.
- ❖ Limited release product.
- ❖ End-of-life production in a cost-effective manner.



Examples of Successful Projects



Product Lines

47.2%

Injection Moulding

34.5%

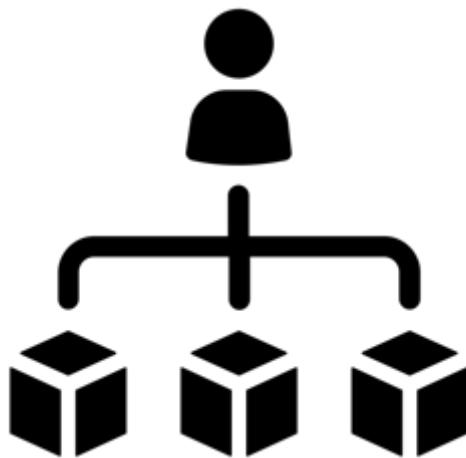
CNC Machining

12.0%

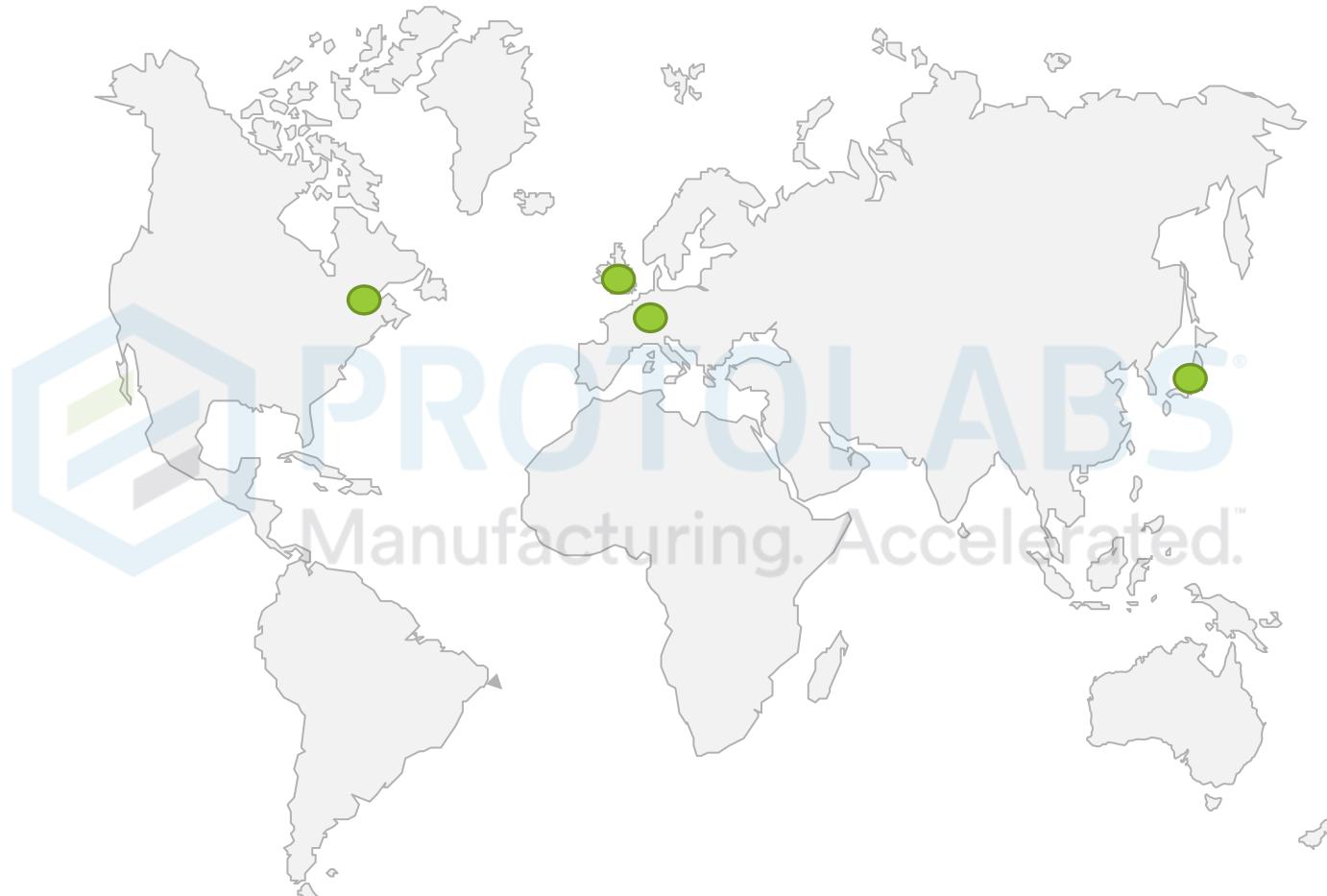
3D Printing

5.6%

Sheet Metal



Manufacturing Locations



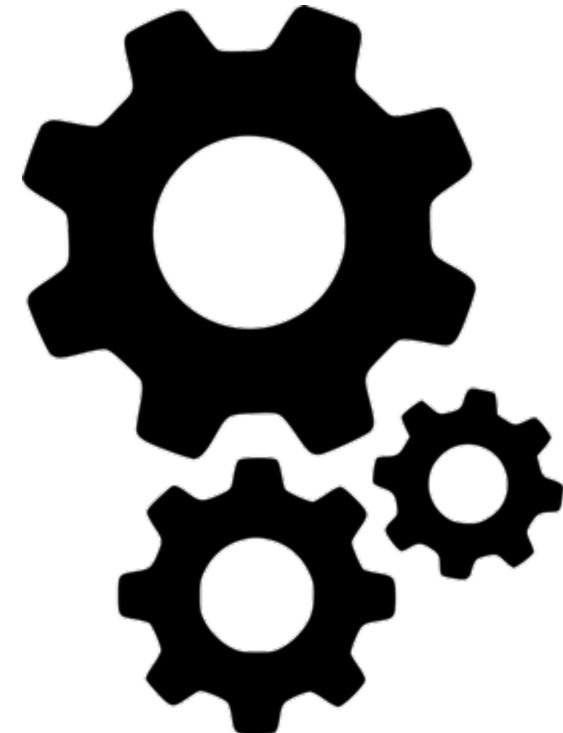
12 Locations

**+1,000 Mills,
Lathes,
Presses, 3D
Printers**

**+2,300
Employees**

Industry Drivers

- ❖ Agile approach towards product development.
- ❖ Shift towards CAD (Computer Aided Design).
- ❖ Shorter product lifecycles: continuous development & being first to market.
- ❖ Increase in demand for more customised products produced in limited quantities.



Competitive Advantages

- ❖ **Digital Model**
 - ❖ Web-based interface and proprietary software
 - ❖ Automates many processes: *design upload, manufacturability analysis, quotation, order submission, mould design, path generation.*
- ❖ **Highly scalable to process large numbers of unique part designs**
 - ❖ Automated front-end (Digital Model)
 - ❖ Automated manufacturing technology (proprietary)
 - ❖ High-mix, low-volume suitability
- ❖ **Speed in order fulfilment**
- ❖ **Pricing**



Current Strategy

- ❖ **Expand customer base ~ Over 41,000 developers as of now**
 - ❖ Target other product developers and engineers from existing customers (organisations)
 - ❖ Acquire new customers
 - ❖ Drive retention and growth using data analytics
- ❖ **Introduce new manufacturing technologies**
 - ❖ New products/improved technologies in current product offerings
 - ❖ Secondary Operations
 - ❖ Strategic Acquisitions: Fineline and Alphaform (3D Printing), and RAPID Manufacturing (Sheet metal and CNC).
 - ❖ Aim is to cross-sell and upsell.
- ❖ **Broaden the parts envelope**
 - ❖ Study the universe of un-fulfillable customer design submissions
 - ❖ Focus R&D efforts to expand range of producible parts.
 - ❖ Acquisitions (RAPID in 2017 is an example).



Risks

- ❖ **Competition**
 - ❖ Several competitors in the on-demand manufacturing space: 3D Hubs, 3D systems, Stratasys
 - ❖ Response: PRLB is differentiated with a portfolio of services, and unmatched speed: completely automated processes.
- ❖ **Need to have excess capacity**
 - ❖ Business model is reliant on having excess capacity: zero lead time & on-demand nature
 - ❖ Susceptible to demand fluctuations; huge upside in boom
 - ❖ Response: Growth of unique product developers is extremely high - 19% CAGR)
- ❖ **Integration of RAPID (acquisition) has been slow, affecting Q2 earnings negatively**
 - ❖ Response: The company has a structured plan to see out the rest of the integration
 - ❖ Restructure, train and share, invest in marketing, invest in processes (capacity, automation, quoting engine)



Financials – Income Statement

(in thousands, except share and per share amounts)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Consolidated Statements of Comprehensive Income Data					
Revenue	\$ 445,596	\$ 344,490	\$ 298,055	\$ 264,106	\$ 209,583
Cost of revenue	206,917	150,648	131,118	109,703	81,182
Gross profit	238,679	193,842	166,937	154,403	128,401
Operating expenses:					
Marketing and sales	68,533	56,856	46,131	39,188	29,144
Research and development	28,735	23,560	22,388	18,350	16,607
General and administrative	52,513	41,200	36,651	29,716	22,122
Total operating expenses	149,781	121,616	105,170	87,254	67,873
Income from operations	88,898	72,226	61,767	67,149	60,528
Other income, net	2,757	2,209	2,454	712	3
Income before income taxes	91,655	74,435	64,221	67,861	60,531
Provision for income taxes	15,067	22,657	21,514	21,347	18,896
Net income	\$ 76,588	\$ 51,778	\$ 42,707	\$ 46,514	\$ 41,635
Net income per share ⁽¹⁾					
Basic	\$ 2.84	\$ 1.94	\$ 1.62	\$ 1.79	\$ 1.62
Diluted	\$ 2.81	\$ 1.93	\$ 1.61	\$ 1.77	\$ 1.60
Weighted average shares outstanding ⁽¹⁾					
Basic	26,982,614	26,647,610	26,365,173	26,005,858	25,692,699
Diluted	27,278,816	26,845,071	26,564,639	26,320,284	26,100,320
Other comprehensive income (loss) (net of tax)					
Foreign currency translation adjustments	\$ (3,258)	\$ 5,519	\$ (5,541)	\$ (2,283)	\$ (1,838)
Comprehensive income	\$ 73,330	\$ 57,297	\$ 37,166	\$ 44,231	\$ 39,797

Financials – Balance Sheet

Proto Labs, Inc.
Consolidated Balance Sheets
 (In thousands, except share and per share amounts)

	December 31,	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 85,046	\$ 36,707
Short-term marketable securities	46,750	57,424
Accounts receivable, net of allowance for doubtful accounts of \$919 and \$757 as of December 31, 2018 and December 31, 2017, respectively	59,155	51,503
Inventory	10,087	11,271
Prepaid expenses and other current assets	8,567	6,267
Income taxes receivable	5,757	1,832
Total current assets	215,362	165,004
Property and equipment, net	228,001	166,440
Goodwill	128,752	128,504
Other intangible assets, net	19,850	19,084
Long-term marketable securities	23,579	37,034
Other long-term assets	3,441	2,672
Total assets	<u>\$ 618,985</u>	<u>\$ 518,738</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 17,411	\$ 15,876
Accrued compensation	18,130	12,100
Accrued liabilities and other	16,702	8,408
Short-term debt obligations	-	5,000
Income taxes payable	491	2,371
Total current liabilities	52,734	43,755
Long-term income taxes payable	-	2,181
Long-term deferred tax liabilities	20,162	6,966
Other long-term liabilities	4,592	4,621
Total liabilities	77,488	57,523
Shareholders' equity		
Preferred stock, \$0.001 par value, authorized 10,000,000 shares; issued and outstanding 0 shares as of December 31, 2018 and December 31, 2017, respectively	-	-
Common stock, \$0.001 par value, authorized 150,000,000 shares; issued and outstanding 26,984,747 and 26,828,651 shares as of December 31, 2018 and December 31, 2017, respectively	27	27
Additional paid-in capital	258,502	241,725
Retained earnings	291,460	224,697
Accumulated other comprehensive loss	(8,492)	(5,234)
Total shareholders' equity	541,497	461,215
Total liabilities and shareholders' equity	<u>\$ 618,985</u>	<u>\$ 518,738</u>

Revenue Breakdowns

Revenue by product line for the years ended December 31, 2018, 2017 and 2016 was as follows:

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Revenue:			
Injection Molding	\$ 210,523	\$ 194,432	\$ 175,974
CNC Machining	153,521	103,739	81,407
3D Printing	53,342	43,329	37,847
Sheet Metal	24,998	1,767	-
Other Revenue	3,212	1,223	2,827
Total revenue	\$ 445,596	\$ 344,490	\$ 298,055

Revenue by geographic region for the years ended December 31, 2018, 2017 and 2016 was as follows:

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Revenue:			
United States	\$ 350,535	\$ 263,086	\$ 223,930
Europe	80,889	70,154	63,365
Japan	14,172	11,250	10,760
Total revenue	\$ 445,596	\$ 344,490	\$ 298,055

Conclusion

- ❖ Rapidly growing market
- ❖ Positioned to become market leader: widest variety of services, brand name, superior technology
- ❖ Recommend a BUY