



## PTC Announces Third Quarter Fiscal Year 2018 Results

### *Revenue at High End of Guidance and EPS Above Guidance*

NEEDHAM, MA, July 18, 2018 - [PTC](#) (NASDAQ: PTC) today reported financial results for its fiscal third quarter ended June 30, 2018.

- Third quarter total revenue was \$315 million
- Third quarter GAAP net income was \$17 million or \$0.14 per diluted share; non-GAAP net income was \$42 million or \$0.36 per diluted share
- Third quarter license and subscription bookings were \$113 million and subscription mix was 78%
- Total deferred revenue, billed and unbilled, was \$1.21 billion, an increase of 33% from the same period last year
- Third quarter subscription Annualized Recurring Revenue (ARR) was \$509 million, an increase of \$207 million or 69% from the same period last year

“Our third quarter results continued the solid performance we have been driving across our product portfolio,” said James Heppelmann, President and CEO, PTC. “Despite currency headwinds in the quarter, recurring software revenue grew 15% year over year, reflecting the strength of our subscription model, and new bookings were strong.”

Heppelmann added, “Through the first three quarters of the fiscal year, CAD bookings grew double-digits, far outpacing market growth, PLM bookings grew above-market, ThingWorx continued to gain significant traction across a broad set of vertical markets, and interest in our augmented reality (AR) solutions accelerated.”

Additional third quarter operating and financial highlights are set forth below. Information about our bookings and other reporting measures (as updated) is provided beginning on page four. 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).

- Q3'18 license and subscription bookings were \$113 million, up 26% year over year. On a year-to-date basis, bookings were \$316 million, up 15% year over year.
- Q3'18 software revenue was \$274 million, an increase of 10% year over year, despite a 1,400 basis point increase in the subscription mix compared to the same period last year.
- Approximately 91% of third quarter software revenue came from recurring revenue streams, up from 87% in the same period last year.
- Annualized Recurring Revenue (ARR) was \$994 million, an increase of 15% year over year and the sixth consecutive quarter of double-digit year-over-year growth.
- Total deferred revenue – billed and unbilled - increased \$301 million or 33% year-over-year. Billed deferred revenue increased 4% year-over year to \$484 million, despite Q3 this year not including July 1<sup>st</sup>, whereas July 1<sup>st</sup> fell in Q3 in FY'17. Recurring billings on July 1, 2018 were about \$39 million. Billed deferred revenue can fluctuate quarterly based upon the contractual billing dates in our recurring revenue contracts, the timing of our fiscal reporting periods, and Fx rates.



- GAAP operating margin in the third quarter was 7%, compared to 4% in the same period last year; non-GAAP operating margin was 18%, compared to 15% in the same period last year.
- Operating cash flow in the third quarter was \$49 million and free cash flow was \$42 million. Year-to-date free cash flow was \$167 million, up 100% compared to the same period last year. Free cash flow includes cash payments of approximately \$1 million for the quarter and \$2 million year-to-date related to our past restructuring plans, compared to \$6 million in Q3'17 and \$35 million for the first three quarters of FY'17.
- Total cash, cash equivalents, and marketable securities as of the end of the third quarter was \$321 million and total debt, net of deferred issuance costs, was \$693 million. During the quarter, we borrowed \$150 million in part to finance the share repurchase described below, \$100 million of which was repaid prior to quarter end.
- As part of our previously announced share repurchase program, we completed a \$100 million accelerated stock repurchase agreement during the quarter and retired 1.15 million shares in the quarter.



## Fiscal 2018 Business Outlook

For the fourth quarter and fiscal year ending September 30, 2018, the company expects:

*In millions except per share amounts*

| Operating Measures <sup>(1)</sup> | Q4'18<br>Low | Q4'18<br>High | FY'18<br>Low | FY'18<br>High |
|-----------------------------------|--------------|---------------|--------------|---------------|
| Subscription ACV                  | \$ 55        | \$ 62         | \$ 173       | \$ 180        |
| License and Subscription Bookings | \$ 135       | \$ 152        | \$ 451       | \$ 468        |
| Subscription % of Bookings        | 82%          | 82%           | 77%          | 77%           |

<sup>(1)</sup>An explanation of the metrics included in this table is provided below.

| Financial Measures            | Q4'18<br>Low | Q4'18<br>High | FY'18<br>Low | FY'18<br>High |
|-------------------------------|--------------|---------------|--------------|---------------|
| Subscription Revenue          | \$ 131       | \$ 133        | \$ 471       | \$ 473        |
| Support Revenue               | 123          | 123           | 502          | 502           |
| Perpetual License Revenue     | 25           | 27            | 107          | 109           |
| Total Software Revenue        | 279          | 283           | 1,080        | 1,084         |
| Professional Services Revenue | 39           | 40            | 168          | 169           |
| Total Revenue                 | \$ 318       | \$ 323        | \$ 1,248     | \$ 1,253      |
| Operating Expense (GAAP)      | \$ 207       | \$ 210        | \$ 827       | \$ 830        |
| Operating Expense (Non-GAAP)  | 180          | 183           | 728          | 731           |
| Operating Margin (GAAP)       | 9%           | 10%           | 7%           | 8%            |
| Operating Margin (Non-GAAP)   | 21%          | 22%           | 18%          | 19%           |
| Tax Rate (GAAP)               | 30%          | 30%           | (10%)        | (10%)         |
| Tax Rate (Non-GAAP)           | 10%          | 8%            | 9%           | 8%            |
| Shares Outstanding (GAAP)     | 120          | 120           | 118          | 118           |
| Shares Outstanding (Non-GAAP) | 120          | 120           | 118          | 118           |
| EPS (GAAP)                    | \$ 0.10      | \$ 0.13       | \$ 0.42      | \$ 0.47       |
| EPS (Non-GAAP)                | \$ 0.41      | \$ 0.46       | \$ 1.41      | \$ 1.46       |
| Free Cash Flow                |              |               | \$ 210       | \$ 220        |
| Adjusted Free Cash Flow       |              |               | \$ 214       | \$ 224        |

The fourth quarter and fiscal 2018 non-GAAP operating margin and non-GAAP EPS guidance exclude the estimated items outlined in the table below, as well as any tax effects and discrete tax items (which are not known nor reflected). Adjusted free cash flow excludes \$4 million of restructuring payments related to our past restructuring plans.

| <i>In millions</i>  | Q4'18 | FY'18  |
|---|-------|--------|
| Effect of acquisition accounting on fair value of acquired deferred revenue | \$ 0  | \$ 1   |
| Restructuring charges   | -     | (1)    |
| Acquisition-related and other transactional charges                         | -     | 2      |
| Headquarters relocation charges (1)   | 2     | 5      |
| Intangible asset amortization expense                                       | 14    | 58     |
| Stock-based compensation expense  | 21    | 72     |
| Total Estimated Pre-Tax GAAP adjustments                                    | \$ 37 | \$ 137 |

(1) Represents accelerated depreciation expense recorded in anticipation of exiting our current headquarters facility. In 2019, we will be moving into a new worldwide headquarters in the Boston Seaport District and we will be vacating our current headquarters space. Because our current headquarters lease will not expire until November 2022, we are seeking to sublease that space. If we are unable to sublease our current headquarters space for an amount at least equal to our rent obligations under the current headquarters lease, we will bear overlapping rent obligations for those premises and will be required to record a charge related to any rent shortfall. A charge for such shortfall will be recorded in the earlier of the period that we cease using the space (which will likely occur in the second quarter of our fiscal 2019) or the period we exit the lease contract. Additionally, we will incur other costs associated with the move which will be recorded as incurred.



### **PTC's Fiscal 2018 Third Quarter 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 management presentation to discuss results at 5:00 pm ET on Wednesday, July 18, 2018. To access the live webcast, please visit PTC's Investor Relations website at [investor.ptc.com](http://investor.ptc.com) at least 15 minutes before the scheduled start time to download any necessary audio or plug-in software. To participate in the live conference call, dial 773-799-3757 or 800-857-5592 and provide the passcode PTC. The call will be recorded and a replay will be available for 10 days following the call by dialing 888-562-6809 and entering the pass code 3180. The archived webcast will also be available on [PTC's Investor Relations website](#).

### **Bookings Metrics**

We offer both perpetual and subscription licensing options to our customers, as well as monthly software rentals for certain products. Given the difference in revenue recognition between the sale of a perpetual software license (revenue is recognized at the time of sale) and a subscription (revenue is deferred and recognized ratably over the subscription term), we use bookings for internal planning, forecasting and reporting of new license and cloud services transactions. In order to normalize between perpetual and subscription licenses, we define subscription bookings as the subscription annualized contract value (subscription ACV) of new subscription bookings multiplied by a conversion factor of 2. We arrived at the conversion factor of 2 by considering a number of variables including pricing, support, length of term, and renewal rates. We define subscription ACV as the total value of a new subscription booking divided by the term of the contract (in days) multiplied by 365. If the term of the subscription contract is less than a year, the ACV is equal to the total contract value. Beginning in Q3'18, minimum ACV commitments under our Strategic Alliance Agreement with Rockwell Automation are included in subscription ACV if the period-to-date minimum ACV commitment exceeds actual ACV sold under the Agreement.

License and subscription bookings equal subscription bookings (as described above) plus perpetual license bookings plus any monthly software rental bookings during the period. Total ACV equals subscription ACV (as described above) plus the annualized value of incremental monthly software rental bookings during the period. Because subscription bookings is a metric we use to approximate the value of subscription sales if sold as perpetual licenses, it does not represent the actual revenue that will be recognized with respect to subscription sales or that would be recognized if the sales were perpetual licenses, nor does the annualized value of monthly software rental bookings represent the value of any such booking.

### **Total Deferred Revenue**

Total Deferred Revenue consists of Billed Deferred Revenue and Unbilled Deferred Revenue. We define Unbilled Deferred Revenue as contractually committed orders for license, subscription and support with a customer for which the associated revenue has not been recognized and the customer has not been invoiced. We do not record Unbilled Deferred Revenue on our Consolidated Balance Sheet until we invoice the customer. Billed Deferred Revenue primarily relates to software agreements invoiced to customers for which the revenue has not yet been recognized. Billed deferred revenue can fluctuate quarterly based upon the contractual billing dates in our recurring revenue contracts, the timing of our fiscal reporting periods and Fx rates.

### **Software Revenue**

Any reference to "total recurring software revenue" or "recurring software revenue" means the sum of subscription revenue and support revenue. Any reference to "total software revenue" or "software revenue" means the sum of subscription revenue, support revenue and perpetual license revenue. "Subscription revenue" includes cloud services revenue.



### **Navigate Allocation**

Revenue and bookings for Navigate™, a ThingWorx-based IoT solution for PLM are allocated 50% to Solutions and 50% to IoT.

### **Annualized Recurring Revenue (ARR)**

To help investors understand and assess the success of our subscription transition, we provide an Annualized Recurring Revenue operating measure. Annualized Recurring Revenue (ARR) for a given quarter is calculated by dividing the portion of non-GAAP software revenue attributable to subscription and support for the quarter by the number of days in the quarter and multiplying by 365. (A related metric is Subscription ARR, which is calculated by dividing the portion of non-GAAP revenue attributable to subscription for the quarter by the number of days in the quarter and multiplying by 365.) ARR should be viewed independently of revenue and deferred revenue as it is an operating measure and is not intended to be combined with or to replace either of those items. ARR is not a forecast of future revenue, which can be impacted by contract expiration and renewal rates, and does not include revenue reported as perpetual license or professional services revenue in our consolidated statement of income. Subscription and support revenue and ARR disclosed in a quarter can be impacted by multiple factors, including but not limited to (1) the timing of the start of a contract or a renewal, including the impact of on-time renewals, support win-backs, and support conversions, which may vary by quarter, (2) the ramping of committed monthly payments under a subscription agreement over time, (3) multiple other contractual factors with the customer including other elements sold with the subscription or support contract, and (4) the impact of currency fluctuations. These factors can result in variability in disclosed ARR.

### **Constant Currency Change Metric**

Year-over-year changes in revenue and bookings on a constant currency basis compare reported results excluding the effect of any hedging converted into U.S. dollars based on the corresponding prior year's foreign currency exchange rates to reported results for the comparable prior year period.

### **Important Information about Non-GAAP References**

PTC provides non-GAAP supplemental information to its financial results. We use these non-GAAP 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. We believe that these non-GAAP measures help illustrate underlying trends in our business, and we use the measures to establish budgets and operational goals, communicated internally and externally, for managing our business and evaluating our performance. We believe that providing non-GAAP measures affords investors a view of our operating results that may be more easily compared to the results of peer companies. In addition, compensation of our executives is based in part on the performance of our business based on these non-GAAP measures. However, non-GAAP information should not be construed as an alternative to GAAP information as the items excluded from the non-GAAP measures often have a material impact on PTC's financial results and such items often recur. Management uses, and investors should consider, non-GAAP 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 charges, headquarters relocation charges, and income tax adjustments. 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" beginning on page 33 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

A reconciliation of non-GAAP measures to GAAP results is provided within this press release. PTC also provides information on "free cash flow" and "adjusted 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 40% of our free cash flow to shareholders via stock repurchases. Free cash flow is net cash provided by (used in) operating activities less capital expenditures; adjusted free cash flow is free cash flow excluding restructuring payments and certain identified non-ordinary course payments. Free cash flow and adjusted free cash flow are not measures of cash available for discretionary expenditures.

### **Forward-Looking Statements**

Statements in this press release that are not historic facts, including statements about our fourth quarter and full fiscal 2018 targets, and other future financial and growth expectations and targets and anticipated tax rates, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected. These risks include: the macroeconomic and/or global manufacturing climates may deteriorate; customers may not purchase our solutions or convert existing support contracts to subscription when or at the rates we expect; our businesses, including our Internet of Things (IoT) business, may not expand and/or generate the revenue we expect; foreign currency exchange rates may vary from our expectations and thereby affect our reported revenue and expense; the mix of revenue between license & subscription solutions, support and professional services could be different than we expect, which could impact our EPS results; our transition to subscription-only licensing in the Americas and Western Europe could adversely affect sales and revenue; sales of our solutions as subscriptions may not have the longer-term effect on revenue and earnings that we expect; bookings associated with minimum ACV commitments under our Strategic Alliance Agreement with Rockwell Automation may not result in subscription contracts sold through to end-user customers; the equity purchase by Rockwell Automation and entry into an accelerated share repurchase agreement may not occur when or as 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 improve performance in Japan when or as we expect; we may be unable to generate sufficient operating cash flow to return 40% of free cash flow to shareholders and other uses of cash or our credit facility limits or other matters could preclude share repurchases. 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.

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### **About PTC (NASDAQ: PTC)**

PTC helps companies around the world reinvent the way they design, manufacture, operate, and service things in and for a smart, connected world. In 1986 we revolutionized digital 3D design, and in 1998 were first to market with Internet-based product lifecycle management. Today, our leading industrial innovation platform and field-proven solutions enable you to unlock value at the convergence of the physical and digital worlds. With PTC, manufacturers and an ecosystem of partners and developers can capitalize on the promise of the Internet of Things and augmented reality technology today and drive the future of innovation.

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

|  | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | June 30,<br>2018   | July 1,<br>2017 | June 30,<br>2018  | July 1,<br>2017 |
| Revenue:   |                    |                 |                   |                 |
| Subscription   | \$ 126,712         | \$ 74,859       | \$ 339,651        | \$ 195,001      |
| Support  | 121,127            | 140,428         | 379,007           | 433,624         |
| Total recurring revenue                                    | 247,839            | 215,287         | 718,658           | 628,625         |
| Perpetual license  | 25,780             | 32,348          | 82,604            | 94,099          |
| Total subscription, support and license revenue            | 273,619            | 247,635         | 801,262           | 722,724         |
| Professional services                                      | 41,158             | 43,658          | 128,041           | 134,936         |
| Total revenue  | 314,777            | 291,293         | 929,303           | 857,660         |
| Cost of revenue:   |                    |                 |                   |                 |
| Cost of license and subscription revenue <sup>(1)</sup>    | 24,010             | 21,648          | 71,505            | 62,333          |
| Cost of support revenue <sup>(1)</sup>                     | 22,223             | 23,635          | 67,453            | 69,028          |
| Total cost of software revenue                             | 46,233             | 45,283          | 138,958           | 131,361         |
| Cost of professional services revenue <sup>(1)</sup>       | 35,323             | 36,985          | 109,187           | 114,852         |
| Total cost of revenue                                      | 81,556             | 82,268          | 248,145           | 246,213         |
| Gross margin   | 233,221            | 209,025         | 681,158           | 611,447         |
| Operating expenses:  |                    |                 |                   |                 |
| Sales and marketing <sup>(1)</sup>                         | 107,741            | 93,101          | 305,386           | 271,568         |
| Research and development <sup>(1)</sup>                    | 61,218             | 59,850          | 187,381           | 175,474         |
| General and administrative <sup>(1)</sup>                  | 33,082             | 35,294          | 101,439           | 108,789         |
| Amortization of acquired intangible assets                 | 7,850              | 7,973           | 23,566            | 23,986          |
| Restructuring and headquarters charges, net <sup>(2)</sup> | 1,627              | 1,551           | 1,846             | 8,300           |
| Total operating expenses                                   | 211,518            | 197,769         | 619,618           | 588,117         |
| Operating income   | 21,703             | 11,256          | 61,540            | 23,330          |
| Other expense, net   | (11,732)           | (10,557)        | (33,553)          | (30,190)        |
| Income (loss) before income taxes                          | 9,971              | 699             | 27,987            | (6,860)         |
| Provision (benefit) for income taxes <sup>(3)</sup>        | (7,026)            | 1,650           | (10,809)          | 4,336           |
| Net income (loss)  | \$ 16,997          | \$ (951)        | \$ 38,796         | \$ (11,196)     |
| Earnings (loss) per share:                                 |                    |                 |                   |                 |
| Basic  | \$ 0.15            | \$ (0.01)       | \$ 0.33           | \$ (0.10)       |
| Weighted average shares outstanding                        | 115,774            | 115,615         | 115,915           | 115,511         |
| Diluted  | \$ 0.14            | \$ (0.01)       | \$ 0.33           | \$ (0.10)       |
| Weighted average shares outstanding                        | 117,500            | 115,615         | 117,687           | 115,511         |

(1) The amounts in the tables above include stock-based compensation as follows:

|  | Three Months Ended |                 | Nine Months Ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | June 30,<br>2018   | July 1,<br>2017 | June 30,<br>2018  | July 1,<br>2017 |
| Cost of license and subscription revenue | \$ 421             | \$ 347          | \$ 1,242          | \$ 954          |
| Cost of support                          | 527                | 1,139           | 2,025             | 3,638           |
| Cost of professional services revenue    | 1,471              | 1,505           | 4,846             | 4,500           |
| Sales and marketing                      | 4,910              | 3,296           | 14,827            | 11,047          |
| Research and development                 | 3,283              | 2,805           | 9,626             | 9,753           |
| General and administrative               | 6,046              | 7,482           | 19,449            | 26,247          |
| Total stock-based compensation           | \$ 16,658          | \$ 16,574       | \$ 52,015         | \$ 56,139       |

(2) Headquarters relocation charges represent accelerated depreciation expense recorded in anticipation of the exit of our current headquarters facility.

(3) Our Q3'18 and year-to-date 2018 tax rates include a benefit of \$5 million and \$12 million, respectively, relating to the enactment of the Tax Cuts and Jobs Act.





**PTC Inc.**  
**NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS (UNAUDITED)**  
(In thousands, except per share data)

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | June 30,<br>2018   | July 1,<br>2017   | June 30,<br>2018  | July 1,<br>2017   |
| GAAP revenue   | \$ 314,777         | \$ 291,293        | \$ 929,303        | \$ 857,660        |
| Fair value adjustment of acquired deferred subscription revenue                                  | 75                 | 373               | 266               | 1,430             |
| Fair value adjustment of acquired deferred services revenue                                      | 225                | 258               | 706               | 788               |
| Non-GAAP revenue   | <u>\$ 315,077</u>  | <u>\$ 291,924</u> | <u>\$ 930,275</u> | <u>\$ 859,878</u> |
| GAAP gross margin  | \$ 233,221         | \$ 209,025        | \$ 681,158        | \$ 611,447        |
| Fair value adjustment of acquired deferred revenue   | 300                | 631               | 972               | 2,218             |
| Fair value adjustment to deferred services cost  | (93)               | (108)             | (293)             | (329)             |
| Stock-based compensation   | 2,419              | 2,991             | 8,113             | 9,092             |
| Amortization of acquired intangible assets included in cost of revenue                           | 6,798              | 6,517             | 20,029            | 19,294            |
| Non-GAAP gross margin  | <u>\$ 242,645</u>  | <u>\$ 219,056</u> | <u>\$ 709,979</u> | <u>\$ 641,722</u> |
| GAAP operating income  | \$ 21,703          | \$ 11,256         | \$ 61,540         | \$ 23,330         |
| Fair value adjustment of acquired deferred revenue   | 300                | 631               | 972               | 2,218             |
| Fair value adjustment to deferred services cost  | (93)               | (108)             | (293)             | (329)             |
| Stock-based compensation   | 16,658             | 16,574            | 52,015            | 56,139            |
| Amortization of acquired intangible assets included in cost of revenue                           | 6,798              | 6,517             | 20,029            | 19,294            |
| Amortization of acquired intangible assets   | 7,850              | 7,973             | 23,566            | 23,986            |
| Acquisition-related and other transactional charges included in general and administrative costs | 1,578              | 264               | 1,718             | 987               |
| US pension plan termination-related costs  | -                  | 285               | -                 | 285               |
| Restructuring charges, net   | (280)              | 1,551             | (1,014)           | 8,300             |
| Headquarters relocation charges  | 1,907              | -                 | 2,860             | -                 |
| Non-GAAP operating income <sup>(1)</sup>   | <u>\$ 56,421</u>   | <u>\$ 44,943</u>  | <u>\$ 161,393</u> | <u>\$ 134,210</u> |
| GAAP net income (loss)   | \$ 16,997          | \$ (951)          | \$ 38,796         | \$ (11,196)       |
| Fair value adjustment of acquired deferred revenue   | 300                | 631               | 972               | 2,218             |
| Fair value adjustment to deferred services cost  | (93)               | (108)             | (293)             | (329)             |
| Stock-based compensation   | 16,658             | 16,574            | 52,015            | 56,139            |
| Amortization of acquired intangible assets included in cost of revenue                           | 6,798              | 6,517             | 20,029            | 19,294            |
| Amortization of acquired intangible assets   | 7,850              | 7,973             | 23,566            | 23,986            |
| Acquisition-related and other transactional charges included in general and administrative costs | 1,578              | 264               | 1,718             | 987               |
| US pension plan termination-related costs  | -                  | 285               | -                 | 285               |
| Restructuring charges, net   | (280)              | 1,551             | (1,014)           | 8,300             |
| Headquarters relocation charges  | 1,907              | -                 | 2,860             | -                 |
| Non-operating credit facility refinancing costs  | -                  | -                 | -                 | 1,152             |
| Income tax adjustments <sup>(2)</sup>  | (9,657)            | (171)             | (20,738)          | (2,810)           |
| Non-GAAP net income  | <u>\$ 42,058</u>   | <u>\$ 32,565</u>  | <u>\$ 117,911</u> | <u>\$ 98,026</u>  |
| GAAP diluted earnings (loss) per share   | \$ 0.14            | \$ (0.01)         | \$ 0.33           | \$ (0.10)         |
| Fair value adjustment of acquired deferred revenue   | -                  | 0.01              | 0.01              | 0.02              |
| Stock-based compensation   | 0.14               | 0.14              | 0.44              | 0.48              |
| Amortization of acquired intangibles   | 0.12               | 0.12              | 0.37              | 0.37              |
| Acquisition-related and other transactional charges  | 0.01               | -                 | 0.01              | 0.01              |
| US pension plan termination-related costs  | -                  | -                 | -                 | -                 |
| Restructuring charges, net   | -                  | 0.01              | (0.01)            | 0.07              |
| Headquarters relocation charges  | 0.02               | -                 | 0.02              | -                 |
| Non-operating credit facility refinancing costs  | -                  | -                 | -                 | 0.01              |
| Income tax adjustments   | (0.08)             | -                 | (0.18)            | (0.02)            |
| Non-GAAP diluted earnings per share  | <u>\$ 0.36</u>     | <u>\$ 0.28</u>    | <u>\$ 1.00</u>    | <u>\$ 0.84</u>    |
| GAAP diluted weighted average shares outstanding   | 117,500            | 115,615           | 117,687           | 115,511           |
| Dilutive effect of stock-based compensation plans  | -                  | 1,962             | -                 | 1,812             |
| Non-GAAP diluted weighted average shares outstanding   | <u>117,500</u>     | <u>117,577</u>    | <u>117,687</u>    | <u>117,323</u>    |

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

|   | Three Months Ended |                 | Nine Months Ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | June 30,<br>2018   | July 1,<br>2017 | June 30,<br>2018  | July 1,<br>2017 |
| GAAP operating margin                               | 6.9%               | 3.9%            | 6.6%              | 2.7%            |
| Fair value of acquired deferred revenue             | 0.1%               | 0.2%            | 0.1%              | 0.3%            |
| Fair value adjustment to deferred services cost     | 0.0%               | 0.0%            | 0.0%              | 0.0%            |
| Stock-based compensation                            | 5.3%               | 5.7%            | 5.6%              | 6.5%            |
| Amortization of acquired intangibles                | 4.7%               | 5.0%            | 4.7%              | 5.0%            |
| Acquisition-related and other transactional charges | 0.5%               | 0.1%            | 0.2%              | 0.1%            |
| US pension plan termination-related costs           | 0.0%               | 0.1%            | 0.0%              | 0.0%            |
| Restructuring charges, net                          | -0.1%              | 0.5%            | -0.1%             | 1.0%            |
| Headquarters relocation charges                     | 0.6%               | 0.0%            | 0.3%              | 0.0%            |
| Non-GAAP operating margin                           | <u>17.9%</u>       | <u>15.4%</u>    | <u>17.3%</u>      | <u>15.6%</u>    |

(2) We have recorded a full valuation allowance against our U.S. net deferred tax assets and a valuation allowance against net deferred tax assets in certain foreign jurisdictions. As we are profitable on a non-GAAP basis, the 2018 and 2017 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. We have recorded the impact of the Tax Cuts and Jobs Act in our Q1'18 GAAP earnings, resulting in a non-cash benefit of approximately \$7 million. In Q3'18, we increased the non-cash benefit by approximately \$5 million to reflect additional guidance on the state tax implications of the Act. We have excluded this benefit from our non-GAAP results.



**PTC Inc.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(in thousands)**

|  | <u>June 30,</u><br><u>2018</u> | <u>September 30,</u><br><u>2017</u> |
|--|--------------------------------|-------------------------------------|
| <b>ASSETS</b>                                |                                |                                     |
| Cash and cash equivalents                    | \$ 266,552                     | \$ 280,003                          |
| Marketable securities                        | 54,172                         | 50,315                              |
| Accounts receivable, net                     | 130,079                        | 152,299                             |
| Property and equipment, net                  | 64,456                         | 63,600                              |
| Goodwill and acquired intangible assets, net | 1,397,119                      | 1,440,680                           |
| Other assets                                 | 343,253                        | 373,487                             |
| Total assets                                 | <u>\$ 2,255,631</u>            | <u>\$ 2,360,384</u>                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                |                                     |
| Deferred revenue                             | \$ 483,951                     | \$ 458,907                          |
| Debt, net of deferred issuance costs         | 693,053                        | 712,406                             |
| Other liabilities                            | 244,242                        | 303,635                             |
| Stockholders' equity                         | 834,385                        | 885,436                             |
| Total liabilities and stockholders' equity   | <u>\$ 2,255,631</u>            | <u>\$ 2,360,384</u>                 |



**PTC Inc.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

|  | <b>Three Months Ended</b> |                         | <b>Nine Months Ended</b> |                         |
|--|---------------------------|-------------------------|--------------------------|-------------------------|
|  | <b>June 30,<br/>2018</b>  | <b>July 1,<br/>2017</b> | <b>June 30,<br/>2018</b> | <b>July 1,<br/>2017</b> |
| <b>Cash flows from operating activities:</b>                                   |                           |                         |                          |                         |
| Net income (loss)  | \$ 16,997                 | \$ (951)                | \$ 38,796                | \$ (11,196)             |
| Stock-based compensation   | 16,658                    | 16,574                  | 52,015                   | 56,139                  |
| Depreciation and amortization  | 22,576                    | 21,504                  | 65,303                   | 64,187                  |
| Accounts receivable  | (10,832)                  | 19,540                  | 21,195                   | 34,913                  |
| Accounts payable and accruals  | 243                       | (7,338)                 | (38,887)                 | (47,924)                |
| Deferred revenue   | 23,767                    | 18,528                  | 82,794                   | 45,985                  |
| Income taxes   | (15,871)                  | (3,152)                 | (30,005)                 | (17,832)                |
| Other  | (4,491)                   | 9,208                   | (5,889)                  | (21,809)                |
| Net cash provided by operating activities <sup>(1)</sup>                       | <u>49,047</u>             | <u>73,913</u>           | <u>185,322</u>           | <u>102,463</u>          |
| <b>Capital expenditures</b>  |                           |                         |                          |                         |
| Capital expenditures   | (7,527)                   | (4,544)                 | (18,666)                 | (19,333)                |
| Acquisition of businesses, net of cash acquired                                | -                         | (4,960)                 | (3,000)                  | (4,960)                 |
| Purchase of intangible asset   | -                         | -                       | (3,000)                  | -                       |
| Proceeds (payments) on debt, net   | 50,000                    | -                       | (20,000)                 | (40,000)                |
| Proceeds from issuance of common stock   | -                         | -                       | 7,472                    | 3,978                   |
| Payments of withholding taxes in connection with vesting of stock-based awards | (10,855)                  | (7,078)                 | (44,797)                 | (26,244)                |
| Proceeds from (purchase of) investments  | (1,000)                   | -                       | (1,000)                  | 15,218                  |
| Contingent consideration   | (4,574)                   | (8,343)                 | (7,750)                  | (11,054)                |
| Purchases of marketable securities, net  | 1,131                     | (2,013)                 | (4,423)                  | (733)                   |
| Repurchases of common stock  | (100,000)                 | (34,994)                | (100,000)                | (34,994)                |
| Other financing & investing activities   | -                         | -                       | -                        | (184)                   |
| Foreign exchange impact on cash  | (9,446)                   | 5,398                   | (3,609)                  | (1,397)                 |
| Net change in cash and cash equivalents  | (33,224)                  | 17,379                  | (13,451)                 | (17,240)                |
| Cash and cash equivalents, beginning of period                                 | 299,776                   | 243,316                 | 280,003                  | 277,935                 |
| Cash and cash equivalents, end of period                                       | <u>\$ 266,552</u>         | <u>\$ 260,695</u>       | <u>\$ 266,552</u>        | <u>\$ 260,695</u>       |

(1) Effective the beginning of fiscal 2018, in accordance with the adoption of ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," excess tax benefits are now classified as an operating activity on the statement of cash flows rather than as a financing activity. The prior period excess tax benefits have been reclassified for comparability.