UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(D) of The Securities Exchange Act of 1934

Date of report (Date of earliest event reported) **July 29, 2020**

PTC Inc.
(Exact Name of Registrant as Specified in Its Charter)

Massachusetts	**0-18059**	**04-2866152**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

121 Seaport Boulevard, Boston, MA	**02210**
(Address of Principal Executive Offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code) **(781) 370-5000**

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, $.01 par value per share	**PTC**	**NASDAQ Global Select Market**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Section 2 – Financial Information

Item 2.02. Results of Operations and Financial Condition.

On July 29, 2020, PTC Inc. announced results for its third fiscal quarter ended June 27, 2020. Copies of the press release and the prepared remarks are furnished herewith as Exhibits 99.1 and 99.2, respectively.

Section 9 – Financial Statements and Exhibits

Item 9.01. Financial Statements and Exhibits.

(d) *Exhibits*.

99.1	PTC Inc. Press Release dated July 29, 2020.
99.2	PTC Inc. Prepared Remarks dated July 29, 2020.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PTC Inc.
Date: July 29, 2020	By: /s/ Kristian Talvitie
	Kristian Talvitie
	Executive Vice President, Chief Financial Officer

PTC ANNOUNCES FISCAL THIRD QUARTER 2020 RESULTS

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

BOSTON, MA, July 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[1]
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.

- **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.

1 *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%.

In millions except per share amounts	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 (1)	~$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 (2)	27% - 28%	27% - 28%	700 - 800 bps
GAAP EPS	$0.70 - $0.84	$0.73 - $0.79	412% - 440%
Non-GAAP EPS (2)	$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).

In millions	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
Total Estimated Pre-Tax GAAP adjustments	**$219**

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. 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 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.

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 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 [1]	351,721	295,486	1,067,434	920,626
Cost of revenue [2]	79,224	82,705	249,656	239,961
Gross margin	272,497	212,781	817,778	680,665
Operating expenses:				
Sales and marketing [2]	104,594	108,202	319,636	316,142
Research and development [2]	61,429	60,590	186,691	182,774
General and administrative [2]	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.

PTC Inc.
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, 2020	June 29, 2019	June 27, 2020	June 29, 2019
License revenue [1]	$ 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, 2020	June 29, 2019	June 27, 2020	June 29, 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

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

	Three Months Ended June 27, 2020	Three Months Ended June 29, 2019	Nine Months Ended June 27, 2020	Nine Months Ended June 29, 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	674	424	8,064	1,215
Restructuring and other charges, net	62	(9)	32,338	45,464
Non-GAAP operating income [1]	$ 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	674	424	8,064	1,215
Restructuring and other charges, net	62	(9)	32,338	45,464
Non-operating charges [3]	3,451	-	18,451	-
Income tax adjustments [2]	(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 June 27, 2020	Three Months Ended June 29, 2019	Nine Months Ended June 27, 2020	Nine Months Ended June 29, 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%

(2) 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 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
ASSETS		
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 (1)	151,044	-
Other assets	516,671	451,172
Total assets	$ 3,376,169	$ 2,664,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deferred revenue	$ 404,682	$ 396,632
Debt, net of deferred issuance costs	1,124,702	669,134
Lease obligations (1)	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

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 [1]	-	(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, 2020	June 29, 2019	June 27, 2020	June 29, 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 [2]	99,336	59,274	184,422	170,350

(1) In the 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.

(2) 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, 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.

PTC.com **@PTC** **Blogs**

PTC Investor Relations Contacts
Tim Fox
tifox@ptc.com

PTC PREPARED REMARKS
THIRD QUARTER FISCAL 2020
July 29, 2020

Please refer to the “Important Information About Our Operating and Non-GAAP Financial Measures” below for important information about those measures, definitions and reconciliation to the nearest GAAP measures, and other important disclosures. Additional financial information is provided in the PTC Financial Data Tables posted with these prepared remarks to PTC’s Investor Relations website at investor.ptc.com.

Key Performance Measures

Revenue dollars and growth rates as reported.
Q3’19 and Q3’20 Cash from Operations and FCF are trailing twelve months.
Cash from Operations and FCF for the Q3’20 and Q3’19 trailing twelve months include restructuring payments of $38M and $22M, respectively.
Cash from Operations and FCF for the FY’20 Guidance and FY’19 include restructuring payments of $45M and $25M, respectively.

Key Highlights of Operating and Financial Measures

In millions, except per share amounts	Q3'20	YoY	YoY CC	Management Comments
ARR	**$1,205**	9%	10%	•ARR growth of 10% CC was slightly above expectations, driven by strong renewals performance and higher-than-expected New ACV bookings, resulting in double-digit CC ARR growth across all major geos. •We saw notable strength in the Core product group, growing above the high single-digit market growth rate in CC.
Revenue	**$352**	19%	20%	•Revenue is impacted by ASC 606 and related business policy changes. •Revenue growth was driven by strength across our Core and Growth product groups offset by mid-single digit growth in FSG. •We continued to see strong growth in recurring revenue, which makes up 88% of total revenue, with growth in the high-20s, partially offset by a high-teens decline in professional services revenue, primarily due to the impact of COVID-19 on engagement activity. •We saw strong growth in the Americas and APAC, growing in the mid-to-upper 20s, and the Europe region saw growth in the high-single digits.
GAAP EPS **Non-GAAP EPS**	**$0.30** **$0.62**	335% 170%	174% 179%	•GAAP EPS improved $0.43 compared to ($0.13) in Q3'19, reflecting continued financial discipline and recurring revenue growth, as described above. •Non-GAAP EPS improved $0.39 compared to Q3'19 reflecting recurring revenue growth, as described above, and continued financial discipline.
Cash from Operations **Free Cash Flow**	**$105** **$99**	55% 68%		•Cash from operations was $105M, compared to $68M in Q3'19, and free cash flow was $99M compared to $59M in Q3'19. •In Q3'20 cash from operations and free cash flow benefitted from the timing and improvement of collections (including lower-than-planned customer payment concessions), and lower-than-expected expenses. •Cash from operations and free cash flow in Q3'20 include $13M in restructuring payments. Cash from operations and free cash flow in Q3'19 include $3M in restructuring payments.

Operating Performance

Operating expense and operating margin are impacted by the adoption of ASC 606 and related business policy changes.

In millions	Q3'20	YoY	YoY CC	Management Comments
Operating Expense: **GAAP** **Non-GAAP**	**$209** **$179**	3% (3)%	4% (2)%	•GAAP and non-GAAP operating expenses reflect continued financial discipline, and the impact of COVID-19 on travel, business meetings, and other related expenses. •Non-GAAP operating expenses were slightly below our expectation for the quarter due to timing of expenses.
Operating Margin: **GAAP** **Non-GAAP**	**18%** **29%**	1,488 bps 1,663 bps	1,497 bps 1,664 bps	•Both GAAP and non-GAAP operating margin increased due to strong revenue growth, as described above, and continued financial discipline.

ARR Performance by Product Group

In millions	Q3'20	YoY	YoY CC	Management Comments
Core (CAD & PLM)	**$869**	9%	10%	•ARR growth YoY CC was above the high single-digit market growth rate for the 11th quarter in a row. •PLM delivered double-digit ARR growth with broad-based strength across all major geos. •CAD ARR growth was in the high-single digits, with notable strength in China as economic conditions stabilized.
Growth (IoT, AR & Onshape)	**$160**	23%	24%	•ARR growth was driven by strong growth in AR, most notably in Japan and Europe. •IoT ARR was again impacted by a slowdown in new customer acquisition and smaller average deal sizes due the ongoing impact of COVID-19, offset by solid expansion activity in the quarter. •Onshape continues to perform in line with expectations.
Focused Solutions Group (FSG)	**$177**	(1)%	0%	•Q3'20 ARR reflects modest growth in Europe and Japan, partially offset by performance in the Americas.

ARR Performance by Region

In millions	Q3'20	YoY	YoY CC	Management Comments
Americas	**$543**	9%	10%	•America's ARR growth was driven by mid-20's ARR growth of our Growth products, and high-single digit growth of our Core products, partially offset by a modest decline in FSG.
Europe	**$454**	8%	10%	•Europe's ARR growth was driven by low-20's ARR growth of our Growth products and high single-digit ARR growth of our Core products.
APAC	**$208**	10%	11%	•APAC's ARR growth was driven by high-teens ARR growth of Growth products and low-double digit ARR growth of our Core products.

Software Revenue Performance by Product Group

In millions	Q3'20	YoY	YoY CC	Management Comments
Core (CAD & PLM)	**$230**	33%	34%	•Software revenue growth for our Core products was driven by mid-30% growth in recurring software revenue. •Substantially all our Core product software revenue is recurring. •Software revenue growth also reflects ASC 606 and related business policy changes.
Growth (IoT, AR & Onshape)	**$40**	9%	10%	•Software revenue growth for our Growth products was driven by mid-teens growth in recurring software revenue, partially offset by a low-20% decline in perpetual license revenue. •Software revenue growth also reflects ASC 606 and related business policy changes.
Focused Solutions Group (FSG)	**$47**	8%	9%	•Software revenue growth for our FSG products was driven by high single-digit growth in recurring software revenue. •Software revenue growth also reflects ASC 606 and related business policy changes.

Software Revenue Performance by Region

In millions	Q3'20	YoY	YoY CC	Management Comments
Americas	**$142**	30%	31%	•Americas software revenue growth was driven by mid-30% recurring software revenue growth, partially offset by a high-20% decline in perpetual license revenue. •Software revenue growth also reflects ASC 606 and related business policy changes.
Europe	**$107**	18%	20%	•Europe software revenue growth was driven by high-teens growth in recurring software revenue. •Software revenue growth also reflects ASC 606 and related business policy changes.
APAC	**$68**	28%	28%	•APAC software revenue growth was driven by ~30% growth in recurring software revenue. •Software revenue growth also reflects ASC 606 and related business policy changes.

Other Highlights in Quarterly Operating Performance

- Cash, cash equivalents, and marketable securities totaled $435 million as of June 27, 2020.

- As of June 27, 2020, gross borrowings totaled $1.1 billion, including $1.0 billion of senior notes and $138 million outstanding under our revolving credit facility. Under both our senior notes and our revolving credit facility, there are leverage and other covenants. Currently, we comply with all covenants. We are comfortable with our liquidity position and our capital structure, including future compliance with our covenants.

- Our aggregate interest rate on our senior debt is 3.8% for the two $500 million senior notes series we closed in early February with maturity dates in 2025 and 2028, respectively. We believe this is a very attractive and stable debt structure, especially considering the current economic backdrop.

Revised Fiscal 2020 Outlook

Our revised 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%.

In millions except per share amounts	**Previous Guidance**	**Revised Guidance**	**YoY**	**Comments**
ARR	$1,220 - $1,255	$1,235 - $1,255	11% - 12%	Increased $7M at the midpoint to reflect modestly higher bookings at the low end and Fx, partially offset by churn.
Cash from Operations	~$222	~$232	~(19)%	Increased $10M from previous guidance to reflect modestly higher expected ARR at the midpoint, and solid collections activity.
Free cash flow (1)	~$200	~$210	~(5)%	Increased $10M from previous guidance for the reasons noted above.
Revenue	$1,400 - $1,430	$1,415 - $1,430	13% - 14%	Increased $7M at the midpoint reflecting an increase in ARR and subscription revenue.
GAAP Operating Margin	13% - 14%	13 - 14%	800 - 900 bps	No change
Non-GAAP Operating Margin (2)	27% - 28%	27% - 28%	700 - 800 bps	No change
GAAP EPS	$0.70 - $0.84	$0.73 - $0.79	412% - 440%	Decreased the midpoint of the range by $0.01 due to slightly higher non-operating expenses.
Non-GAAP EPS (2)	$2.20 - $2.35	$2.28 - $2.35	39% - 43%	Increased low end of the range by $0.08, no change to high-end. Midpoint increases $0.04.

(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).

In millions	**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
Total Estimated Pre-Tax GAAP adjustments	**$219**

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

	Three Months Ended		Nine Months Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 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	674	424	8,064	1,215
Restructuring and other charges, net	62	(9)	32,338	45,464
Non-GAAP operating income [1]	$ 103,481	$ 37,813	$ 299,760	$ 173,371
GAAP net income (loss)	$ 34,678	$ (14,738)	$ 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	674	424	8,064	1,215
Restructuring and other charges, net	62	(9)	32,338	45,464
Non-operating charges [3]	3,451	-	18,451	-
Income tax adjustments [2]	(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, 2020	June 29, 2019	June 27, 2020	June 29, 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%

(2) 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 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.

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 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.