



Q3'21

EARNINGS PRESENTATION

Investor Relations

July 28, 2021

FORWARD LOOKING STATEMENTS

This presentation includes forward looking statements regarding PTC's future financial performance, strategic outlook and expectations, anticipated future operations, and products and markets. Because such statements deal with future events, actual results may differ materially from those projected in the forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward-looking statements can be found in the appendix to this presentation and in PTC's Annual Report on Form 10-K, Forms 10-Q and other filings with the U.S. Securities and Exchange Commission.

IMPORTANT INFORMATION ABOUT OPERATING AND NON-GAAP FINANCIAL MEASURES

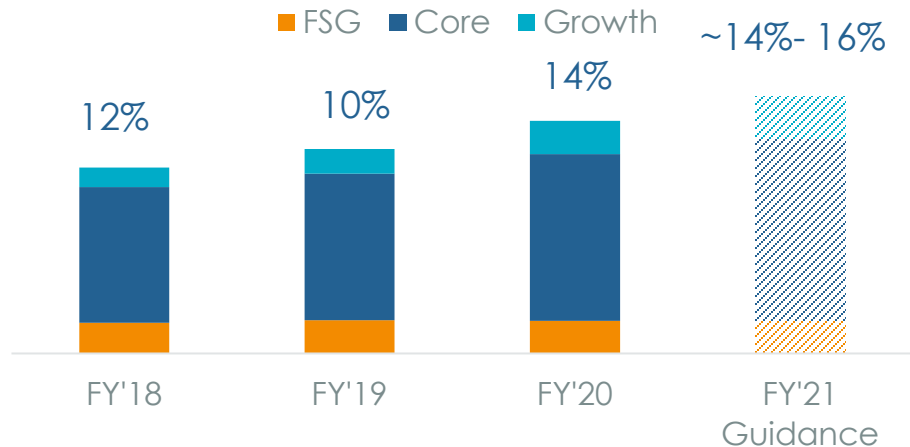
This presentation includes supplemental operating and non-GAAP financial measures and targets. Except where otherwise noted, all prior period financial results and future period financial expectations and targets are non-GAAP financial measures. The non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles. The definitions of these items and reconciliations of non-GAAP financial measures to comparable GAAP measures are included in the appendix to this presentation.

Q3'21 HIGHLIGHTS

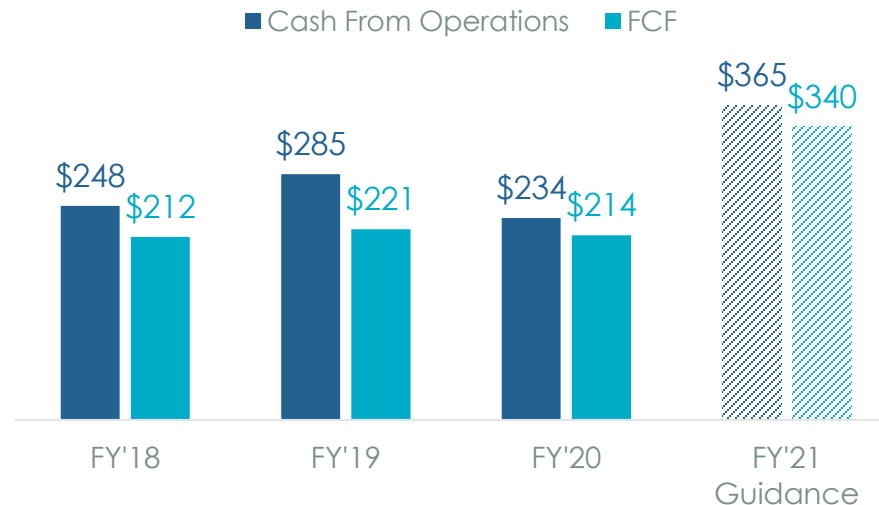
JIM HEPPELMANN – PRESIDENT & CEO

TRACK RECORD OF RESULTS

ARR GROWTH



CASH FLOW



- Delivering **double-digit ARR growth** over past three years and **on track to achieve guidance range for FY'21**.
- **Consistent cash generation** and **on track to achieve target operating cash flow ~\$365M and FCF ~\$340M in FY'21**.
- Core business has delivered low double-digit ARR (CC) growth over past 8 quarters, even through COVID-19 pandemic.
- Growth business positioned to capitalize on the adoption of SaaS.
- Brought emerging technologies to market through innovation and alliances, including Generative Design, Creo Simulation Live and Creo Ansys Simulation and Vuforia Instruct.

DELIVERING SHAREHOLDER VALUE



Market
Demand

- **Solid Q3'21 bookings** growth in the mid – 30% driven by secular tailwinds.
- Industrial **Digital Transformation** catalyzed by pandemic-driven operational challenges.
- Customers creating **frictionless supply chains**, **connecting** products and factories, bringing **digital to the frontline**, enhancing **employees with AI**, and **freeing workers** from desktops.
- **SaaS leader** with solutions aligned to tomorrow's **workforce**, work **methods**, and **workplace**.



Top
Line

- **ARR growth** of 18% (15% CC); organic ARR growth of 14% (11% CC) **at mid-point** of guidance.
- **Core** businesses ARR growth continued to **outpace the market**.
- **Growth** businesses delivered **over 20%** YoY organic ARR growth.
- **Strong ARR** growth in Americas with stable demand trends in APAC and Europe.
- **Revenue growth** of 24% (19% CC), including Arena. Organic growth of 21% (16% CC).
- **Healthy retention rates** despite ongoing macro uncertainty.



Cash Flow

Bottom
Line

- **Strong operating and free cash flow** of \$88M and \$85M, respectively.
- **EPS growth** with GAAP EPS of \$0.43 up 43%, Non-GAAP EPS of \$0.83 up 34% YoY.
- **Operating and free cash flow** in FY'21 continue to track to guidance.

HOW DIGITAL TRANSFORMS PHYSICAL

DIGITAL
Defines
PHYSICAL



DIGITAL
Manages
PHYSICAL



DIGITAL THREAD

DIGITAL
Connects
PHYSICAL



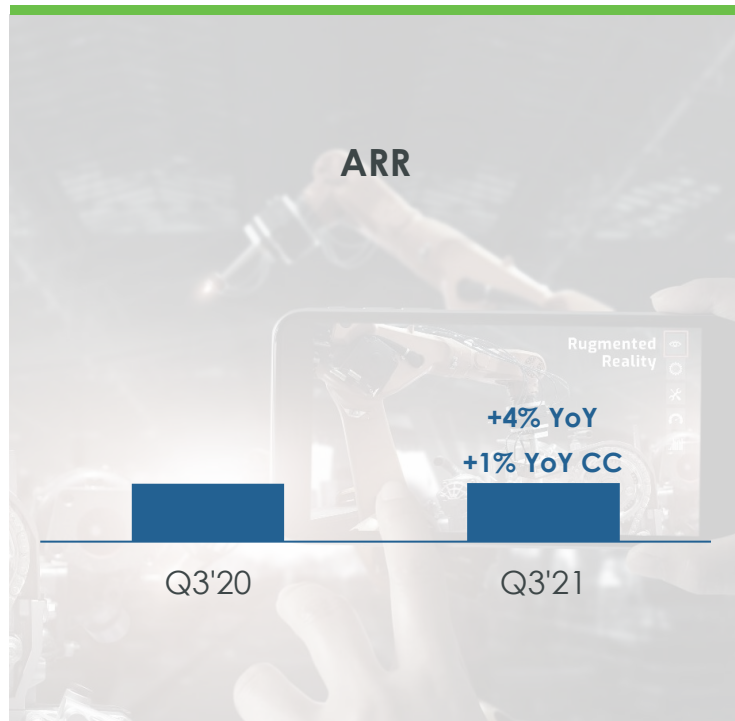
DIGITAL
Augments
PHYSICAL



DIGITAL
Disrupts
PHYSICAL

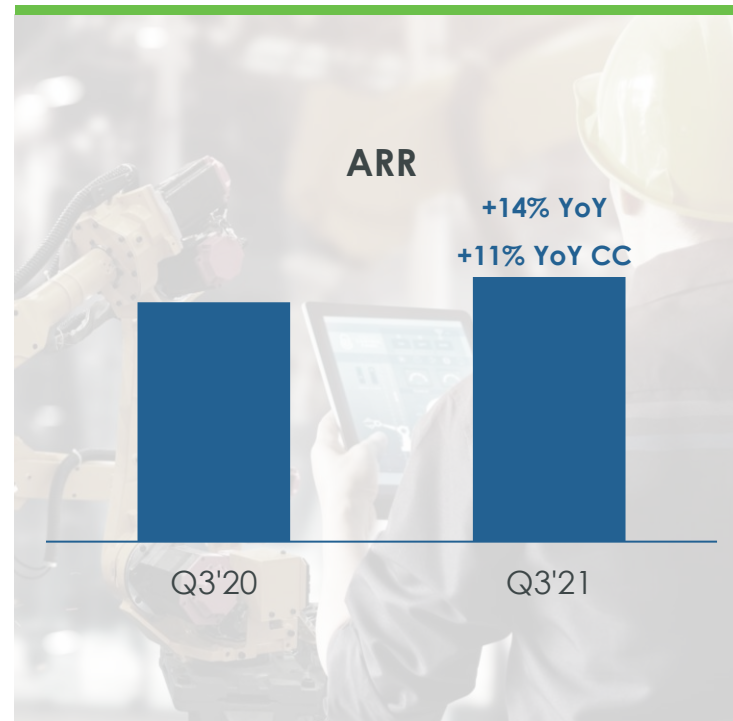
PRODUCT GROUP ARR PERFORMANCE

Focused Solutions Group



- Q3'21 ARR increased 4% YoY (1% CC).
- Continue to expect FY'21 ARR growth in the low-single digits.

Core Product Group



- Q3'21 ARR growth of 14% YoY (11% CC) in line with expectations.
- Solid CAD growth in the low double digits (high single-digits CC).
- Strong PLM ARR growth in the mid-teens (low-teens CC).

Growth Product Group



- Q3'21 ARR growth of 60% YoY (57% CC).
- Organic ARR growth of 25% YoY (23% CC).
- Onshape ARR growth of over 40% YoY (and CC).
- Arena ARR growth over 20% YoY (and CC).

CAD HIGHLIGHTS



- Consistent performance across all geos with ARR growth in the low double digits (high single digits CC).
- Creo Simulation Live continues to gain traction, driven by migration to Creo 7, with increasing expansions.
- Launched Creo 8, which includes the Generative Design Extension module, based on Atlas.

HITACHI
Inspire the Next





The Challenge

Inefficiencies due to a multi-step, multi-software approach to design were causing miscommunication between design and analyst teams, stalled production times, and customer satisfaction risks.

The Solution

The fully integrated generative, simulation and additive technology in Creo streamlined workflows, simplified design sequence and expedited timelines, resulting in:

- Reduced overall design and production time by 30%
- Reduced time from overall concept to delivery by 50%
- Improved design agility and time to market

HPECOXA

HPE COXA is a provider of products, engineering solutions, and technology projects for the performance automotive and motorsport sectors.

PLM HIGHLIGHTS

- Mid-teens ARR growth as reported (low-teens CC) continues to outpace market growth.
- Growth across all geos, especially Americas and APAC.
- Broad-based strength across customer base.
- Increasing demand for PLM through Microsoft alliance.





The Challenge

- As the deadline of becoming an independent entity loomed on the horizon, Cellcentric knew they needed a PLM backbone in place - and fast.

The Solution

- The IT strategy included establishing a best-in-class application landscape for both PLM and ERP as well as cloud first. In addition, they also needed an agile implementation to support the factory buildout.

cellcentric

A Daimler Truck & Volvo Group Company

Daimler Truck AG and Volvo Group joined forces to accelerate the use of hydrogen-based fuel cells for long-haul trucks and beyond.

IOT HIGHLIGHTS

- High teens ARR growth as reported (and CC) driven by strength in Europe and APAC.
- Rockwell Automation was the largest reseller of IoT in the quarter.
- High customer adoption of integrated PTC/Rockwell Factory Talk Innovation Suite.



stryker



PHILIPS



VARiAN
medical systems





The Challenge

Manufacturers have two paths to digital transformation. They can either develop unique applications for each manufacturing facility—which would produce inconsistent results—or they can focus on common, high impact use cases that drive value at scale.

The Solution

With over 200 manufacturing facilities around the globe, Eaton chose to accelerate transformation by leveraging PTC and Rockwell's Factory Insights as a Service standardized IIoT applications, realizing quick wins, and forming a digital foundation on which they can easily add more use cases.

- Results include:
 - 10-15% improved OEE
 - 12% reduction in unscheduled maintenance
 - 15% reduction in manual efforts
 - 100% worker adherence to SOPs

AR HIGHLIGHTS



- ARR growth of over 50% as reported (and CC) with strong performance in the Americas.
- Momentum cross-selling as part of larger PTC portfolio.
- Introduced Vuforia Instruct, a SaaS-based solution for creation and delivery of augmented 3D work instructions to optimize inspection procedures.



Waters™



KKR



NORTHROP GRUMMAN





The Challenge

A residential stairlift is a significant investment and is difficult for customers to picture in their homes and as part of their daily lives.

The Solution

Stannah leveraged Vuforia Engine to create an application for their sales team that would allow them to demonstrate a stairlift within a customer's home using AR, resulting in:

- Increased purchase confidence
- Improved differentiation
- Shorter sales cycles through improved customer communication

Stannah

The Stannah Group is in the business of keeping the world moving. It is a family-owned group of companies dedicated to the design, production, and service of residential and commercial lifts.

ONSHAPE HIGHLIGHTS



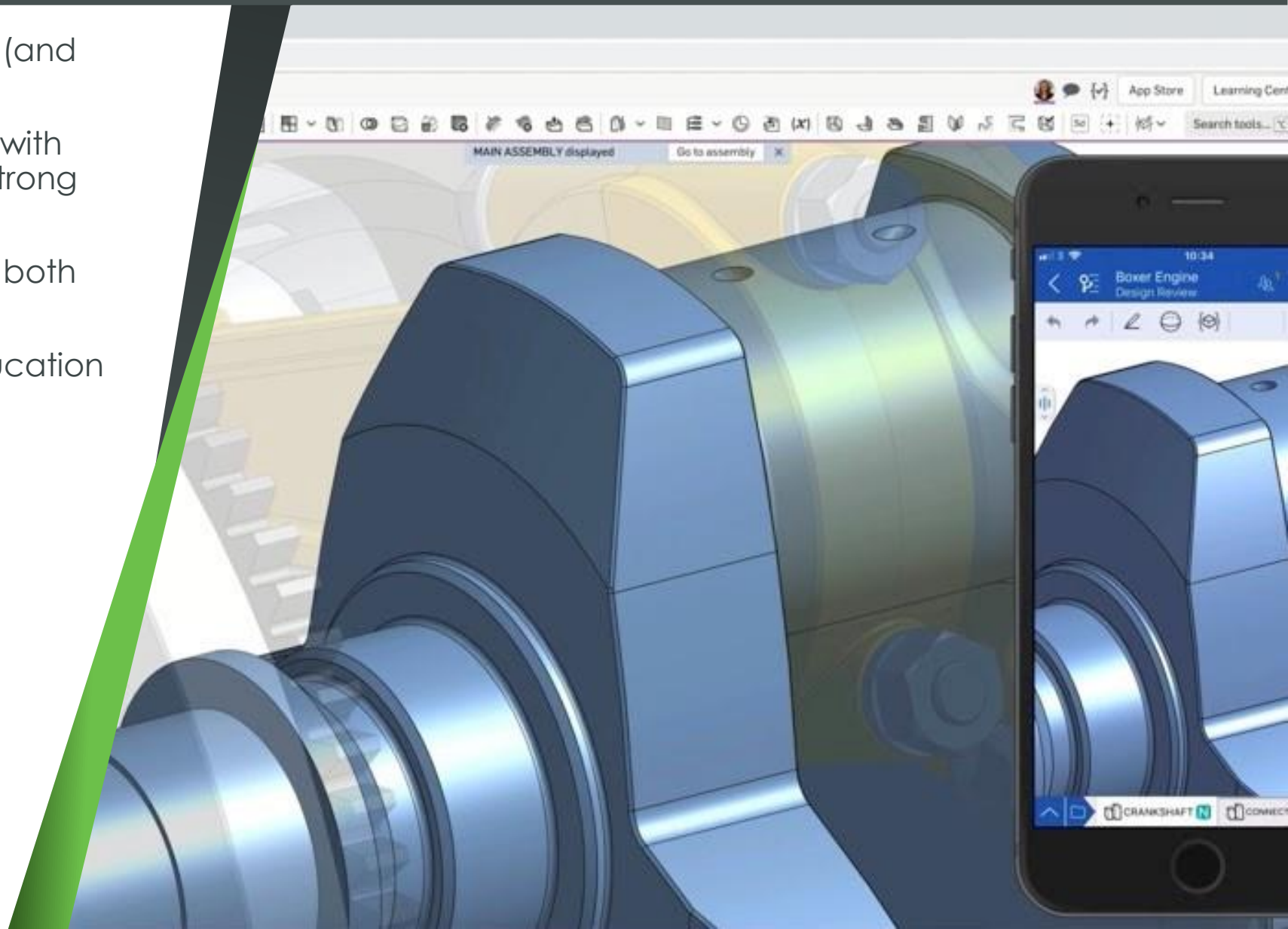
- ARR growth of over 40% as reported (and CC).
- Strong performance in commercial, with increases in average deal size and strong renewals.
- Strong pipeline heading in Q4'21 on both commercial and enterprise.
- Expanding customer base in the Education market.

ARYS



IRESONADO

BETA





Challenge

Delta Development was seeking to reduce its IT overhead, which was taking up 20% of the team's product design time.

Solution

Delta Development switched from an on-premise CAD system to the Onshape Software-as-a-Service (SaaS) product design platform, eliminating the downtime required for software installation, licensing and regular system upgrades. Results include:

- Reclaimed 20% of design time due to reduced IT overhead
- Multiple engineers able to simultaneously work on the same 3D CAD model
- Enabled remote product development work and design reviews

ARENA HIGHLIGHTS



- ARR growth of over 20% as reported (20% CC).
- Renewal rates remained high.
- Strong expansion and increasing penetration into current customers.
- Europe office and initial GTM presence established.





Challenge

NEXTracker needed to modify its product development practices. The company did not have a single source to track and manage its engineering design and development processes.

Solution

Arena's cloud-based PLM solution allows NEXTracker to manage product information with distributed teams, enables automated approvals and provides better tracking and accountability.

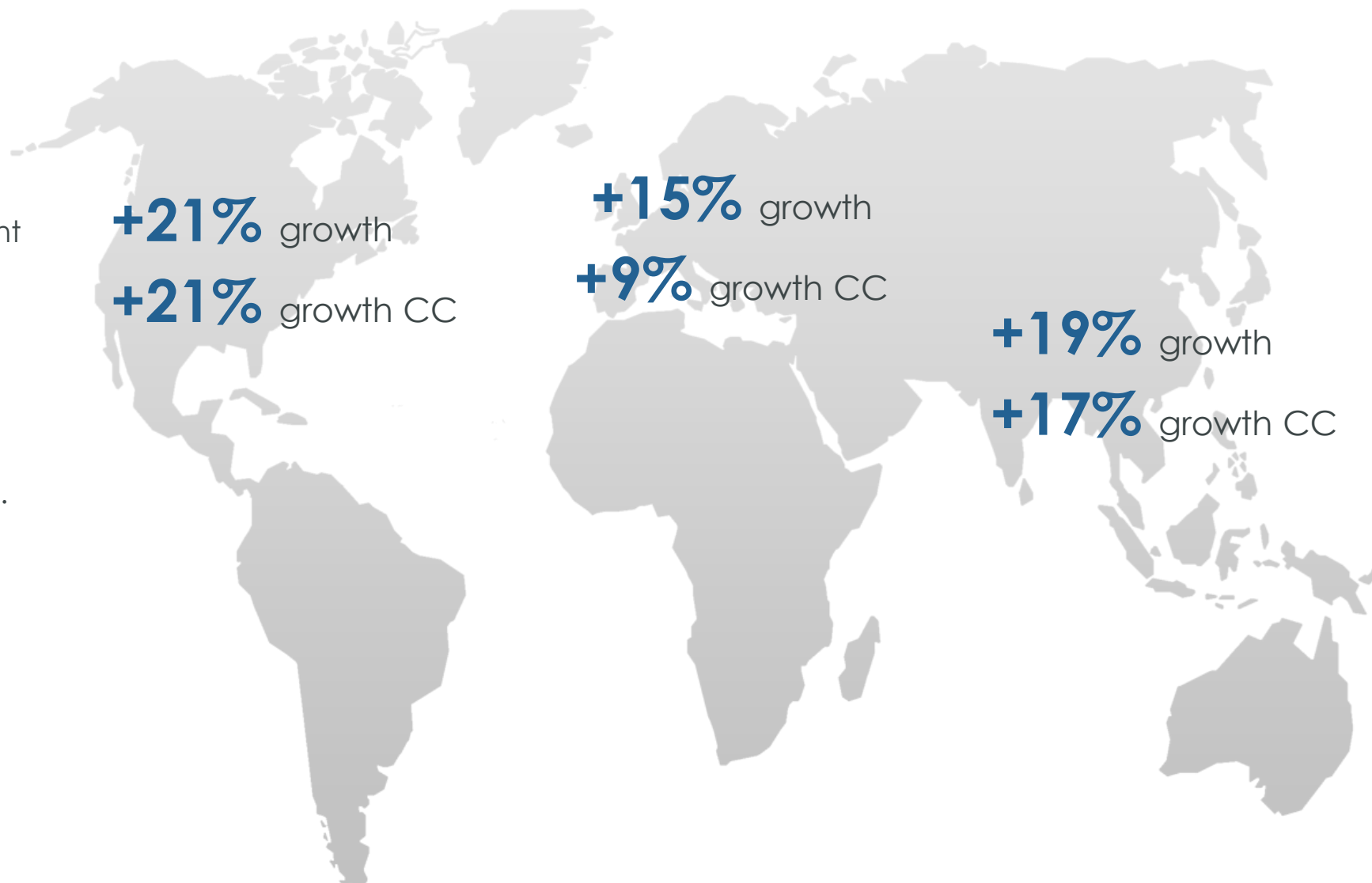
- Review and approval times reduced by nearly 60%
- Eliminated time-zone delays with global partners
- Accelerated product introductions by 25%



NEXTracker, a Flex Company, is one of the fastest-growing cleantech companies in solar today.

REGIONAL ARR PERFORMANCE

- Americas ARR (CC) growth driven by solid Core performance and Arena.
- Europe ARR (CC) growth consistent with prior several quarters, with strength in Core and improving growth in IoT.
- APAC delivered the fourth consecutive quarter of mid-teens ARR (CC) growth with strong performance in Core and Growth.

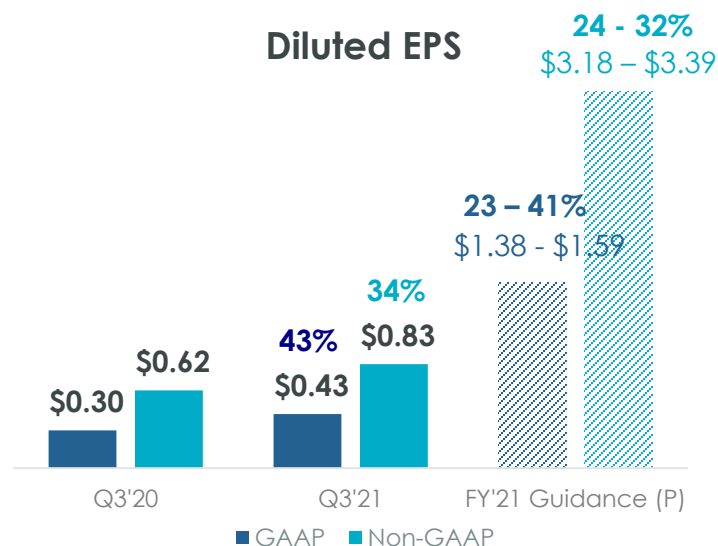
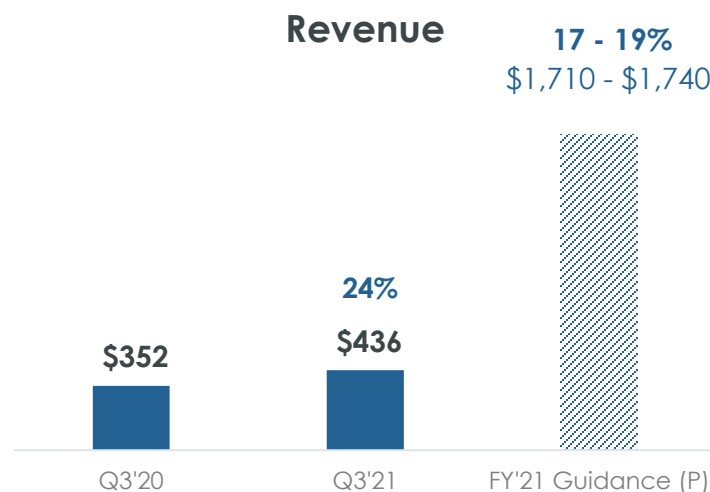
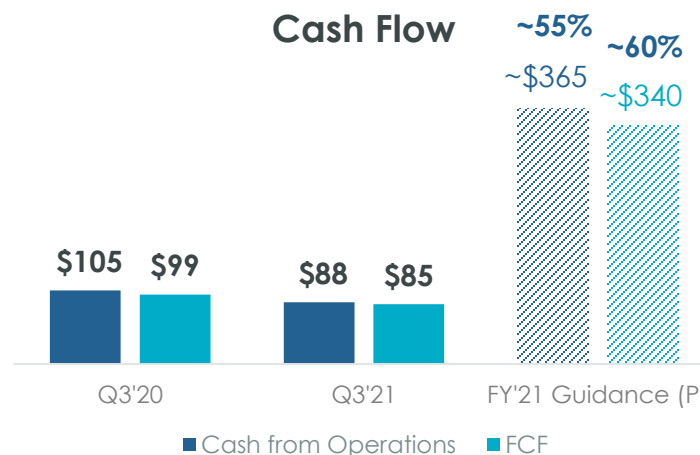
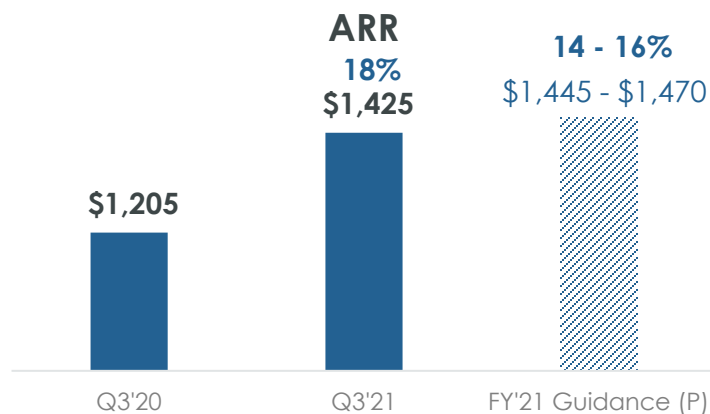


- **Strong execution** in the quarter with 18% ARR growth (15% CC).
- **Bookings growth across all geos**, consistent with improving PMI numbers and despite continued macroeconomic uncertainty.
- Core businesses continue to **outpace market growth**.
- Growth businesses delivered more than 20% YoY **organic ARR growth**.
- **Arena ARR performance** better than plan.
- Remain on target to deliver **double-digit organic ARR growth YoY**.

FINANCIAL REVIEW

KRISTIAN TALVITIE – EVP AND CFO

Q3'21 RESULTS VS PRIOR GUIDANCE



- ARR growth of 18% (15% CC).
- Organic ARR growth of 14% (11% CC).
 - Fx changes positively impacted Q3'21 ARR growth by ~60 bps.
- Strong operating and free cash flow in line with expectations.
- Revenue growth of 24% (19% CC).
 - Revenue growth from solid execution, longer contract durations, and modest contribution from Arena.
 - Revenue growth rates can vary meaningfully due to up front recognition of subscription license revenue under ASC 606.
- EPS and Non-GAAP EPS increases reflect strong revenue results and financial discipline, while also investing for growth.

(P): Refers to FY'21 Guidance provided April 2021.

ARR and Revenue dollars and growth rates as reported.

Cash from operations and free cash flow for Q3'21 and Q3'20 include \$2.0 million and \$12.5 million of restructuring payments, respectively. Cash from operations and free cash flow for Q3'21 and Q3'20 include \$3.8 million and \$0.2 million of acquisition-related payments, respectively. Cash from operations and free cash flow for Q3'21 include a \$17.0 million un-forecasted payment related to the prior period tax exposure from a non-U.S. tax dispute.

OTHER OPERATING PERFORMANCE HIGHLIGHTS



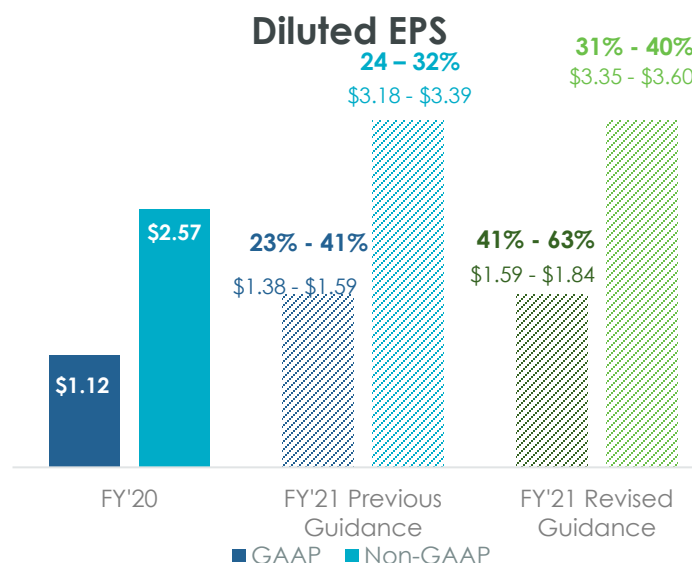
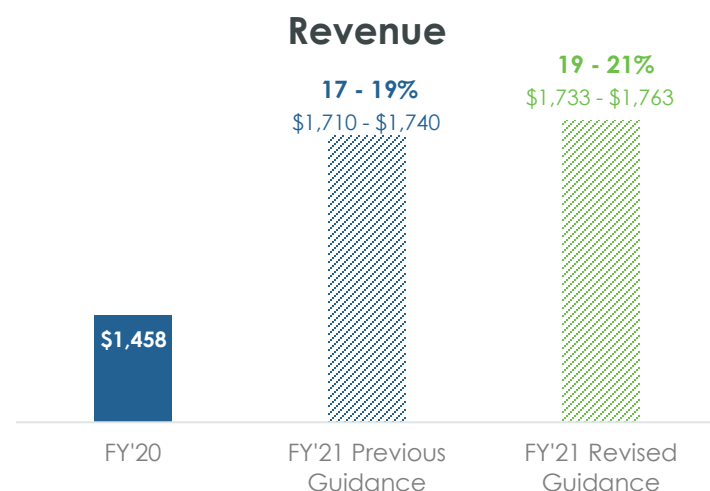
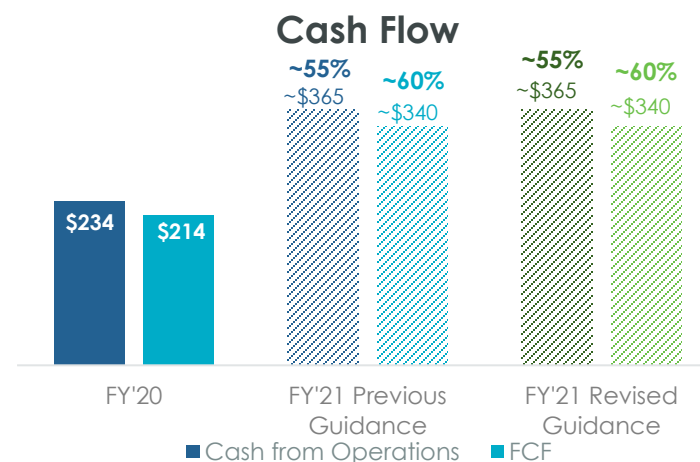
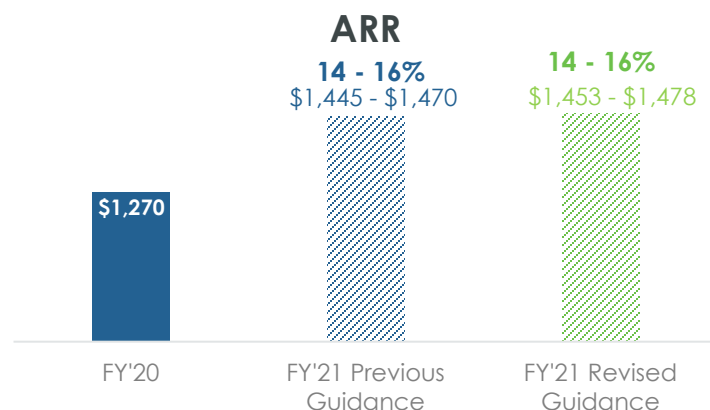
- Strong balance sheet as of June 30, 2021
 - Cash and cash equivalents totaled \$366 million.
 - Gross borrowings of \$1.5 billion.
 - \$1.0 billion of senior notes with an aggregate interest rate of 3.8%.
 - \$490 million of revolving credit with an interest rate of 1.7%.
 - Repaid \$30 million of debt in Q3.
- Debt/EBITDA ratio less than 3x.
- Expect to be in the market buying back shares in Q4.

FY'21 GUIDANCE ASSUMPTIONS

REVISED TO REFLECT CURRENCY IMPACT

- Our current guidance assumes a ~60 bps positive currency effect on ARR in FY'21.
- Macroeconomic conditions related to the COVID-19 crisis improve in the second-half of FY'21.
- Organic ARR growth of 10% to 12% on a constant currency basis and Arena contributes ~400 basis points of ARR growth.
- FY'21 ARR growth is inclusive of a ~2% headwind from lower Deferred ARR than expected exiting FY'20, primarily due to lower bookings in FY'20 reflecting the effect of the COVID pandemic.
- ARR YoY growth rates, on an organic constant currency basis, are expected to be approximately linear each quarter throughout FY'21.
- Organic churn improves ~100 bps YoY.
- GAAP tax rate is expected to be ~20%, including a benefit of \$42 million related to the tax effects for Arena Solutions and an approximately \$35 million tax reserve related to a tax matter in a non-US jurisdiction. Non-GAAP tax rate is expected to be ~19%.

FY'21 REVISED GUIDANCE

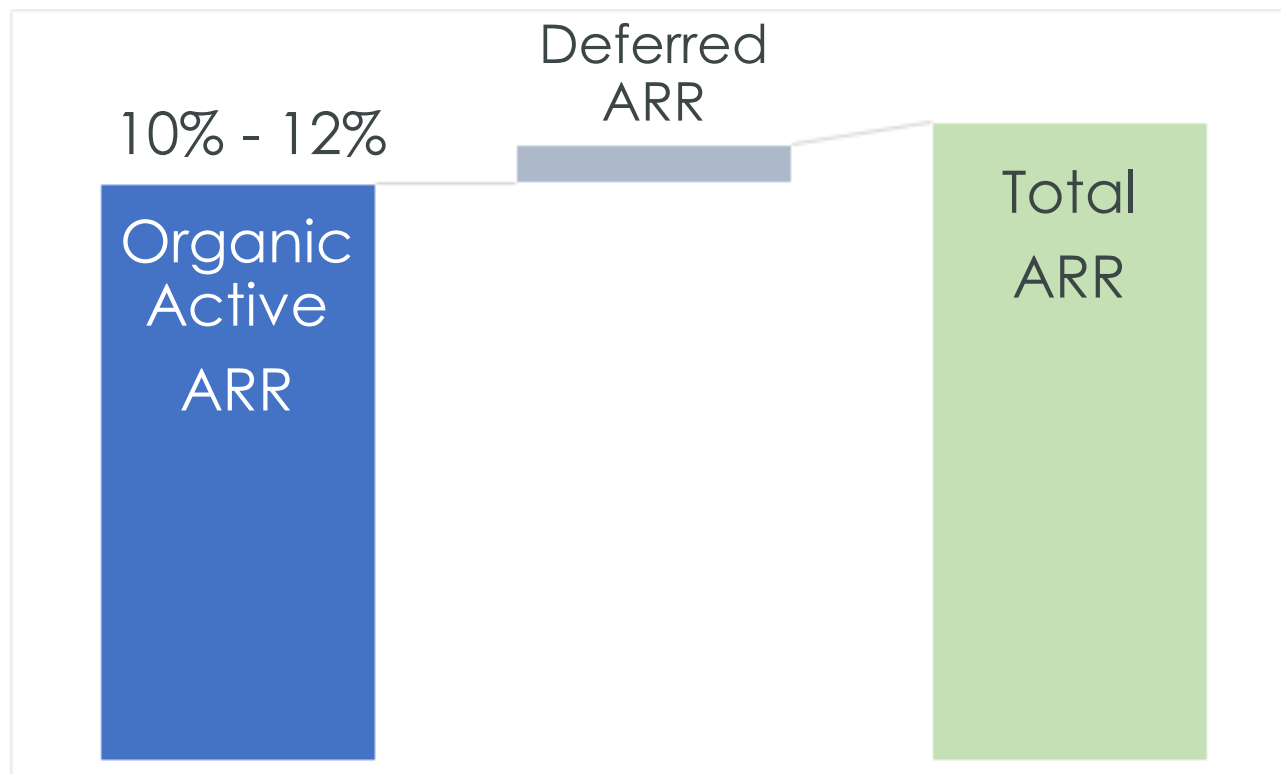


- Previous ARR guidance assumed:
 - 10% - 12% organic constant currency growth
 - 400 bps from Arena
 - No impact from Fx
- Current ARR guidance assumes:
 - 10% - 12% organic constant currency growth
 - 400 bps from Arena
 - ~60 bps positive impact from Fx
- Revenue guidance up \$23 M at midpoint
 - Revenue growth rates can vary meaningfully due to up-front recognition of subscription license revenue under ASC 606.
- GAAP Operating Margin guidance up from 15% - 17% to 17% - 19%. Non-GAAP Operating Margin guidance increases from 31% - 32% to 32% - 33%.
- EPS and Non-GAAP EPS increases reflect strong revenue results and financial discipline, while also investing for growth.
- FCF guidance remains \$340 M.

ARR and Revenue dollars and growth rates as reported.

Cash from operations and free cash flow include ~\$15 million of restructuring payments, ~\$15 million of acquisition-related payments, ~\$18 million of un-forecasted payments related to a prior period tax exposure from a non-U.S. tax dispute, and ~\$5 million of incremental interest related to the Arena acquisition; free cash flow is net of capital expenditures of ~\$25 million.

UNDERSTANDING ACTIVE AND TOTAL ARR¹



- We expect organic Active ARR growth of 10% to 12% for FY'21.
- We now expect ~\$95 million in Deferred ARR as we exit fiscal 2021.
- Total ARR growth, including Deferred ARR, was 12% on an organic basis due to strong bookings over the past 3 quarters.
- Active ARR refers to the annualized run rate of the book of recurring contracts that are currently active and is aligned with cash generation on a TTM basis.
- Deferred ARR represents the incremental annualized exit value of customer contracts that are committed as of the end of the reporting period to start or increase in value in a future period.

Expected organic ARR growth of 10% to 12% on a constant currency basis and Arena contributes ~400 basis points of ARR growth.

¹All figures are in constant currency.

FY'21 GUIDANCE SUMMARY TABLE

In millions except per share amounts	Previous Guidance	Revised Guidance	YoY
ARR	\$1,445 - \$1,470	\$1,453 - \$1,478	14% - 16%
Cash from Operations	~\$365		~55%
Free Cash Flow ⁽¹⁾	~\$340		~60%
Revenue ⁽²⁾	\$1,710 - \$1,740	\$1,733 - \$1,763	19% - 21%
GAAP Operating Margin ⁽²⁾	15% - 17%	17 - 19%	300 bps – 500 bps
Non-GAAP Operating Margin ⁽²⁾	31% - 32%	32% - 33%	300 bps – 400 bps
GAAP EPS	\$1.38 - \$1.59	\$1.59 - \$1.84	41% - 63%
Non-GAAP EPS ⁽²⁾	\$3.18 - \$3.39	\$3.35 - \$3.60	31% - 40%

⁽¹⁾ Cash from operations and free cash flow include ~\$15 million of restructuring payments, ~\$15 million of acquisition-related payments, \$18 million of un-forecasted payments related to the prior period tax exposure from a non-U.S. tax dispute, and ~\$5 million of incremental interest related to the Arena acquisition; free cash flow is net of capital expenditures of ~\$25 million.

⁽²⁾ The FY'21 non-GAAP guidance excludes the estimated items outlined in the table to the right, as well as any additional tax effects and discrete tax items (which are not known or reflected). Our FY'21 non-GAAP guidance also excludes tax expense of ~\$35 million related to a non-U.S. prior period tax exposure related to foreign withholding taxes and a tax benefit of ~\$42 million related to Arena Solutions. Our FY'21 guidance and the table to the right do not reflect any anticipated gains related to our investment in Matterport, Inc.

In millions	FY'21
Acquisition-related charges	\$15
Intangible asset amortization expense	\$59
Stock-based compensation expense	\$180
Restructuring and other charges	\$1
Total estimated Pre-Tax GAAP adjustments	\$255

APPENDIX

FORWARD-LOOKING STATEMENTS

Statements in this press release that are not historic facts, including statements about our future financial and growth expectations and targets, and potential stock repurchases, 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 not improve when or as we expect, or may deteriorate, due to, among other factors, the COVID-19 pandemic, which could cause customers to delay or reduce purchases of new software, reduce the number of subscriptions they carry, or delay payments to us, all of which would adversely affect ARR and our financial results, including cash flow; our businesses, including our SaaS businesses, may not expand and/or generate the revenue or ARR we expect if customers are slower to adopt our technologies than we expect or if they adopt competing technologies; we may be unable to generate sufficient operating cash flow to return 50% of free cash flow to shareholders, and other uses of cash or our credit facility limits or other matters could preclude such repayment and/or repurchases; foreign exchange rates may differ materially from those we expect; and 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 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.

NON-GAAP FINANCIAL AND OPERATING MEASURES



PTC provides supplemental non-GAAP financial measures 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 operating 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 operating results, certain of those items are recurring, and others often recur. Management uses, and investors should consider, our non-GAAP financial measures only in conjunction with our GAAP results.

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: stock-based compensation; amortization of acquired intangible assets; acquisition-related and other transactional charges included in general and administrative expenses; restructuring and other charges, net; non-operating 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” on page 25 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2020. In the first nine months of FY’21, we incurred tax expense related to a South Korean tax exposure which is excluded from our non-GAAP financial measures as it is related to prior periods and not included in management’s view of Q3’21 results for comparative purposes. We also incurred a tax benefit related to the release of a valuation allowance as a result of the Arena acquisition. As the non-GAAP tax provision is calculated assuming that there is no valuation allowance, this benefit has been excluded from our non-GAAP financial measures.

Free Cash Flow - PTC 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 goals and intent to return approximately 50% of our free cash flow to shareholders via stock repurchases. Free cash flow is net cash provided by (used in) operations net of capital expenditures. Free cash flow is not a measure of cash available for discretionary expenditures.

Constant Currency Change Metric - We present CC information to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency rate fluctuations. To present CC information, 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, 2020, rather than the actual exchange rates in effect during that period.

NON-GAAP FINANCIAL AND OPERATING MEASURES



Operating Measures

ARR - To help investors understand and assess the performance of our business as a SaaS and on-premise subscription company we provide an ARR (Annual Run Rate) operating measure. ARR represents the annualized value of our portfolio of active subscription software, cloud, SaaS, and support contracts as of the end of the reporting period. ARR includes orders placed under our Strategic Alliance Agreement with Rockwell Automation, including orders placed to satisfy contractual minimum 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 customers.

Deferred ARR (DARR) - DARR represents the incremental annualized exit value of customer contracts that are committed as of the end of the reporting period to start or increase in value in a future period.

Total ARR (TARR) - TARR is the sum of ARR and DARR.

Because these measures represent the annualized value of customer contracts as of a point in time, they do not represent revenue for any particular period or remaining revenue that will be recognized in future periods.

Bookings - We define Bookings as the annualized value, based on the final month of the contract, of new renewable software contracts committed to in a period. For contracts with terms of less than one year that are not associated with an existing contract, the booking is equal to the total contract value.

Bookings can flow into ARR or DARR, depending on the start date of the contract, or in the case of ramp deals, the start dates of each subsequent tranche of the ramp.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
Revenue:				
Recurring revenue	\$ 387,175	\$ 310,621	\$ 1,186,978	\$ 931,852
Perpetual license	7,259	6,773	22,644	23,988
Professional services	41,234	34,327	116,882	111,594
Total revenue ⁽¹⁾	<u>435,668</u>	<u>351,721</u>	<u>1,326,504</u>	<u>1,067,434</u>
Cost of revenue ⁽²⁾	<u>95,077</u>	<u>79,224</u>	<u>271,355</u>	<u>249,656</u>
Gross margin	<u>340,591</u>	<u>272,497</u>	<u>1,055,149</u>	<u>817,778</u>
Operating expenses:				
Sales and marketing ⁽²⁾	134,412	104,594	388,315	319,636
Research and development ⁽²⁾	78,134	61,429	221,514	186,691
General and administrative ⁽²⁾	47,084	35,709	157,417	113,895
Amortization of acquired intangible assets	7,511	7,302	21,708	21,367
Restructuring and other charges, net	(132)	62	584	32,338
Total operating expenses	<u>267,009</u>	<u>209,096</u>	<u>789,538</u>	<u>673,927</u>
Operating income	73,582	63,401	265,611	143,851
Other expense, net	(15,113)	(18,885)	(43,378)	(64,526)
Income before income taxes	<u>58,469</u>	<u>44,516</u>	<u>222,233</u>	<u>79,325</u>
Provision for income taxes	<u>7,266</u>	<u>9,838</u>	<u>38,253</u>	<u>2,036</u>
Net income	<u>\$ 51,203</u>	<u>\$ 34,678</u>	<u>\$ 183,980</u>	<u>\$ 77,289</u>
Earnings per share:				
Basic	\$ 0.44	\$ 0.30	\$ 1.58	\$ 0.67
Weighted average shares outstanding	116,934	115,759	116,702	115,521
Diluted	\$ 0.43	\$ 0.30	\$ 1.56	\$ 0.67
Weighted average shares outstanding	118,611	116,229	118,181	115,981

(1) See supplemental financial data for revenue by license, support, and professional services. FY'21 recurring revenue includes a \$6.9 million adjustment related to the fair value of acquired deferred revenue.

(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 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
License revenue ⁽¹⁾	\$ 163,583	\$ 118,248	\$ 538,769	\$ 369,285
Support and cloud services revenue ⁽²⁾	230,851	199,146	670,853	586,555
Professional services revenue	41,234	34,327	116,882	111,594
Total revenue ⁽²⁾	<u>\$ 435,668</u>	<u>\$ 351,721</u>	<u>\$ 1,326,504</u>	<u>\$ 1,067,434</u>

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

(2) FY'21 support and cloud services revenue includes a \$6.9 million adjustment related to the fair value of acquired deferred revenue.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
Cost of revenue	\$ 5,094	\$ 3,165	\$ 14,034	\$ 9,208
Sales and marketing	14,229	9,407	42,533	24,005
Research and development	8,514	5,583	24,878	17,280
General and administrative	15,231	7,030	52,451	23,112
Total stock-based compensation	<u>\$ 43,068</u>	<u>\$ 25,185</u>	<u>\$ 133,896</u>	<u>\$ 73,605</u>

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

	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
GAAP gross margin	\$ 340,591	\$ 272,497	\$ 1,055,149	\$ 817,778
Stock-based compensation	5,094	3,165	14,034	9,208
Amortization of acquired intangible assets included in cost of revenue	8,260	6,857	21,644	20,535
Non-GAAP gross margin	<u>\$ 353,945</u>	<u>\$ 282,519</u>	<u>\$ 1,090,827</u>	<u>\$ 847,521</u>
GAAP operating income	\$ 73,582	\$ 63,401	\$ 265,611	\$ 143,851
Stock-based compensation	43,068	25,185	133,896	73,605
Amortization of acquired intangible assets	15,771	14,159	43,352	41,902
Acquisition-related and other transactional charges	618	674	14,844	8,064
Restructuring and other charges, net	(132)	62	584	32,338
Non-GAAP operating income ⁽¹⁾	<u>\$ 132,907</u>	<u>\$ 103,481</u>	<u>\$ 458,287</u>	<u>\$ 299,760</u>
GAAP net income	\$ 51,203	\$ 34,678	\$ 183,980	\$ 77,289
Stock-based compensation	43,068	25,185	133,896	73,605
Amortization of acquired intangible assets	15,771	14,159	43,352	41,902
Acquisition-related and other transactional charges	618	674	14,844	8,064
Restructuring and other charges, net	(132)	62	584	32,338
Non-operating charges ⁽²⁾	-	3,451	-	18,451
Income tax adjustments ⁽³⁾	(12,513)	(6,167)	(37,065)	(44,988)
Non-GAAP net income	<u>\$ 98,015</u>	<u>\$ 72,042</u>	<u>\$ 339,591</u>	<u>\$ 206,661</u>
GAAP diluted earnings per share	\$ 0.43	\$ 0.30	\$ 1.56	\$ 0.67
Stock-based compensation	0.36	0.22	1.13	0.63
Amortization of acquired intangibles	0.13	0.12	0.37	0.36
Acquisition-related and other transactional charges	0.01	0.01	0.13	0.07
Restructuring and other charges, net	-	-	-	0.28
Non-operating charges	-	0.03	-	0.16
Income tax adjustments	(0.11)	(0.05)	(0.31)	(0.39)
Non-GAAP diluted earnings per share	<u>\$ 0.83</u>	<u>\$ 0.62</u>	<u>\$ 2.87</u>	<u>\$ 1.78</u>

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

	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
GAAP operating margin	16.9%	18.0%	20.0%	13.5%
Stock-based compensation	9.9%	7.2%	10.1%	6.9%
Amortization of acquired intangibles	3.6%	4.0%	3.3%	3.9%
Acquisition-related and other transactional charges	0.1%	0.2%	1.1%	0.8%
Restructuring and other charges, net	0.0%	0.0%	0.0%	3.0%
Non-GAAP operating margin	<u>30.5%</u>	<u>29.4%</u>	<u>34.5%</u>	<u>28.1%</u>

(2) 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.

(3) 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 2021 and 2020 non-GAAP tax provisions are being calculated assuming there is no valuation allowance. In the nine months ended June 30, 2021 and June 27, 2020, our GAAP results included benefits of \$42.3 million and \$21.2 million, respectively, related to the release of a valuation allowance as a result of the Arena and Onshape acquisitions. As the non-GAAP tax provision is calculated assuming that there is no valuation allowance, these benefits have been excluded. 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. Additionally, our non-GAAP results for the first nine months of FY'21 exclude tax expense of \$34.8 million related to a non-U.S. prior period tax exposure, primarily related to foreign withholding taxes.

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

	June 30, 2021	September 30, 2020
ASSETS		
Cash and cash equivalents	\$ 365,756	\$ 275,458
Marketable securities	-	59,099
Accounts receivable, net	432,980	415,221
Property and equipment, net	93,659	101,499
Goodwill and acquired intangible assets, net	2,591,995	1,863,356
Lease assets, net	147,431	149,933
Other assets	574,398	518,172
Total assets	<u>\$ 4,206,219</u>	<u>\$ 3,382,738</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deferred revenue	\$ 473,613	\$ 426,465
Debt, net of deferred issuance costs	1,478,927	1,005,314
Lease obligations	203,133	215,023
Other liabilities	325,588	297,688
Stockholders' equity	1,724,958	1,438,248
Total liabilities and stockholders' equity	<u>\$ 4,206,219</u>	<u>\$ 3,382,738</u>

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

	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
Cash flows from operating activities:				
Net income	\$ 51,203	\$ 34,678	\$ 183,980	\$ 77,289
Stock-based compensation	43,068	25,185	133,896	73,605
Depreciation and amortization	22,501	20,484	62,670	60,677
Amortization of right-of-use lease assets	9,075	10,324	28,031	29,467
Accounts receivable	5,744	34,475	(4,110)	54,662
Accounts payable and accruals	16,851	3,179	15,955	5,133
Deferred revenue	(21,477)	(14,036)	30,733	3,357
Income taxes and other	(38,931)	(9,784)	(127,667)	(104,356)
Net cash provided by operating activities	88,034	104,505	323,488	199,834
Capital expenditures	(3,420)	(5,169)	(11,662)	(15,412)
Acquisition of businesses, net of cash acquired ⁽¹⁾	(581)	-	(717,779)	(468,520)
Purchase of intangible assets	-	(11,050)	(550)	(11,050)
Borrowings (payments) on debt, net	(30,000)	(510,125)	472,000	464,875
Net proceeds associated with issuance of common stock	-	-	10,484	8,980
Payments of withholding taxes in connection with vesting of stock-based awards	(14,973)	(9,661)	(42,215)	(33,232)
Debt issuance costs	-	(817)	-	(17,083)
Debt early redemption premium	-	(15,000)	-	(15,000)
Net proceeds from (purchases of) marketable securities ⁽²⁾	-	(115)	58,469	(295)
Other financing & investing activities	(488)	(3,929)	(3,570)	(1,729)
Foreign exchange impact on cash	1,103	1,613	1,646	(4,127)
Net change in cash, cash equivalents, and restricted cash	39,675	(449,748)	90,311	107,241
Cash, cash equivalents, and restricted cash, beginning of period	326,596	827,678	275,960	270,689
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 366,271</u>	<u>\$ 377,930</u>	<u>\$ 366,271</u>	<u>\$ 377,930</u>
	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 27, 2020	June 30, 2021	June 27, 2020
Cash provided by operating activities	\$ 88,034	\$ 104,505	\$ 323,488	\$ 199,834
Capital expenditures	(3,420)	(5,169)	(11,662)	(15,412)
Free cash flow ⁽³⁾	<u>\$ 84,614</u>	<u>\$ 99,336</u>	<u>\$ 311,826</u>	<u>\$ 184,422</u>

(1) In the second quarter of 2021, we acquired Arena for approximately \$715 million, net of cash acquired. In the first quarter of 2020, we acquired Onshape for \$469 million, net of cash acquired.

(2) In the first quarter of 2021, we sold all of our available-for-sale securities.

(3) Free cash flow includes \$2.0 million and \$13.7 million of restructuring payments in the three and nine months ended June 30, 2021, respectively, compared with \$12.5 million and \$33.8 million in the three and nine months ended June 27, 2020. Free cash flow includes \$3.8 million and \$14.8 million of acquisition-related payments for the three and nine months ended June 30, 2021, respectively, compared with \$0.2 million and \$8.8 million in the three and nine months ended June 27, 2020. Free cash flow includes \$17.0 million and \$17.9 million in un-forecasted payments related to the prior period tax exposure from a non-U.S. tax dispute in the three and nine months ended June 30, 2021, respectively.