April 8, 2020

Sigma Labs Issues Shareholder Letter

SANTA FE, NM / ACCESSWIRE / April 8, 2020 /Sigma Labs, Inc. ("Sigma Labs" or the "Company") (NASDAQ:SGLB), a leading developer of quality assurance software for the commercial 3D printing industry, has released a letter to its shareholders from Executive Chairman Mark K. Ruport.

Dear Fellow Shareholders,

In response to numerous inquiries about how Sigma Labs is responding to today's uncertain environment, I felt that it was important to update you.

I hope you and your families are safe. I never would have imagined that I would see the entire country, the entire world for that matter, virtually shut down. I'd like to extend the best wishes from everyone at Sigma to all of you, especially those that have been infected with COVID-19. May your journey to full recovery be swift.

Here are the facts as we see them at Sigma:

We are confident that we are doing everything in our power to ensure the safety of each of the people who work for Sigma Labs. As a software company, we are fortunate that both our work and culture before COVID-19 has allowed us to adapt seamlessly to work remotely. As you know, a great deal of our business is in Europe and as such, we have been working day-to-day with our customer's business teams and collaborating via tools, such as webcasting, for several years. As a result, we are less impacted than most companies and our work continues at a near normal pace.

An important change that we have made is to prioritize weekly company-wide conference calls to ensure that we maintain regular, frequent contact with our employees. Personally speaking, I had mixed feelings as I prepared for our call last week. On one hand, the world is deep in crisis, and we as a company need to take measures to ensure we are prepared to operate through this global shutdown. On the other hand, I had to balance these COVID-19 issues with my belief that when we get through this, our opportunity will be bigger than I had ever imagined.

In the short-term, Sigma, like nearly all companies, will see an impact. Companies will slow down their purchasing processes and evaluate the effect of the economic slow down on their businesses. We believe that this will have minimal long-term implications to our business plan.

One of the things that has amazed me over the past few months is the level of interaction between our Sigma team and our customers. We seem to be carrying out evaluations and installations as if there wasn't a crisis. In many ways, we are becoming more efficient and more innovative in responding to customer issues. For example, in the past, we were likely

to just react and put an engineer on a plane and spend a few days at a customer's site to get an hour or two on the printer to address an issue. As you can imagine, this was expensive and very time-consuming. Today, we are experimenting with users wearing cameras, supplemented with augmented reality, to be our engineer's eyes and instructing our customer on how to be our hands as we address a critical situation together. The result is a more educated and competent user, and a much more efficient Sigma team.

In another example, as we were working with one very large and sophisticated customer a few weeks ago, our primary user told us that even though he was working from home, he was using PrintRite3D® more now than ever. He was able to remotely tie into the system and monitor a build in-process back at his plant, and when required, due to a system notification, intervene with the on-site operator. PrintRite3D® had become his eyes on the process. We had built this functionality into the product in order for our engineers to remotely access a system for upgrades and support issues never imagining that our users might also one day be forced to monitor production systems remotely. As the result of our announcement at the end of March of PrintRite3D® Production Series with its new Production Dashboard, process engineers may just want to stay home!

At the macro level, we have always felt that 3D printing has the potential to return a percentage of manufacturing to the United States due to the fact that there is significantly less labor cost and material loss compared to traditional manufacturing. The recent crisis has highlighted, however, the fact that many supply chains are too long and complex and, as such, are vulnerable to issues in times of uncertainty. Many predict that 3D metal printing, which was already forecasted to grow substantially over the next few years, will accelerate as companies rethink their supply chain strategies and consider the proximity of the manufacturing site to where the part might be needed. The analog to this is what Amazon and Walmart have done regarding the importance of localized product warehousing, distribution and staging capabilities closer to customers. Threats of COVID-19, trade wars, culture barriers, and political alienation will force manufacturers to consider strategies that increase their agility and shorten the cycle-time from initial demand, to manufacture and ultimately to delivery.

So, you can see why I had to balance the gravity and uncertainty of the economic slowdown caused by COVID-19 with my increased optimism that what we are doing as a company for our industry is more important and relevant than ever before.

We are seeing the convergence of the next generation of manufacturing, the need for manufacturers to rethink their supply chain strategies, and the commercialization of our technology coming together and creating the perfect opportunity for Sigma.

Given the above context, I attached as an optional read, Exhibit 1, our list of our most important accomplishments over the past year that have put us in this exciting position.

Recent Financings

Over the past twelve months, we have been required and have successfully completed several financings in order to continue to fund our development efforts and go to market initiatives. The capital will continue to benefit our "speed to market" which in 2019, has enabled us to put PrintRite3D Version 5 into test and evaluation and in 2020, supports a focus on end user orders and OEM licenses. The cost of capital raises to fuel this strategy

has been slowly increasing and has inflicted dilution over the course of the period. We believe that our efforts will be rewarded with market acceptance, end user sales and OEM licenses, and in turn, that our shareholders will be rewarded as we endeavor to earn our way to self-financing with sales and cash flow.

Upcoming Milestones

In past presentations and quarterly conference calls, I have discussed our strategy to become the industry's de facto standard for in-process quality assurance. We continue to execute on our strategy by attacking all four major customer segments, (global manufacturer end users, 3D printer OEMs, Additive Manufacturing software OEMs, and Universities/R&D organizations) and collaborating with worldwide standards organizations. As a small company, it's imperative for us to enter into partnerships that provide us leverage and dramatically broadens our reach. These relationships not only create an additional barrier to entry for potential competitors, but more importantly, should generate multiple repeatable and predictable revenue streams that produce increasing revenue quarter-over-quarter for the foreseeable future. Following are the milestones that our entire team is driving to achieve

1. Continued acquisition of PrintRite3dD® by influential universities and R&D organizations worldwide, educating the next generation of manufacturing leaders and providing guidance to their constituents looking for AM (additive manufacturing) best practices.

2. Implement a minimum of two OEM contracts with 3D printing hardware manufacturers to integrate our technology.

a. Each contract should be multi-year and generate multiple million in revenues for Sigma. The timing and speed to revenue of such contracts is always difficult to predict, however, the validation and increased distribution that accompanies these types of relationships are tremendously important and a key component of our growth strategy.
b. Our end goal is to evolve our OEM contracts to where Sigma is providing software only and each machine sold has our technology embedded as a standard feature. This would dramatically increase our footprint as well as our profitability.

3. Evolve our relationships with AM software companies to integrate our products to streamline and optimize the AM digital thread from simulation through closed-loop control.

a. Each relationship is geared towards improving the overall all AM process, while at the same time leveraging our strategic partners' market presence and customer base to expand our footprint and dramatically increase our sales initiatives.

4. Multi-unit sales or PrintRite3D Production Series by end users that have validated our technology through the RTE program, or through our current contract which allows for a 90-day evaluation.

a. We expect to begin to see these orders as early as Q2, and then more consistently as we continue to execute on our strategy.

5. Increasing quarter-over-quarter revenue driven by multiple, independent streams, primarily from OEMS, End Users, Resellers and others. Although the uncertainties of today's economy can make it difficult to predict the timing and velocity of each revenue stream, we expect to see increasing revenue quarter-over-quarter as the natural outcome of executing on our strategy, producing more predictable and profitable revenue streams.

In closing, I hope that you can see the steps that we took in 2019, combined with our expected 2020 milestones, provide a clear path from the launch of PrintRite3D Version 5.0 in May 2019 to achieving our stated mission of becoming the industry's de facto standard for in-process quality assurance.

I would like to thank everyone for your continued support of Sigma Labs and look forward to updating you on the progress we are making towards achieving our milestones.

Stay safe and stay tuned,

Mark K. Ruport

Executive Chairman

Exhibit 1

Accomplishments

- **Launched and successfully executed our Rapid Test and Evaluation**(RTE) program with the following companies and results:
    - **Airbus** -successful RTE1 and starting RTE2 to be completed in 2020. The objective is to help standardize quality assurance throughout their supply chain.
    - **Global Energy Technology Company**- successful RTE1 and currently completing RTE2 with the objective of receiving a multi-system order for PrintRite3D® Production Series.
    - **Materialise** - successful RTE 1 resulting in a recently announced Joint Selling Agreement to pursue the 2,500 machines in the retro fit market, providing what we believe could be a multi-million-dollar opportunity over the next few years.
    - **Major International Machine Manufacturer**- successful RTE1 and RTE2 and currently in business discussion to distribute PrintRite3D.
    - **Major Japanese Tool Manufacturer** - have recently started RTE1 with very promising results to date. The objective is to sign an OEM agreement.

- **Granted several patents to protect our IP**, resulting in a significant barrier to entry for competitive solutions.
    - U.S. Application No.: 16/234,333 Titled: Systems and Methods for Additive Manufacturing Operations; and
    - U.S. Application No.: 16/282,004 Titled: Systems and Methods for Measuring Radiated Thermal Energy During an Additive Manufacturing Operation.

These most recent patents were granted in March 2020. The expansion of Sigma Labs'

already-robust intellectual property portfolio - now composed of 11 issued and 24 pending patents, is a significant asset for such a young company in both protecting and enhancing the value of a technology function that appears to many to be essential to the growth of the additive manufacturing (AM) metal industry.

- **Announced PrintRite3D Production Series** which is a very significant advancement in our technology and comes at a time when our customers are moving into serial production and the world is looking at using 3D printing to address supply chain issues. Our Production Series features a real-time Production Dashboard and the following significant features:
  - **Automated In-process Quality Metric (IPQM®) based alerts**, which allow production managers to use custom metric thresholding for part and process quality decision making. In real time, the process engineer can know that the process was in control and the production manager can know the part yield predictive performance, ensuring maximum efficiency of the manufacturing process.
  - **IPQM®** trained with machine learning algorithms using micro CT-based on standard additive defects, can identify and classify known porosity modes such as, Lack of Fusion, Key Hole, Spherical Porosity and Foreign Inclusions. The process engineer can begin to qualify and certify the IPQM^{p} as a proxy for micro CT, thereby reducing the post process measurement burden, and in real time monitor the predictive defect modes.
  - **High resolution IPQM® "medical grade" forensic analysis in 3D** for process engineering part anomaly investigation, provides a level of granularity during the build process that until now was unattainable. Using the Production Dashboard, the process engineer can begin continuous process improvement by virtue of forming a deeper understanding of the nature of 3D anomalous IPQM signature morphologies.
  - **PrintRite3D® Production Series can be utilized** remotely by production managers and operators to monitor, analyze and intervene in real time production as required from any location around the globe.

- **Continued to sell PrintRite3D to universities and Research and Development Organizations around the world**
  - Northwestern University - Northwestern Initiative on Manufacturing Science and Innovation (NIMSI) and Center for Hierarchical Materials Design (CHiMaD),
  - Mississippi State University - Mississippi State University Center for Advanced Vehicular Systems (CAVS)
  - Fraunhofer Research Institution for Additive Manufacturing Technologies (IAPT), an additive manufacturing research innovator and early adopter of PrintRite3D®, to upgrade its current version PrintRite3D system to version 5.1
  - VTT Technical Research Centre of Finland Ltd to install its proprietary PrintRite3D Real-Time Melt Pool Analytics software platform at the VTT 3D metal printing facility.

- **Received 3rd party validation of our technology with influential organizations**
  - Sigma Labs teamed with **ANSYS** to compare data collected by Sigma Labs' coaxial thermal sensor response with ANSYS modeling as methods of monitoring additive manufacturing quality. Validated thermal models in combination with

thermal measurement can offer valuable insight to part design and manufacturing. ANSYS presented their paper at Additive World 2020.
- **Collaborated on a research study sponsored by the Defense Advanced Research Project Agency (DARPA)** Open Manufacturing Program concluding 'PrintRite3D® brand, has been shown to ensure process consistency and product quality in metal additive manufacturing'.

About Sigma Labs

Sigma Labs, Inc. (NASDAQ: SGLB) is a leading provider of quality assurance software to the commercial 3D printing industry under the PrintRite3D® brand. Founded in 2010, Sigma is a software company that specializes in the development and commercialization of real-time computer aided inspection (CAI) solutions known as PrintRite3D® for 3D advanced manufacturing technologies. Sigma Labs' advanced computer-aided software product revolutionizes commercial additive manufacturing, enabling non-destructive quality assurance mid-production, uniquely allowing errors to be corrected in real-time. For more information, please visit www.sigmalabsinc.com.

Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Statements preceded by, followed by or that otherwise include the words "believe," "anticipate," "estimate," "expect," "intend," "plan," "project," "prospects," "outlook," and similar words or expressions, or future or conditional verbs such as "will," "should," "would," "may," and "could" are generally forward-looking in nature and not historical facts. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any anticipated results, performance or achievements. The Company disclaims any intention to, and undertakes no obligation to, revise any forward-looking statements, whether as a result of new information, a future event, or otherwise. For additional risks and uncertainties that could impact the Company's forward-looking statements, please see the Company's Annual Report on Form 10-K (including but not limited to the discussion under "Risk Factors" therein) filed with the SEC on March 24, 2020 and which may be viewed at www.sec.gov.

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