



## PTC Announces Fiscal Third Quarter 2020 Results

July 29, 2020

### **Solid Q3'20 ARR, Revenue, Operating Margin and EPS Performance; Tightens FY'20 Guidance Range**

BOSTON--(BUSINESS WIRE)--Jul. 29, 2020-- PTC (NASDAQ: PTC) today reported financial results for its fiscal third quarter ended June 27, 2020.

"We delivered solid third quarter performance despite the challenging macro environment, reflecting strong execution by our global team, the mission-critical nature of our broad technology portfolio, and the strength of our subscription model. We continue to support our customers with increasingly relevant and strategic solutions that enable global team collaboration, remote asset management, remote collaboration and training of front-line workers, and seamless availability through our SaaS-based technologies," said James Heppelmann, President and CEO, PTC.

"While the current macro environment headwinds appear likely to persist in the coming quarters, we believe the disruptive nature of this crisis creates a unique opportunity to deepen our customer relationships and drive further innovation across our product portfolio, and that we will emerge even better positioned when the economy recovers," concluded Heppelmann.

### **Third quarter 2020 highlights<sup>1</sup>**

Key operating and financial highlights are set forth below. For additional details, please refer to the prepared remarks and financial data tables that have been posted to the Investor Relations section of our website at [investor.ptc.com](http://investor.ptc.com).

- **ARR** was \$1.21 billion. Growth of 9%, or 10% in constant currency, compared to Q3'19 reflects solid performance in our Core and Growth businesses, and in our global channel.
- **Revenue** was \$352 million in Q3'20. Growth of 19% compared to Q3'19 was driven by strength across our Core and Growth businesses, as well as the impact of ASC 606 and related business policy changes.
- **Cash** from operations was \$105 million in Q3'20, compared to \$68 million in Q3'19. Free cash flow was \$99 million, compared to \$59 million in Q3'19. Cash flow from operations and free cash flow included \$13 million and \$3 million in restructuring and other related payments in Q3'20 and Q3'19 respectively.
- **Operating margin** was 18% in Q3'20 compared to 3% in Q3'19; non-GAAP operating margin was 29%, compared to 13% in Q3'19.
- **Total cash, cash equivalents, and marketable securities** as of the end of Q3'20 was \$435 million; total gross borrowings was \$1.1 billion.

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<sup>1</sup> We include operating and non-GAAP financial measures in our operational highlights. We revised the definition of ARR on September 5, 2019. The definitions of these items and reconciliations of Non-GAAP financial measures to comparable GAAP measures are included below and in the reconciliation tables at the end of this press release.

### **Fiscal 2020 Outlook**

"Given the durable nature of our business and continued solid execution, we remain committed to delivering solid results for the remainder of FY'20 while navigating the current backdrop of macroeconomic uncertainty," said Kristian Talvitie, EVP and CFO, PTC.

### **Fiscal 2020 Guidance**

Our fiscal 2020 financial outlook includes the following assumptions:

- Impact of weak macroeconomic conditions related to COVID-19 crisis.
- New ACV bookings decline ~25% YoY at the midpoint of guidance in the back half of the year, compared to our previous guidance of a ~30% decline YoY.
- Churn of approximately 8%, consistent with our previous guidance.
- Revenue growth slows quarter over quarter in Q4'20, to the mid-single digits, due primarily to the impact of ASC 606 and related business policy changes.
- Operating expense growth in the lower single-digits YoY, consistent with our previous guidance reflecting continued cost discipline related to headcount additions, and lower variable compensation, travel, and marketing expenses.
- GAAP tax rate is expected to be 20%, Non-GAAP tax rate is expected to be 19%.

<i>In millions except per share amounts</i>	Previous Guidance	Revised Guidance	YoY
ARR	\$1,220 - \$1,255	\$1,235 - \$1,255	11% - 12%
Cash from Operations	~\$222	~\$232	~(19)%
Free cash flow <sup>(1)</sup>	~\$200	~\$210	~(5)%
Revenue	\$1,400 - \$1,430	\$1,415 - \$1,430	13% - 14%
GAAP Operating Margin	13% - 14%	13% - 14%	800 - 900 bps
Non-GAAP Operating Margin <sup>(2)</sup>	27% - 28%	27% - 28%	700 - 800 bps
GAAP EPS	\$0.70 - \$0.84	\$0.73 - \$0.79	412% - 440%
Non-GAAP EPS <sup>(2)</sup>	\$2.20 - \$2.35	\$2.28 - \$2.35	39% - 43%

(1) Cash from operations and free cash flow include ~\$65 million of interest payments, ~\$45 million of restructuring and ~\$10 million of acquisition-related payments; free cash flow includes capital expenditures of ~\$22 million.

(2) The FY'20 non-GAAP guidance excludes the estimated items outlined in the table below, as well as any tax effects and discrete tax items (which are not known nor reflected).

<i>In millions</i>	FY'20
Acquisition-related charges	\$8
Restructuring and other charges	\$32
Intangible asset amortization expense	\$56
Stock-based compensation expense	\$105
Write-off of debt issuance costs associated with extinguished debt	\$3
Debt early redemption premium	\$15
<b>Total Estimated Pre-Tax GAAP adjustments</b>	<b>\$219</b>

#### PTC's Fiscal Third Quarter 2020 Results Conference Call, Prepared Remarks and Data Tables

Prepared remarks and financial data tables have been posted to the Investor Relations section of our website at [ptc.com](http://ptc.com). The Company will host a conference call to discuss results at 5:00 pm ET on Wednesday, July 29, 2020.

To access the live webcast, we recommend you visit PTC's Investor Relations website at [investor.ptc.com](http://investor.ptc.com) 15 minutes before the scheduled start time to download any necessary audio or plug-in software.

To participate in the live conference call, dial 866-987-6881 or 270-215-9571 and provide the conference ID: 5586726. The call will be recorded, and replay will be available via webcast on [PTC's Investor Relations website](http://PTC's Investor Relations website).

**PTC Inc.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 27,	June 29,	June 27,	June 29,
	2020	2019	2020	2019
Revenue:				
Recurring revenue	\$ 310,621	\$ 244,192	\$ 931,852	\$ 734,815
Perpetual license	6,773	9,213	23,988	61,354
Professional services	34,327	42,081	111,594	124,457
Total revenue <sup>(1)</sup>	351,721	295,486	1,067,434	920,626
Cost of revenue <sup>(2)</sup>	79,224	82,705	249,656	239,961
Gross margin	272,497	212,781	817,778	680,665
Operating expenses:				
Sales and marketing <sup>(2)</sup>	104,594	108,202	319,636	316,142
Research and development <sup>(2)</sup>	61,429	60,590	186,691	182,774
General and administrative <sup>(2)</sup>	35,709	28,773	113,895	102,008
Amortization of acquired intangible assets	7,302	5,920	21,367	17,786
Restructuring and other charges, net	62	(9 )	32,338	45,464
Total operating expenses	209,096	203,476	673,927	664,174
Operating income	63,401	9,305	143,851	16,491
Other expense, net	(18,885 )	(9,790 )	(64,526 )	(29,974 )
Income (loss) before income taxes	44,516	(485 )	79,325	(13,483 )
Provision for income taxes	9,838	14,273	2,036	23,803
Net income (loss)	\$ 34,678	\$ (14,758 )	\$ 77,289	\$ (37,286 )
Earnings (loss) per share:				
Basic	\$ 0.30	\$ (0.13 )	\$ 0.67	\$ (0.32 )
Weighted average shares outstanding	115,759	116,133	115,521	117,636

Diluted	\$ 0.30	\$ (0.13	) \$ 0.67	\$ (0.32	)
Weighted average shares outstanding	116,229	116,133	115,981	117,636	

(1) See supplemental financial data for revenue by license, support, and professional services.

(2) See supplemental financial data for additional information about stock-based compensation.

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**SUPPLEMENTAL FINANCIAL DATA FOR REVENUE AND STOCK-BASED COMPENSATION**

(in thousands, except per share data)

Revenue by license, support and services is as follows:

	Three Months Ended		Nine Months Ended	
	June 27,	June 29,	June 27,	June 29,
	2020	2019	2020	2019
License revenue <sup>(1)</sup>	\$ 118,248	\$ 62,918	\$ 369,285	\$ 230,116
Support and cloud services revenue	199,146	190,487	586,555	566,053
Professional services revenue	34,327	42,081	111,594	124,457
Total revenue	\$ 351,721	\$ 295,486	\$ 1,067,434	\$ 920,626

(1) License revenue includes the portion of subscription revenue allocated to license.

The amounts in the income statement include stock-based compensation as follows:

	Three Months Ended		Nine Months Ended	
	June 27,	June 29,	June 27,	June 29,
	2020	2019	2020	2019
Cost of revenue	\$ 3,165	\$ 2,564	\$ 9,208	\$ 8,787
Sales and marketing	9,407	5,870	24,005	25,114
Research and development	5,583	4,761	17,280	14,851
General and administrative	7,030	2,039	23,112	22,856
Total stock-based compensation	\$ 25,185	\$ 15,234	\$ 73,605	\$ 71,608

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**NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS (UNAUDITED)**

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 27,	June 29,	June 27,	June 29,
	2020	2019	2020	2019

GAAP revenue	\$ 351,721	\$ 295,486	\$ 1,067,434	\$ 920,626
Fair value adjustment of acquired deferred revenue	-	124	-	595
Non-GAAP revenue	\$ 351,721	\$ 295,610	\$ 1,067,434	\$ 921,221
GAAP gross margin	\$ 272,497	\$ 212,781	\$ 817,778	\$ 680,665
Fair value adjustment of acquired deferred revenue	-	124	-	595
Fair value adjustment to deferred services cost	-	(58 )	-	(220 )
Stock-based compensation	3,165	2,564	9,208	8,787
Amortization of acquired intangible assets included in cost of revenue	6,857	6,873	20,535	20,432
Non-GAAP gross margin	\$ 282,519	\$ 222,284	\$ 847,521	\$ 710,259
GAAP operating income	\$ 63,401	\$ 9,305	\$ 143,851	\$ 16,491
Fair value adjustment of acquired deferred revenue	-	124	-	595
Fair value adjustment to deferred services cost	-	(58 )	-	(220 )
Stock-based compensation	25,185	15,234	73,605	71,608
Amortization of acquired intangible assets included in cost of revenue	6,857	6,873	20,535	20,432
Amortization of acquired intangible assets	7,302	5,920	21,367	17,786
Acquisition-related and other transactional charges included in general and administrative costs	674	424	8,064	1,215
Restructuring and other charges, net	62	(9 )	32,338	45,464
Non-GAAP operating income <sup>(1)</sup>	\$ 103,481	\$ 37,813	\$ 299,760	\$ 173,371
GAAP net income (loss)	\$ 34,678	\$ (14,758 )	\$ 77,289	\$ (37,286 )
Fair value adjustment of acquired deferred revenue	-	124	-	595
Fair value adjustment to deferred services cost	-	(58 )	-	(220 )
Stock-based compensation	25,185	15,234	73,605	71,608
Amortization of acquired intangible assets included in cost of revenue	6,857	6,873	20,535	20,432
Amortization of acquired intangible assets	7,302	5,920	21,367	17,786
Acquisition-related and other transactional charges included in general and administrative costs	674	424	8,064	1,215

Restructuring and other charges, net	62	(9	)	32,338	45,464	
Non-operating charges <sup>(3)</sup>	3,451	-		18,451	-	
Income tax adjustments <sup>(2)</sup>	(6,167	)	13,121	(44,988	)	403
Non-GAAP net income	\$ 72,042	\$ 26,871		\$ 206,661	\$ 119,997	
GAAP diluted earnings (loss) per share	\$ 0.30	\$ (0.13	)	\$ 0.67	\$ (0.32	)
Fair value adjustment of acquired deferred revenue	-	-		-	0.01	
Stock-based compensation	0.22	0.13		0.63	0.60	
Amortization of acquired intangibles	0.12	0.11		0.36	0.32	
Acquisition-related and other transactional charges	0.01	-		0.07	0.01	
Restructuring and other charges, net	-	-		0.28	0.38	
Non-operating charges	0.03	-		0.16	-	
Income tax adjustments	(0.05	)	0.11	(0.39	)	-
Non-GAAP diluted earnings per share	\$ 0.62	\$ 0.23		\$ 1.78	\$ 1.01	
GAAP diluted weighted average shares outstanding	116,229	116,133		115,981	117,636	
Dilutive effect of stock-based compensation plans	-	886		-	1,028	
Non-GAAP diluted weighted average shares outstanding	116,229	117,019		115,981	118,664	

(1) Operating margin impact of non-GAAP adjustments:

	Three Months Ended		Nine Months Ended					
	June 27,	June 29,	June 27,	June 29,				
	2020	2019	2020	2019				
GAAP operating margin	18.0	% 3.1	% 13.5	% 1.8				
Fair value adjustment of acquired deferred revenue	0.0	% 0.0	% 0.0	% 0.1				
Fair value adjustment to deferred services cost	0.0	% 0.0	% 0.0	% 0.0				
Stock-based compensation	7.2	% 5.2	% 6.9	% 7.8				
Amortization of acquired intangibles	4.0	% 4.3	% 3.9	% 4.2				
Acquisition-related and other transactional charges	0.2	% 0.1	% 0.8	% 0.1				
Restructuring and other charges, net	0.0	% 0.0	% 3.0	% 4.9				

Non-GAAP operating margin	29.4	%	12.8	%	28.1	%	18.8	%
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We have recorded a full valuation allowance against our U.S. net deferred tax assets. As we are profitable on a non-GAAP basis, the 2020 and (2) 2019 non-GAAP tax provisions are being calculated assuming there is no valuation allowance. Income tax adjustments reflect the tax effects of non-GAAP adjustments which are calculated by applying the applicable tax rate by jurisdiction to the non-GAAP adjustments listed above.

(3) We recognized \$15 million of expense in the nine months ended June 27, 2020 related to penalties for the early redemption of the 6.000% Senior Notes due in 2024 and wrote off approximately \$3 million of related debt issuance costs in the third quarter of 2020.

**PTC Inc.**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	June 27, 2020	September 30, 2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 377,428	\$ 269,579
Marketable securities	57,788	57,435
Accounts receivable, net	319,244	372,743
Property and equipment, net	101,617	105,531
Goodwill and acquired intangible assets, net	1,852,377	1,408,128
Lease assets, net <sup>(1)</sup>	151,044	-
Other assets	516,671	451,172
Total assets	\$ 3,376,169	\$ 2,664,588
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deferred revenue	\$ 404,682	\$ 396,632
Debt, net of deferred issuance costs	1,124,702	669,134
Lease obligations <sup>(1)</sup>	216,079	-
Other liabilities	303,139	396,824
Stockholders' equity	1,327,567	1,201,998
Total liabilities and stockholders' equity	\$ 3,376,169	\$ 2,664,588

(1) In the first quarter of 2020, we adopted Accounting Standards Update 2016-02, Leases (Topic 842).

**PTC Inc.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Cash flows from operating activities:				
Net income (loss)	\$ 34,678	\$ (14,758 )	\$ 77,289	\$ (37,286 )
Stock-based compensation	25,185	15,234	73,605	71,608
Depreciation and amortization	20,484	19,076	60,677	58,634
Amortization of right-of-use lease assets	10,324	-	29,467	-
Accounts receivable	34,475	33,753	54,662	88,254
Accounts payable and accruals	3,179	8,550	5,133	(19,318 )
Deferred revenue	(14,036 )	(11,622 )	3,357	25,325
Income taxes	(630 )	2,900	(44,445 )	(12,777 )
Other	(9,154 )	14,452	(59,911 )	55,489
Net cash provided by operating activities	104,505	67,585	199,834	229,929
Capital expenditures	(5,169 )	(8,311 )	(15,412 )	(59,579 )
Acquisition of businesses, net of cash acquired <sup>(1)</sup>	-	(17,284 )	(468,520 )	(86,737 )
Purchase of intangible assets	(11,050 )	-	(11,050 )	-
Borrowings (payments) on debt, net	(510,125 )	(40,000 )	464,875	55,000
Net proceeds associated with issuance of common stock	-	-	8,980	4,158
Repurchases of common stock	-	(25,001 )	-	(89,995 )
Payments of withholding taxes in connection with vesting of stock-based awards	(9,661 )	(9,700 )	(33,232 )	(44,191 )
Purchase of investment	-	-	-	(7,500 )
Debt issuance costs	(817 )	-	(17,083 )	-
Debt early redemption premium	(15,000 )	-	(15,000 )	-
Other financing & investing activities	(4,044 )	6,355	(2,024 )	4,661
Foreign exchange impact on cash	1,613	(94 )	(4,127 )	2,143



Net change in cash, cash equivalents, and restricted cash	(449,748 )	(26,450 )	107,241	7,889
Cash, cash equivalents, and restricted cash, beginning of period	827,678	295,432	270,689	261,093
Cash, cash equivalents, and restricted cash, end of period	\$ 377,930	\$ 268,982	\$ 377,930	\$ 268,982

	Three Months Ended		Nine Months Ended	
	June 27,	June 29,	June 27,	June 29,
	2020	2019	2020	2019
Cash provided by operating activities	104,505	67,585	199,834	229,929
Capital expenditures	(5,169 )	(8,311 )	(15,412 )	(59,579 )
Free cash flow <sup>(2)</sup>	99,336	59,274	184,422	170,350

(1) In the first quarter of 2020 and the first quarter of 2019, we acquired Onshape for \$469 million, net of cash acquired and Frustum for \$70 million, net of cash acquired, respectively.

Free cash flow includes \$13.4 million and \$34.7 million of restructuring and other related payments in the three and nine months ended June 27,

(2) 2020, respectively, compared with \$3.5 million and \$21.4 million in the three and nine months ended June 29, 2019. Free cash flow includes \$0.2 million and \$8.8 million of acquisition-related payments for the three and nine months ended June 27, 2020, respectively.

## Important Disclosures

### Important Information About Our Non-GAAP Financial Measures

PTC provides non-GAAP supplemental financial information to its financial results. We use these non-GAAP financial measures, and we believe that they assist our investors, to make period-to-period comparisons of our operational performance because they provide a view of our operating results without items that are not, in our view, indicative of our operating results. These, non-GAAP financial measures should not be construed as an alternative to GAAP results as the items excluded from the non-GAAP financial measures often have a material impact on our financial results and such items often recur. Management uses, and investors should consider, non-GAAP financial measures in conjunction with our GAAP results.

Non-GAAP revenue, non-GAAP operating expense, non-GAAP operating margin, non-GAAP gross profit, non-GAAP gross margin, non-GAAP net income and non-GAAP EPS exclude the effect of the following items: fair value of acquired deferred revenue, fair value adjustment to deferred services cost, stock-based compensation, amortization of acquired intangible assets, acquisition-related and other transactional charges included in general and administrative costs, restructuring and other charges, debt early redemption premium and write-off of issuance costs associated with the extinguished debt and income tax adjustments. We exclude the debt early redemption premium because, although paid in cash in May 2020, it was not modelled in our guidance for the year; excluding it enables investors to view our results in the context of our guidance. Additional information about the items we exclude from our non-GAAP financial measures and the reasons we exclude them can be found in "Non-GAAP Financial Measures" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

**Free Cash Flow** - PTC also provides information on "free cash flow" to enable investors to assess our ability to generate cash without incurring additional external financings and to evaluate our performance against our announced long-term goal of returning approximately 50% of our free cash flow to shareholders via stock repurchases. As a reminder, we suspended the share repurchase program for FY'20. Free cash flow is net cash provided by (used in) operating activities less capital expenditures. Free cash flow is not a measure of cash available for discretionary expenditures.

**Constant Currency Metric** - We present CC information for revenue, EPS, and ARR to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency rate fluctuations. To present CC revenue, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars using the foreign exchange rate as of September 30, 2019, excluding the effect of any hedging, rather than the actual exchange rates in effect during that period.

### Operating Measure

**ARR** - To help investors understand and assess the performance of our business as an on-premise subscription company we provide an ARR operating measure. On September 5, 2019, we revised the ARR definition. ARR represents the annualized value of our portfolio of renewable customer arrangements as of the end of the reporting period, including subscription software, cloud, and support contracts. ARR includes IOT and AR orders placed under our Strategic Alliance Agreement with Rockwell Automation and may include orders placed to satisfy the contractual quarterly minimum ACV commitments. We believe ARR is a valuable operating metric to measure the health of a subscription business because it captures expected subscription and support cash generation from new customers, existing customer renewals and expansions and includes the impact of churn (gross churn net of pricing). Because this measure represents the annual contract value of renewable customer contracts as of the end of a reporting period, ARR does not represent revenue or billings for any particular period or remaining revenue that will be recognized in future periods.

## Forward-Looking Statements

Statements in this document that are not historic facts, including statements about our future financial and growth expectations and targets, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected. These risks include: the COVID-19 pandemic impact on the global macroeconomic environment and our business could be more severe and prolonged than we expect; customers may continue to delay or reduce purchases of new software, to reduce the number of subscriptions they carry, or delay payments to us due to the COVID-19 pandemic, all of which would adversely affect ARR and our financial results, including cash flow; the macroeconomic and/or global manufacturing climates may deteriorate further due to, among other factors, the geopolitical environment, including the focus on technology transactions with non-U.S. entities and potential expanded prohibitions, and ongoing trade tensions and tariffs; our businesses, including our Internet of Things (IoT), Augmented Reality and Onshape businesses, may not expand and/or generate the revenue we expect if customers are slower to adopt those technologies than we expect or adopt competing technologies; orders associated with minimum purchase commitments under our Strategic Alliance Agreement with Rockwell Automation may not result in subscription contracts sold through to end-user customers, which could cause the ARR associated with those orders to churn in the future; our strategic initiatives and investments may not generate the revenue we expect; we may be unable to expand our partner ecosystem as we expect and our partners may not generate the revenue we expect; we may be unable to generate sufficient operating cash flow to repay our outstanding debt when or as we expect, or to return 50% of free cash flow to shareholders under our long-term capital allocation policy, and other uses of cash or our credit facility limits or other matters could preclude such repayments or share repurchases; we may be unable to expand our partner ecosystem as we expect; and our partners may not generate the revenue we expect. In addition, our assumptions concerning our future GAAP and non-GAAP effective income tax rates are based on estimates and other factors that could change, including the geographic mix of our revenue, expenses and profits. Other risks and uncertainties that could cause actual results to differ materially from those projected are detailed from time to time in reports we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

## About PTC (NASDAQ: PTC)

PTC unleashes industrial innovation with award-winning, market-proven solutions that enable companies to differentiate their products and services, improve operational excellence, and increase workforce productivity. With PTC, and its partner ecosystem, manufacturers can capitalize on the promise of today's new technology to drive digital transformation.

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