ptc

DIGITAL TRANSFORMS PHYSICAL

FY'23 INVESTOR DAY

Jim Heppelmann
President and CEO

Mike DiTullio
President, Digital Thread

Kristian Talvitie
Chief Financial Officer

November 17th, 2022

Investor Day FY'23

AGENDA

10:00 – 10:30
Strategy
Jim Heppelmann, President and CEO

10:30 – 11:00
SaaS Transition Program
Mike DiTullio, President, Digital Thread

11:00 – 11:30
Financials
Kristian Talvitie, Chief Financial Officer

11:30 – 12:00
Q&A

JIM HEPPELMANN

President and CEO

SERVICEMAX ACQUISITION

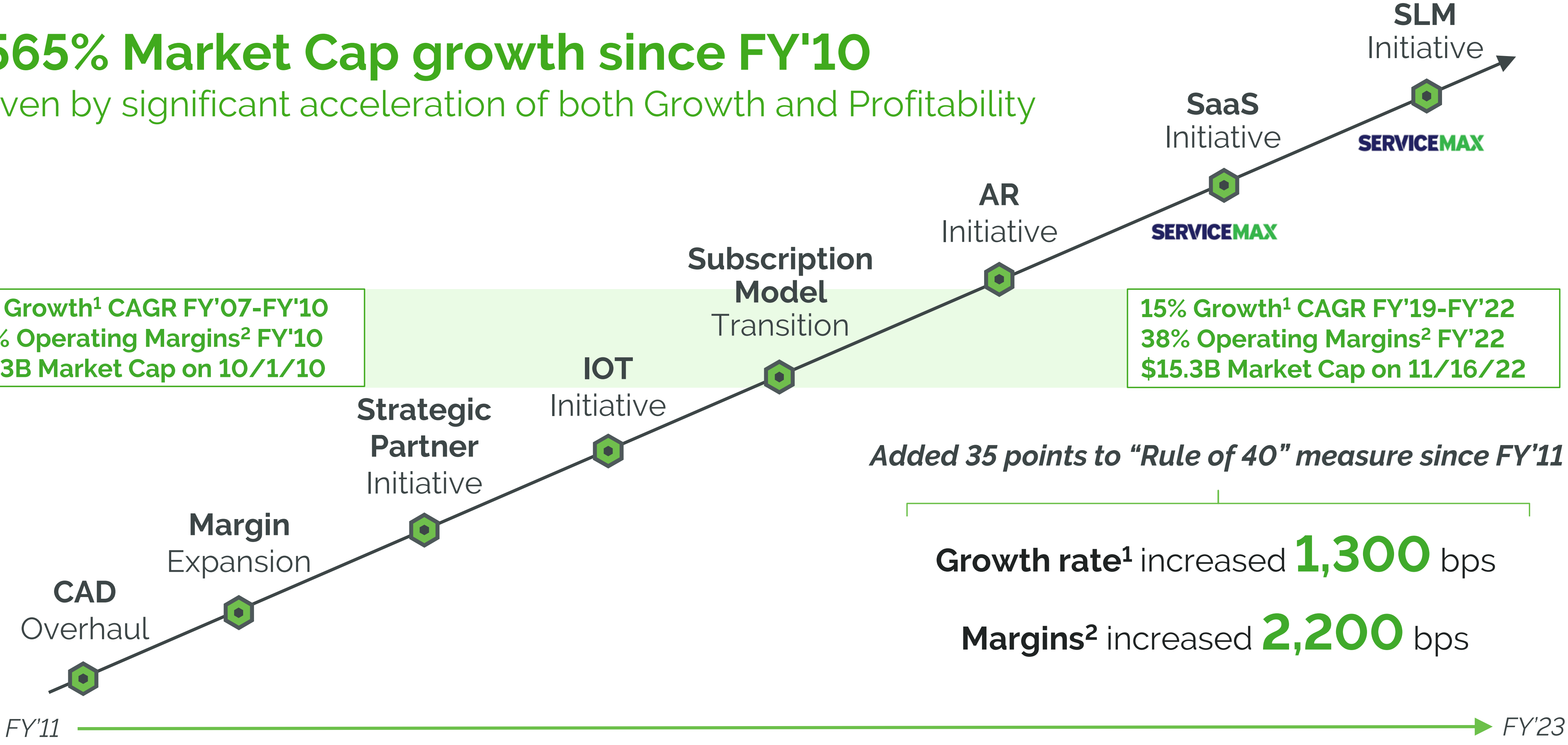
Strong Alignment with Closed-loop PLM Strategy	Expected to Add ~$160M to PTC ARR in Q2'23	Expected to be Accretive to PTC Growth Rate	Expected to be Accretive to Cash Flow in FY'23	Purchase Price ~$1.46B	Expected to Close in Early January 2023

SERVICEMAX

PERFORMING WHILE TRANSFORMING

~565% Market Cap growth since FY'10

Driven by significant acceleration of both Growth and Profitability



2% Growth[1] CAGR FY'07-FY'10
16% Operating Margins[2] FY'10
$2.3B Market Cap on 10/1/10

15% Growth[1] CAGR FY'19-FY'22
38% Operating Margins[2] FY'22
$15.3B Market Cap on 11/16/22

Added 35 points to "Rule of 40" measure since FY'11

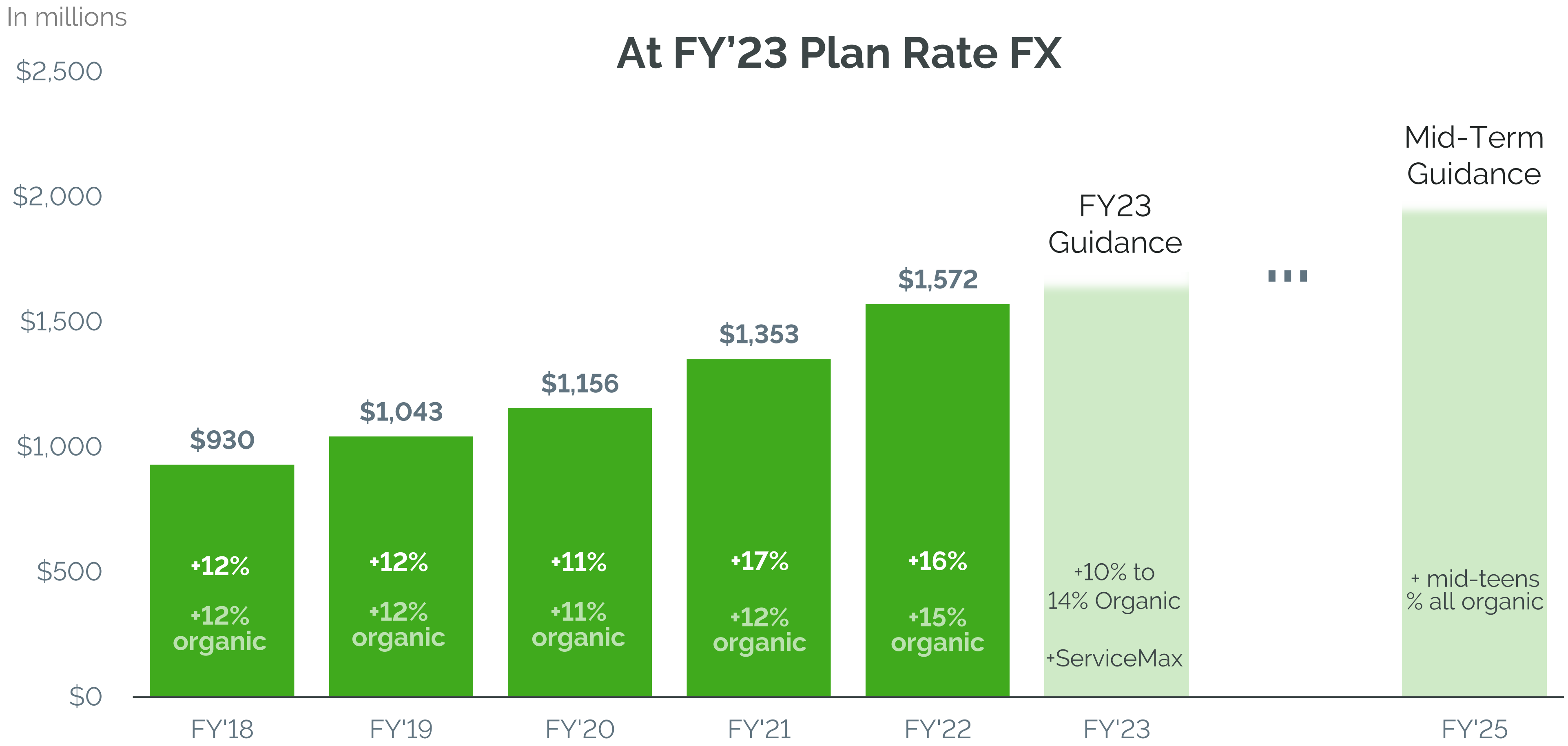
Growth rate[1] increased **1,300** bps

Margins[2] increased **2,200** bps

(1) Comparing FY'07-FY'10 Revenue CAGR to FY'19-FY'22 Constant Currency ARR CAGR using our FY'23 Plan foreign exchange rates
(2) Comparing FY'10 Non-GAAP Operating Margin to FY'22 Non-GAAP Operating Margin

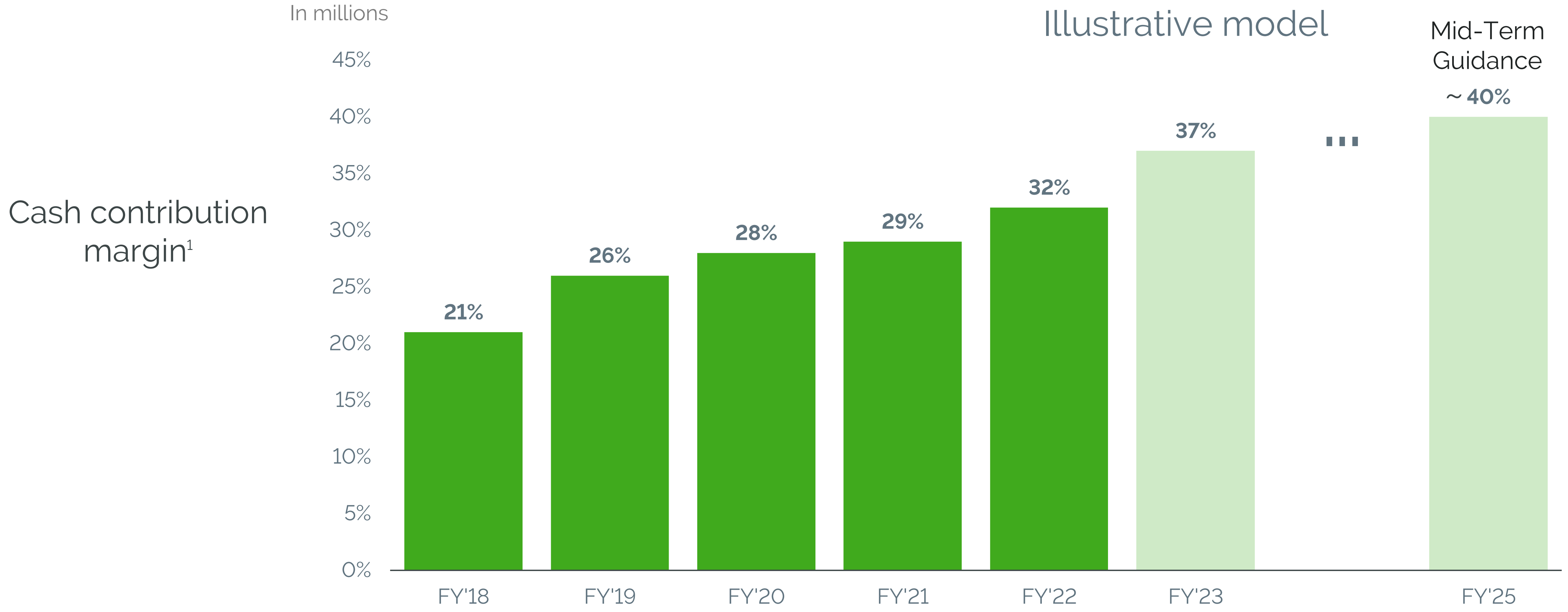
ACCELERATING ARR GROWTH

ARR is the annualized value of active recurring software contracts at the end of a period



ServiceMax expected to add ~1,100 bps inorganic growth to FY'23

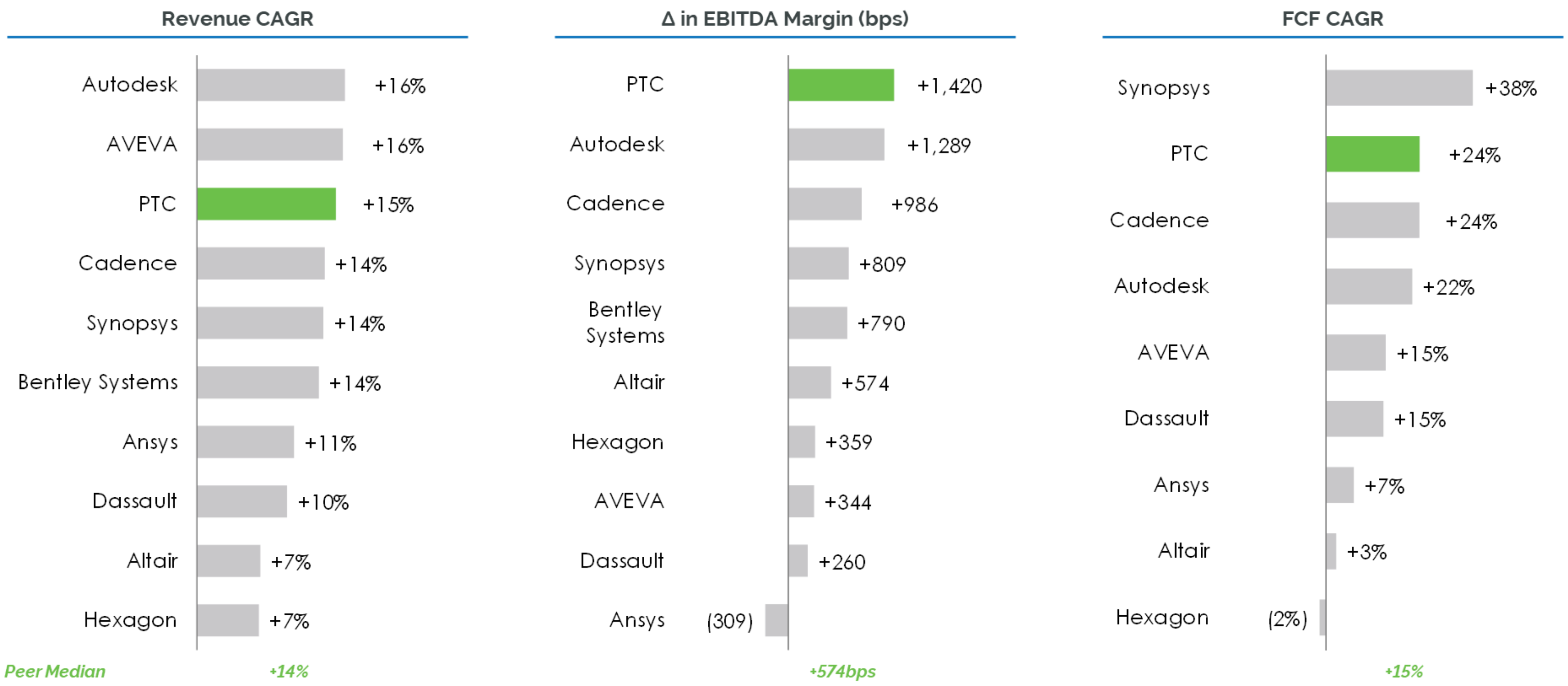
EXPANDING CASH CONTRIBUTION MARGINS



FCF = f(ARR)

[1] Cash contribution margin % = Cash generation less non-GAAP cost of revenue and non-GAAP operating expenses, divided by cash generation
Cash generation = ARR + Perpetual revenue + Professional services revenue

STRONG PERFORMANCE VS. PEERS 2019-2022



Aspire to **Mid-teens+** ARR Growth

15% Organic ARR Growth in FY'22, up ~300 bps YOY

Aspire to **Sustainable Low-40's EBITDA** Margins.

39% EBITDA Margin in FY'22, up ~300 bps YOY

Source: FactSet as of November 16, 2022 and SEC filings.
Note: Peer figures calendarized to PTC's fiscal year ending September 30 using time-weighted average methodology.

RECORD PERFORMANCE IN FY'22

Top-Line Performance

ARR

- Constant currency ARR up 16% YoY (15% organic)
- Constant currency bookings up mid-teens %
- Organic churn improved 193bps[1]

Bottom-Line Performance

Free Cash Flow

- Free cash flow up 21% to $416 million

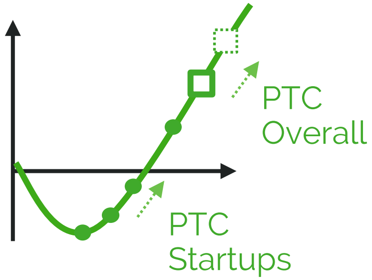
[1] Excludes Arena acquisition, Russia exit, and Codebeamer acquisition; using FX rates as of September 30, 2021

GREAT PROGRESS ON MARGIN EXPANSION IN FY’22

SaaS realignment drove FY’22 expansion

- Organization alignment to SaaS principles and best practices
  - Customer Success
  - R&D/DevOps
- Increased SaaS investment while reducing headcount
- Expanded non-GAAP **cash contribution margin by ~300bps** in FY’22

Further margin expansion targeted in FY’23 and beyond



- Resource rebalancing increased SaaS investment while closing ~500 TBH positions
- “J-curve" business improve profitability with scale
  - Arena and ThingWorx profitable now
  - Onshape and Vuforia burn rate decreases with scale
- Non-GAAP **cash contribution margin expected to expand ~450 bps** in FY’23

RESILIENT BUSINESS MODEL

Guidance reflects strength and resilience in FY'23

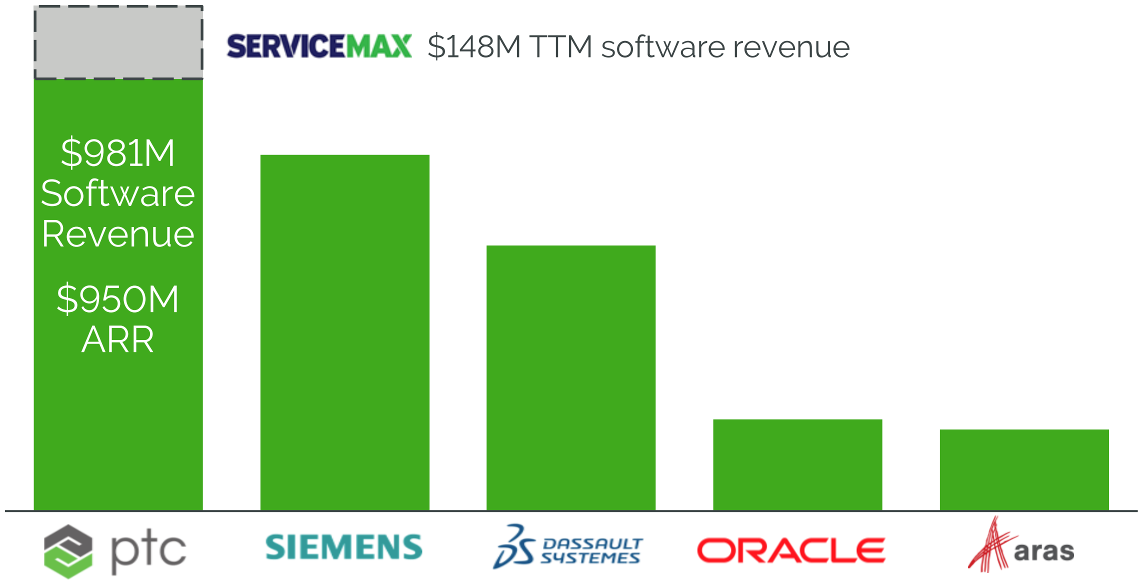
		Constant Currency Organic ARR Growth	Bookings Scenario	Churn Scenario	Free Cash Flow
	FY'22 Actual	15%	+mid-teens%	193bps better	$416 million
Most Plausible Macro Scenarios	**FY'23 Guidance Range[1]**	**14%**	~5%	Flattish	**~$560 million**
		12%	Flattish	~100bps worse	**~$560 million**
		10%	~(15)%	~100bps worse	**~$560 million**
	Other FY'23 Scenarios	7%	~(30)%	~100bps worse	<$560 million
		0%	~(75)%	~200bps worse	<$560 million

[1] Does not reflect the ServiceMax acquisition, the impact of business combination accounting, incremental interest expense, or transaction-related charges; Panther is expected to be accretive to FY'23 free cash flow

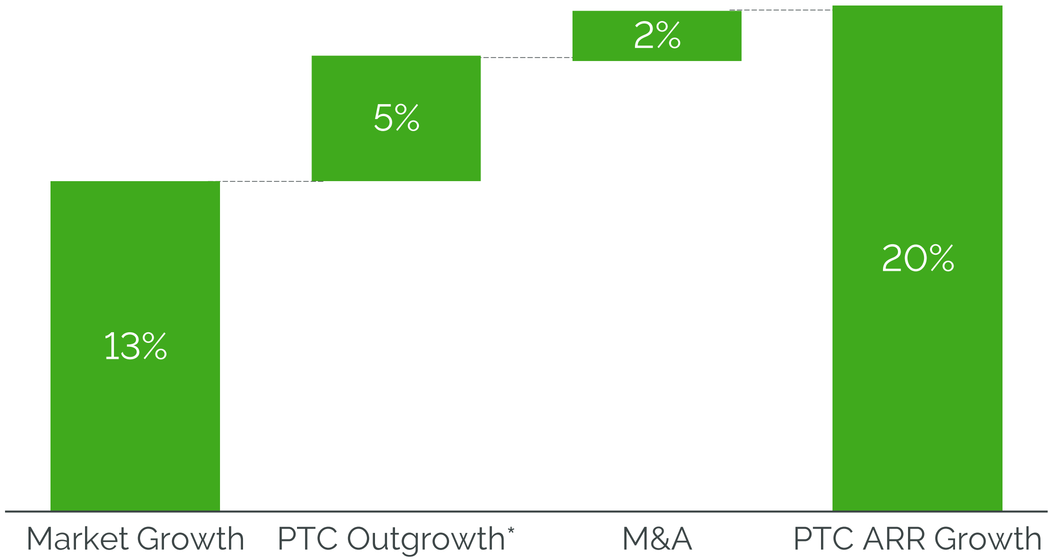
CATEGORY LEADERSHIP IN PLM

PLM: Product data management and process orchestration software

PLM software market share[1] using comparable definitions of PLM (latest trailing 12 months data)



PTC PLM outperformed the market*
FY'22: 20% Total Growth



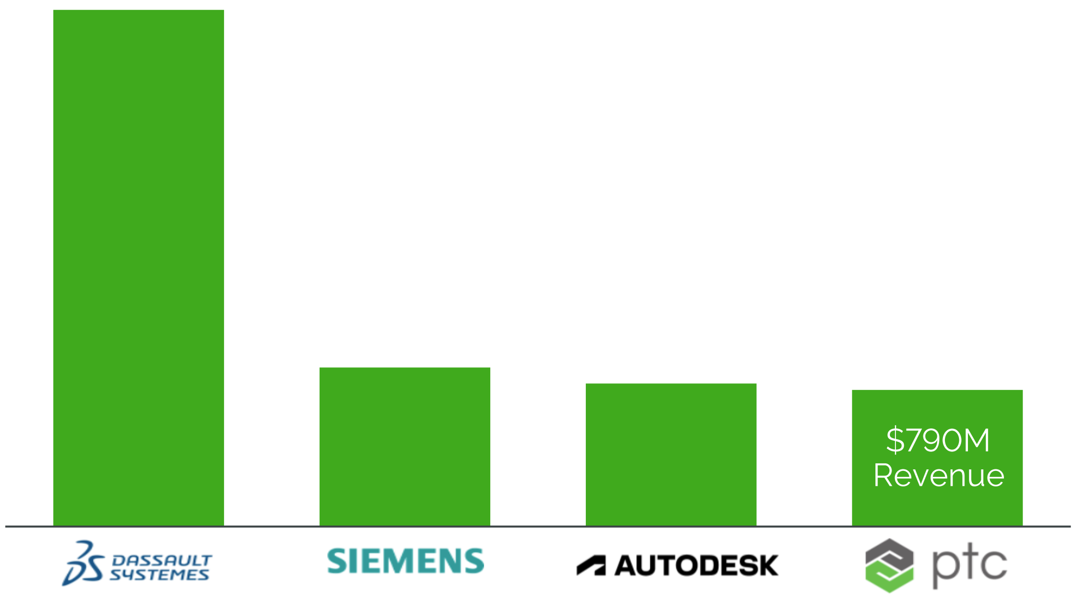
***PTC Outgrowth Factors:**
Market share gains, Subscription mix, SaaS mix

[1] Source: Company data, industry analyst data, and estimates; latest trailing 12 months pro forma revenue data using a consistent definition of PLM as shown on slide 13 of the 4QFY'22 earnings presentation

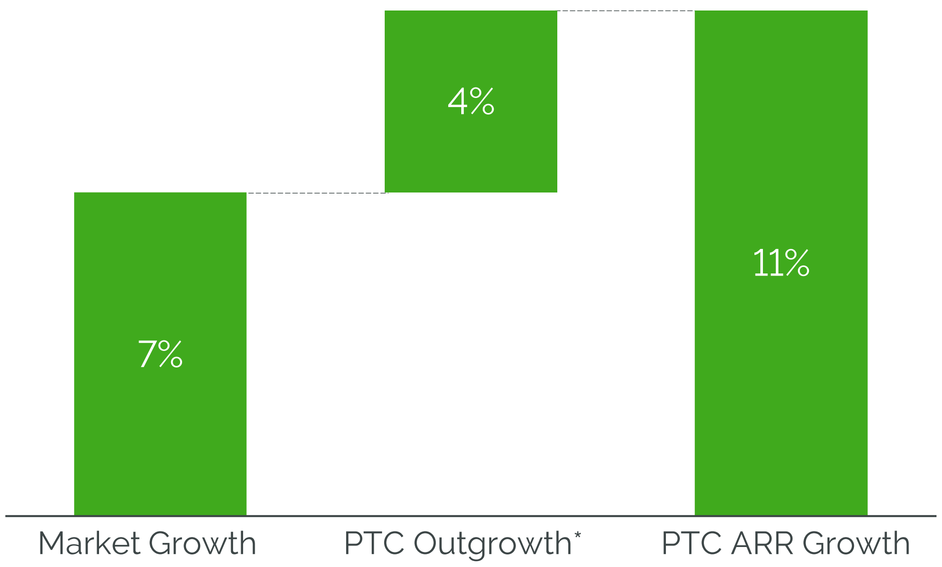
STRONG POSITION IN CAD

CAD: Product data authoring

CAD software market share[1] using comparable definitions of CAD (latest trailing 12 months data)



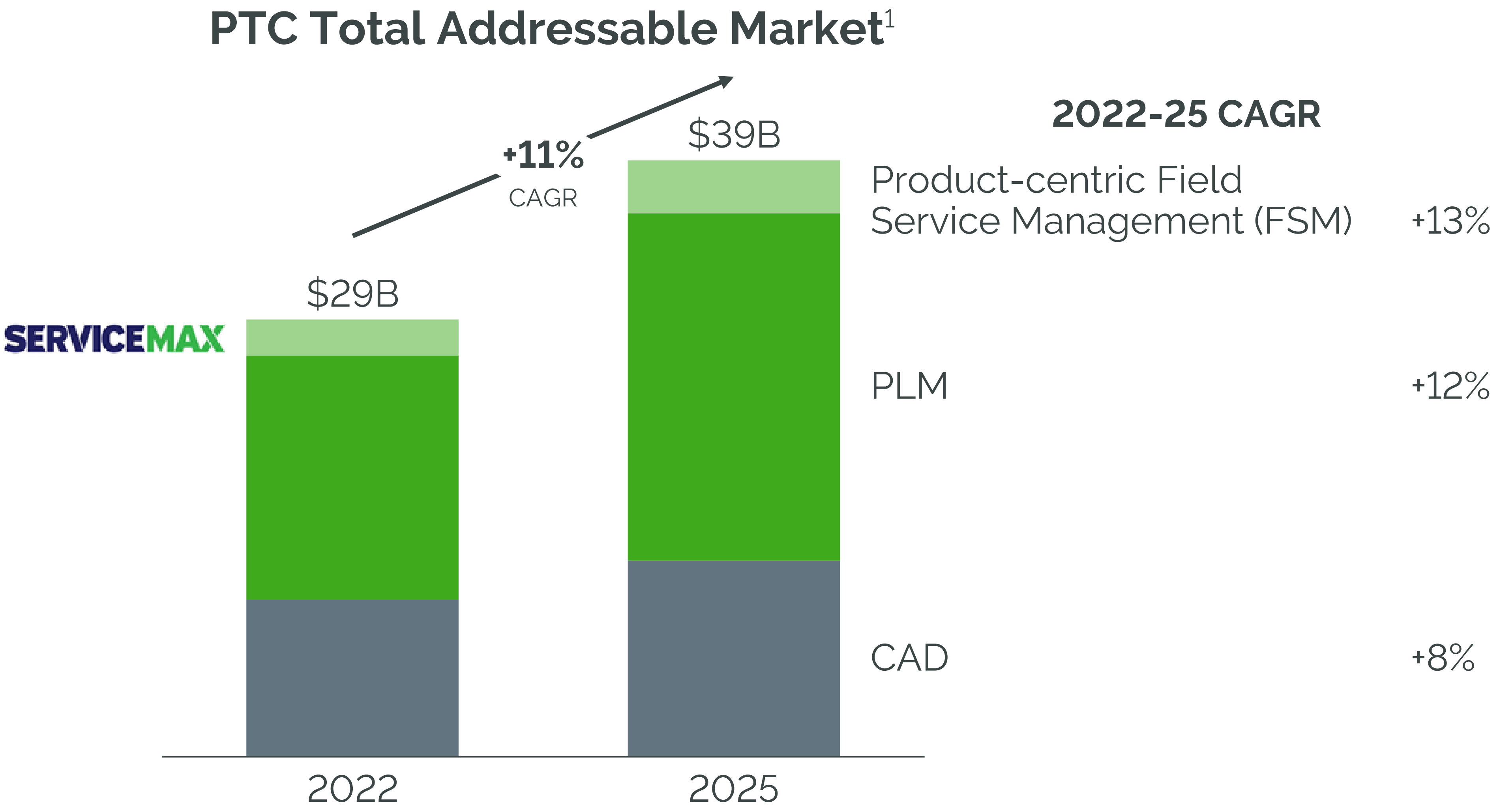
PTC CAD outperformed the market*
FY'22: 11% Organic Growth



***PTC Outgrowth Factors:**
Market share gains, Subscription mix

[1] Source: Company data, industry analyst data, and estimates; latest trailing 12 months pro forma revenue data using a consistent definition of CAD as shown on slide 13 of the 4QFY'22 earnings presentation. Does not include AEC CAD.

LARGE AND GROWING MARKETS



[1] Source: Company data, industry analyst data, and estimates.

WHY THE MOMENTUM?

DISRUPTIVE FORCES ARE DRIVING DIGITAL TRANSFORMATION IN INDUSTRIAL COMPANIES

“

Manufacturers are investing **$524 billion** annually in **digital transformation** initiatives

IDC

EVOLVING WORKFORCE

CLIMATE CHANGE

SOFTWARE EATING THE WORLD

SUPPLY CHAIN DISRUPTION

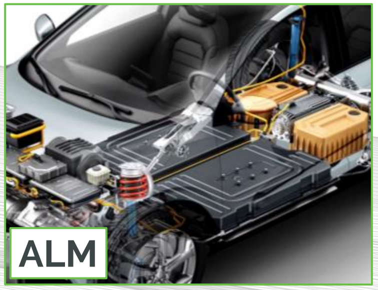
PTC IS AT THE NEXUS OF DIGITAL TRANSFORMATION

DIGITAL
TRANSFORMS
PHYSICAL

DIGITAL TRANSFORMS PHYSICAL

DIGITAL
Defines
PHYSICAL

DIGITAL
Controls
PHYSICAL



DIGITAL
Manages
PHYSICAL

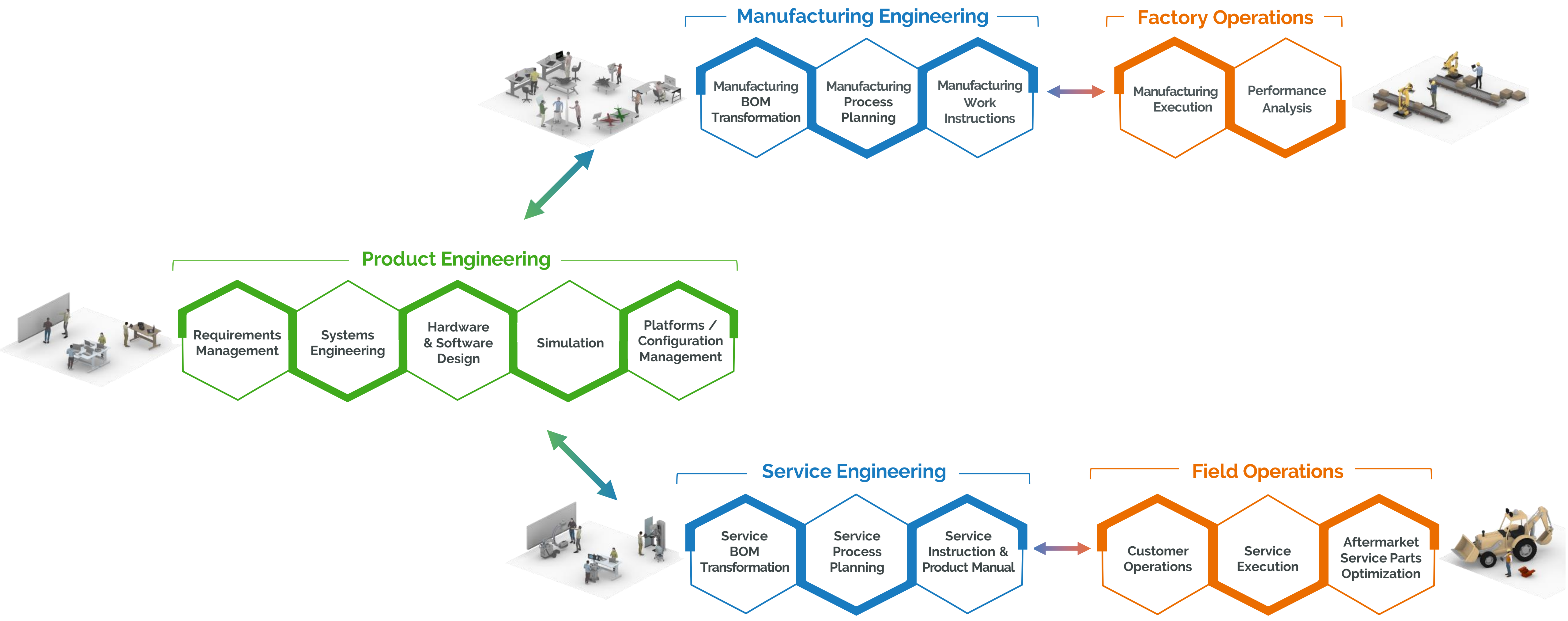
DIGITAL
Connects
PHYSICAL

DIGITAL
Sustains
PHYSICAL

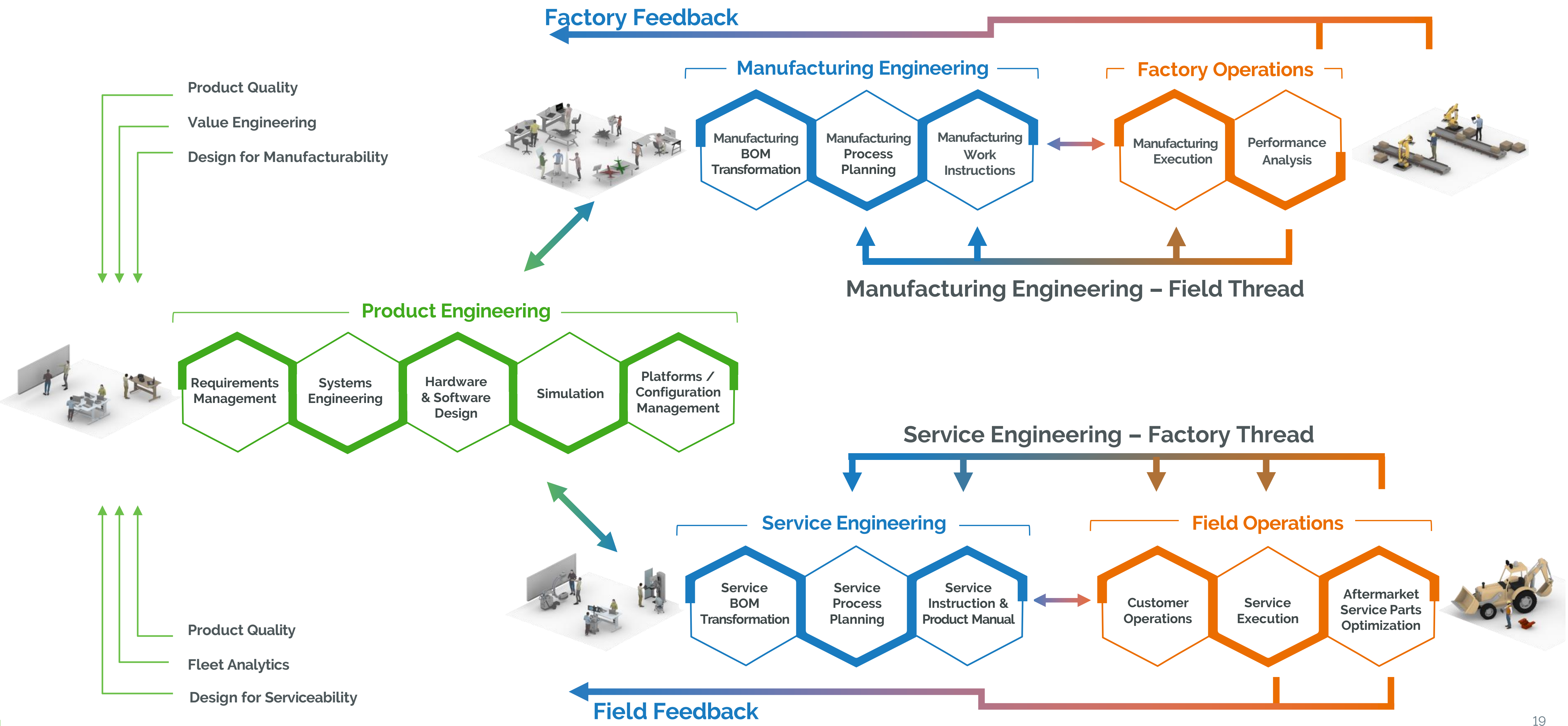
DIGITAL
Augments
PHYSICAL

DIGITAL THREAD

DIGITAL THREAD ACROSS PRODUCT LIFECYCLE



IOT ENABLES CLOSED-LOOP LIFECYCLE MANAGEMENT



BENEFITS EVERY CUSTOMER STRIVES FOR

Time-To-Market

Cost

Quality

KEY DRIVERS OF DEMAND

Regulatory Compliance	Environmental Sustainability	Digital Innovation	Fast Fashion	Modular Platforms
Agile Product Development	Transition to Cloud/SaaS	Industry 4.0	Virtual Workforce	Product with/as a Service

SERVICEMAX

SERVICEMAX AND PTC: A LONG HISTORY TOGETHER

2015

Press Release

ServiceMax Partners with PTC to bring the first ever Connected Field Service product to market.

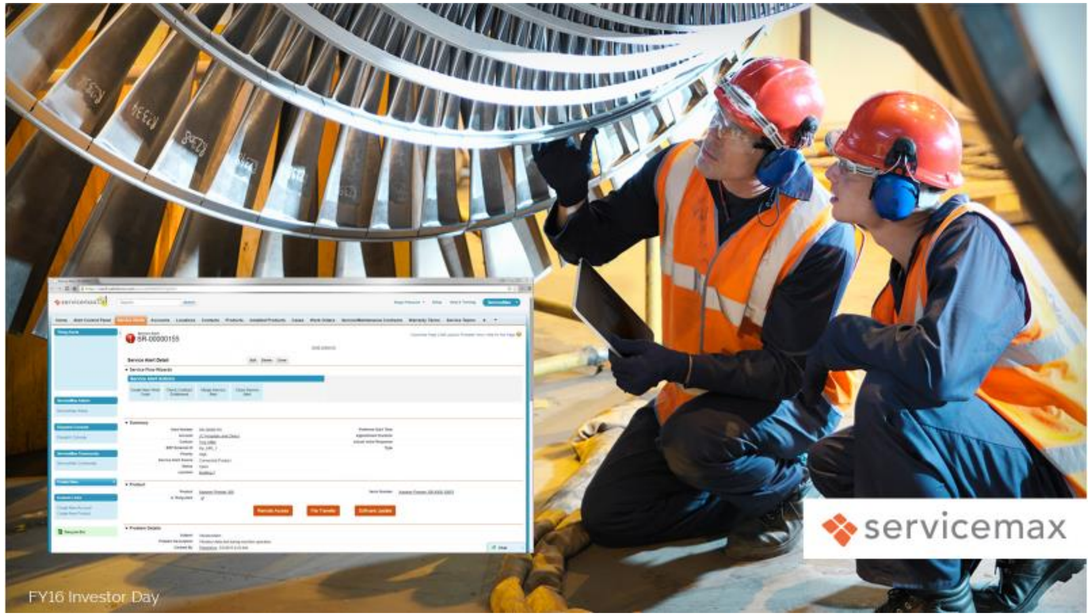
Through agreement to jointly develop, co-sell, and co-market products, industry leader continues to redefine field service

PLEASANTON, Calif., May 5, 2015 – ServiceMax, the field service management solution for a new era of business, today announced a partnership with PTC Inc.(NASDAQ: PTC) in which both companies will provide customers with a seamlessly integrated product that combines modern field service management with connected device management for remote, predictive, and proactive service delivery.

Through this partnership, ServiceMax and PTC will co-develop products, co-market and co-sell each other's offering to enable businesses to use a single, seamless solution for managing and acting on data generated by the burgeoning Internet of Things (IoT).

"This is a new era of business for the field service management industry," ServiceMax CEO Dave Yarnold said. "Success won't come from access to product performance data alone but from the ability to act on that data to deliver flawless service. Leading companies will move to outcome-based service offerings for the growing number of smart, connected devices. ServiceMax is an essential component of the changing service economy."

FY'16 Investor Day



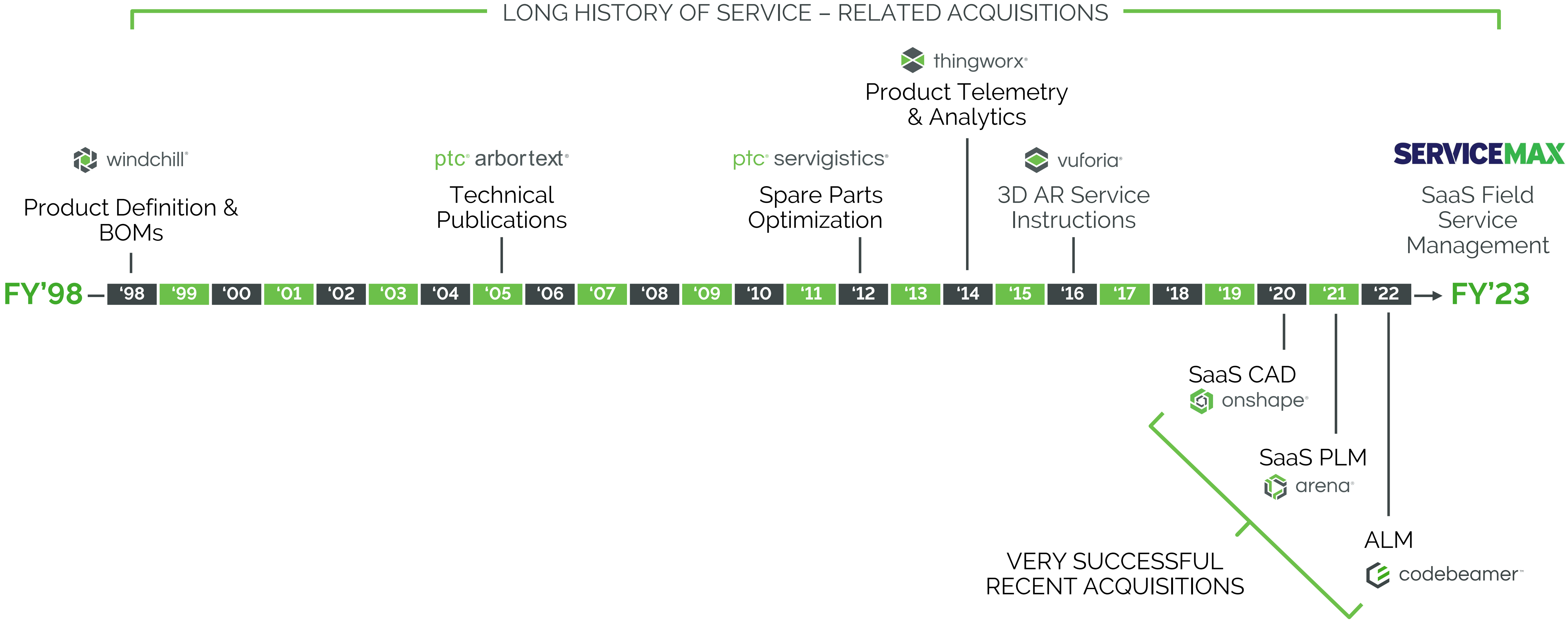
2017

GE Digital Acquires ServiceMax to Extend Predix and Analytics Across Field Service Processes

2019

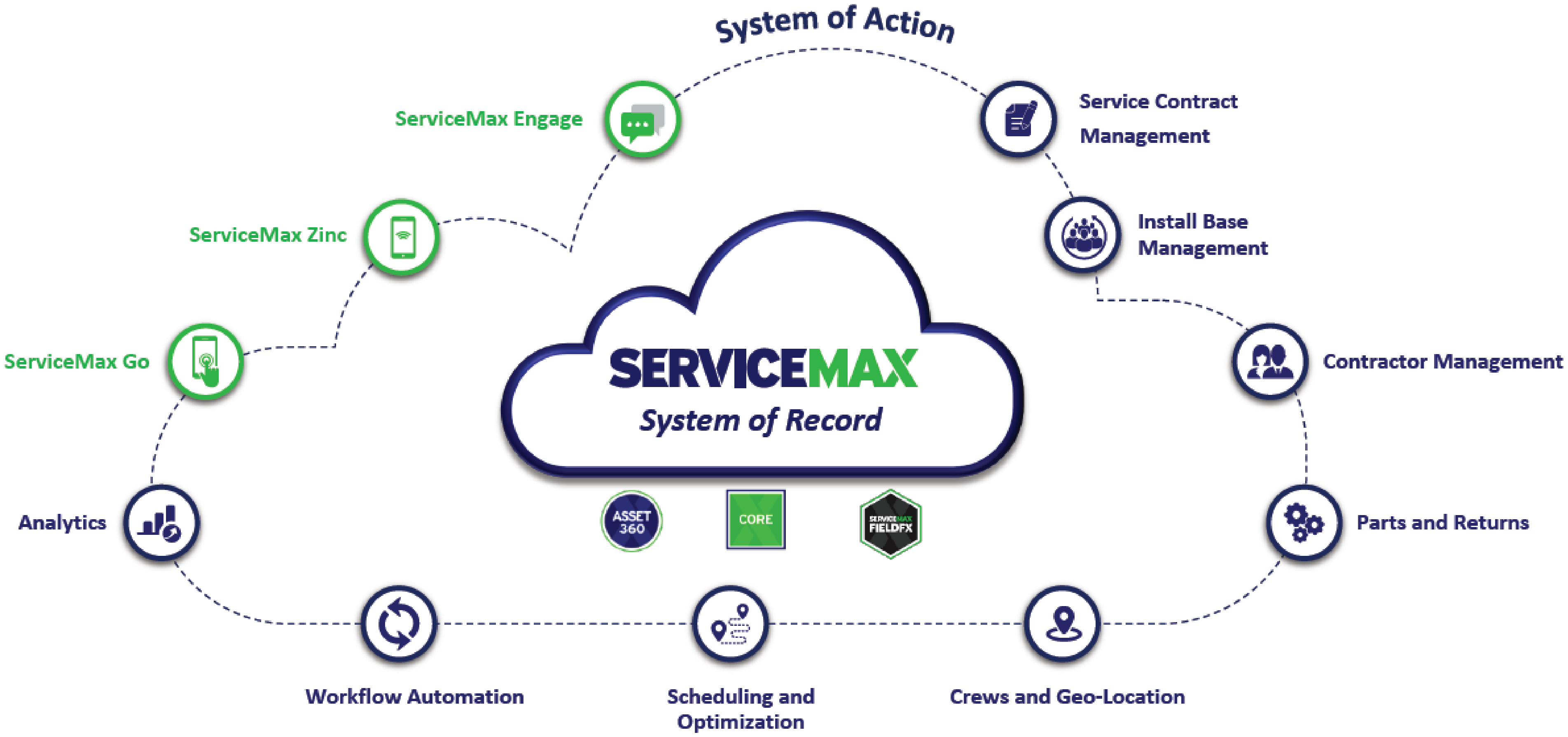
Silver Lake to Acquire Majority Stake in ServiceMax from GE Digital

TRACK RECORD OF M&A SUCCESS



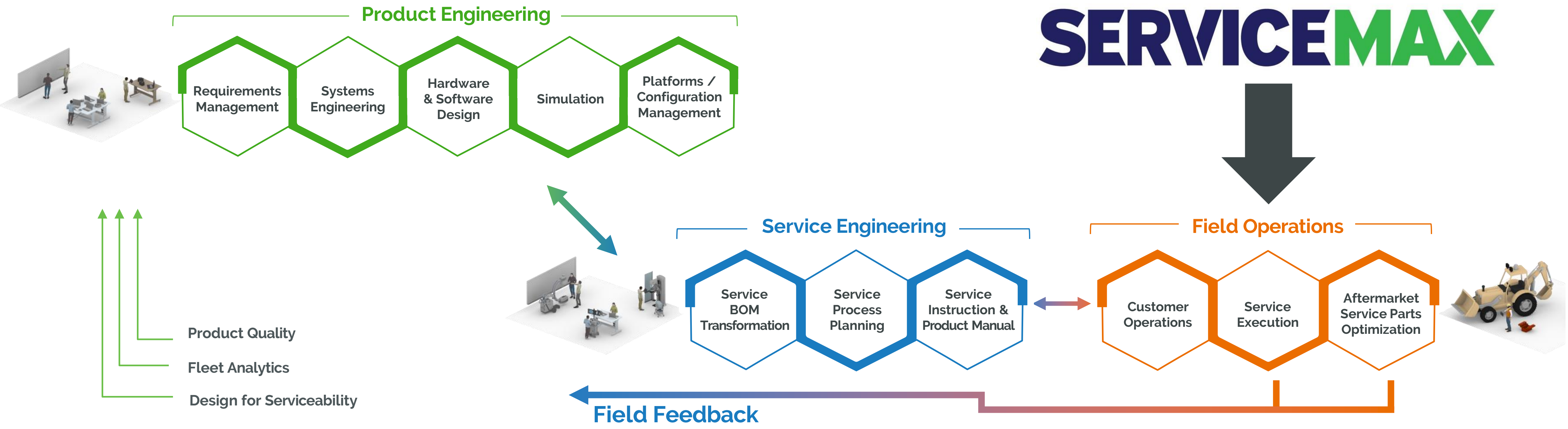
Note: Select subset of acquisitions shown. ServiceMax expected to close early January 2023

TRANSFORMING THE SERVICE PROCESS



SERVICEMAX

PERFECT FIT WITH PTC STRATEGY



SERVICEMAX – A STRONG COMPLEMENT TO PORTFOLIO

Arbortext
2D Service Instructions
ptc arbortext

SERVICEMAX

CAD/PLM
Product Definition / BOMs
creo windchill

IoT
Telemetry / Analytics
thingworx

Servigistics
Spare Parts Optimization
ptc servigistics

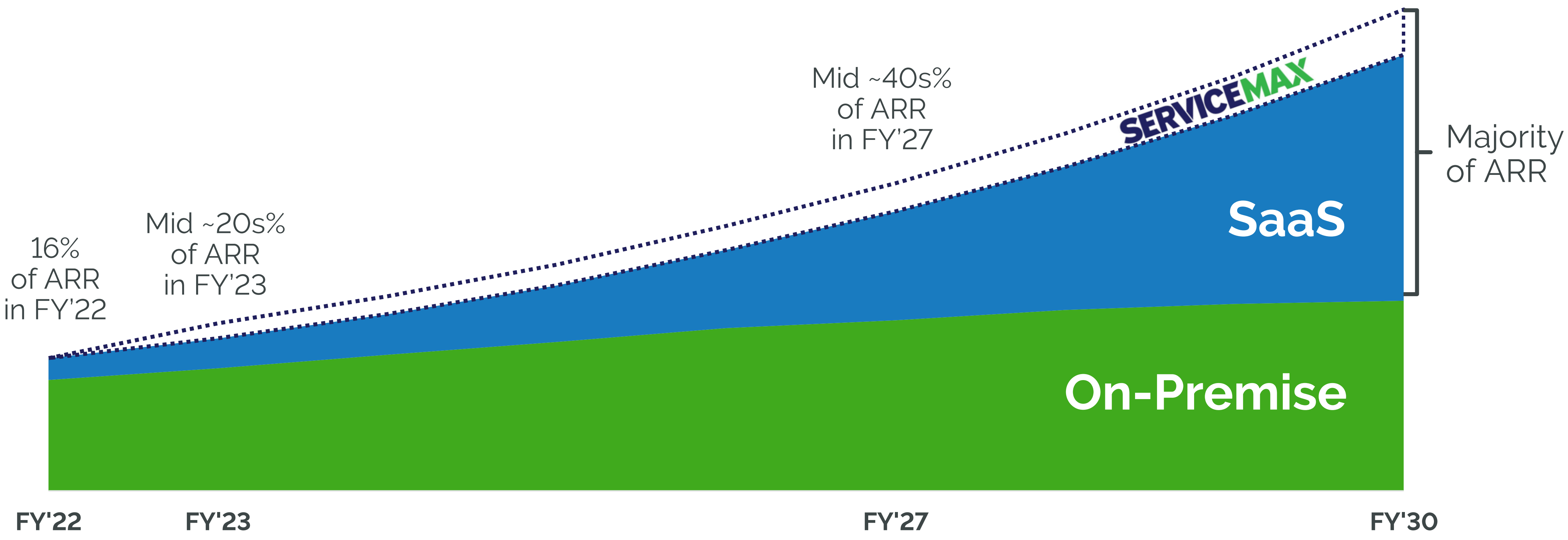
AR
3D Service Instructions
vuforia

MANAGING THE PRODUCT AT THE CUSTOMER SITE

STRONG CUSTOMER SYNERGIES

Complex Products | Long Lifecycles | Critical Uptime | Wear-and-Tear

SaaS WILL BE A LONG-TERM GROWTH DRIVER



MIKE DITULLIO

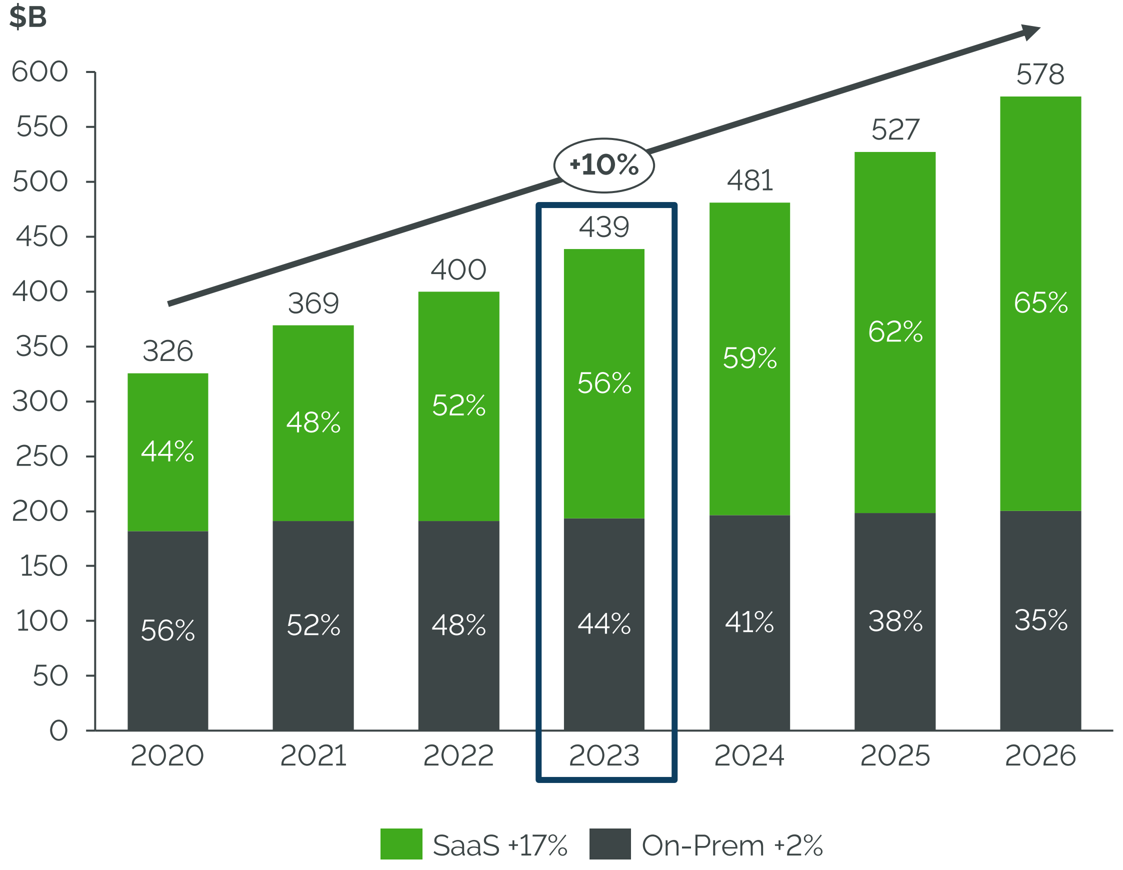
President, Digital Thread

SaaS TIPPING POINT HAS ARRIVED IN B2B SOFTWARE

SaaS in now the majority in the enterprise application market

Global Enterprise Application Market

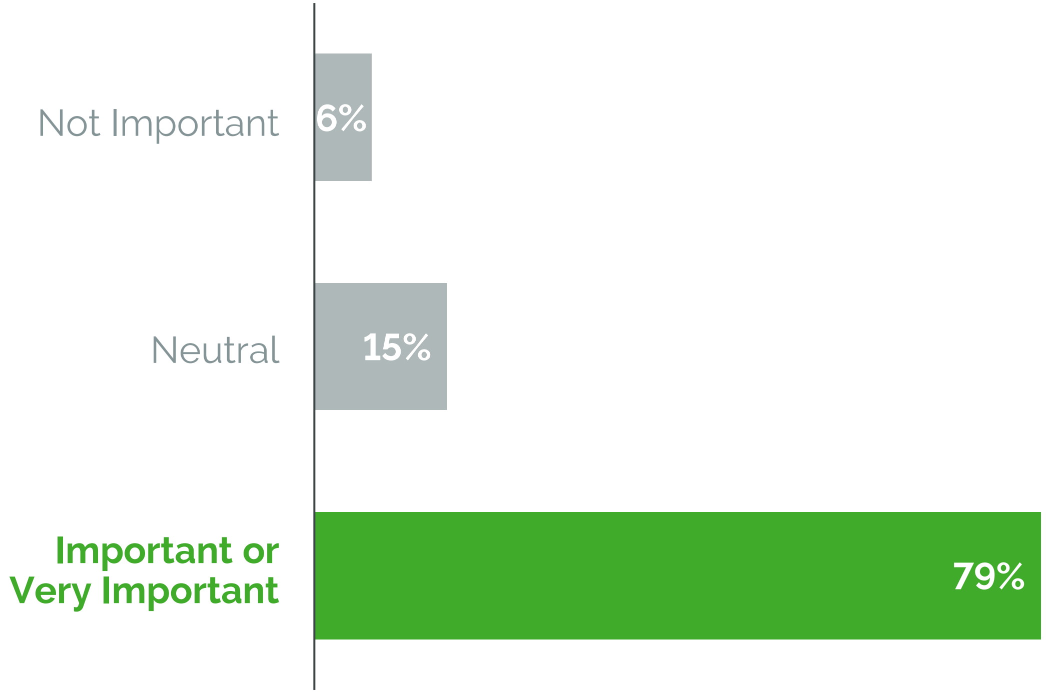
SaaS vs. On-Prem



Source: IDC, "Worldwide Software as a Service and Cloud Software Forecast, 2022-2026," July 2022

Importance of Cloud & SaaS For Product and Service Innovation Efforts

% of respondents, 1-5 scale, consolidated



Source: IDC, "Product and Service Innovation Survey,", May, 2021; N-808

STRONG VALUE PROPOSITION DRIVES SaaS INTEREST

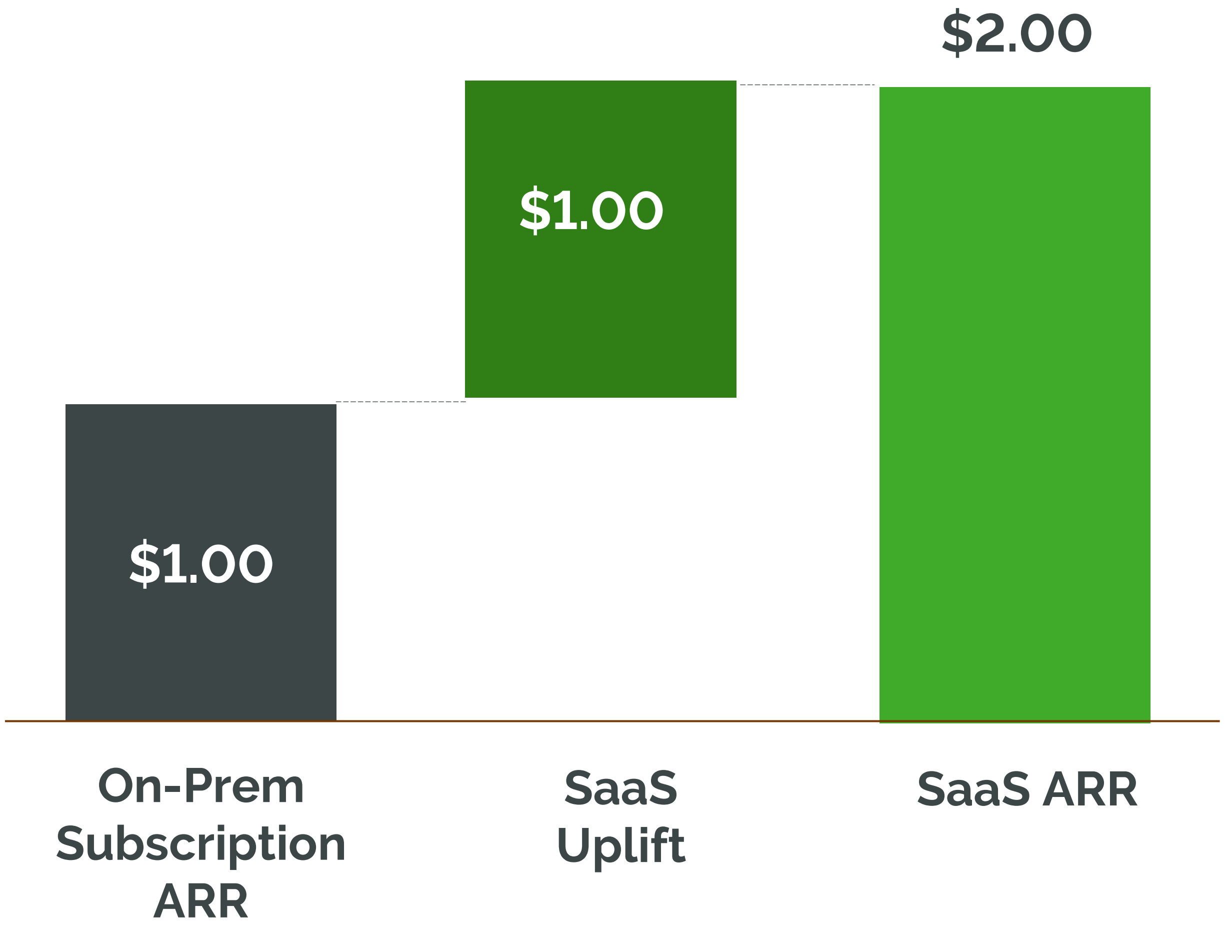
Solution Stack	On-Premise Customer Pays PTC $1		SaaS Customer Pays PTC $2	
Category	Customer Sources	PTC Provides	Customer Sources	PTC Provides
Application Software (e.g., PLM)		$1 to PTC ✓		$1 to PTC ✓
Software Infrastructure Stack	✓			✓
Servers	✓			✓
Storage	✓	$2-$3 to Others	$1 to PTC	✓
Install & Setup	✓			✓
Security & Other Patches	✓			✓
Upgrades	✓			✓
System Integration, Process Re-engineering	✓		✓	

Key Benefits of SaaS: More innovation, better collaboration, lower TCO, improved security, fewer headaches

SaaS customers shift cost of hardware stack, software stack, and system administration to PTC

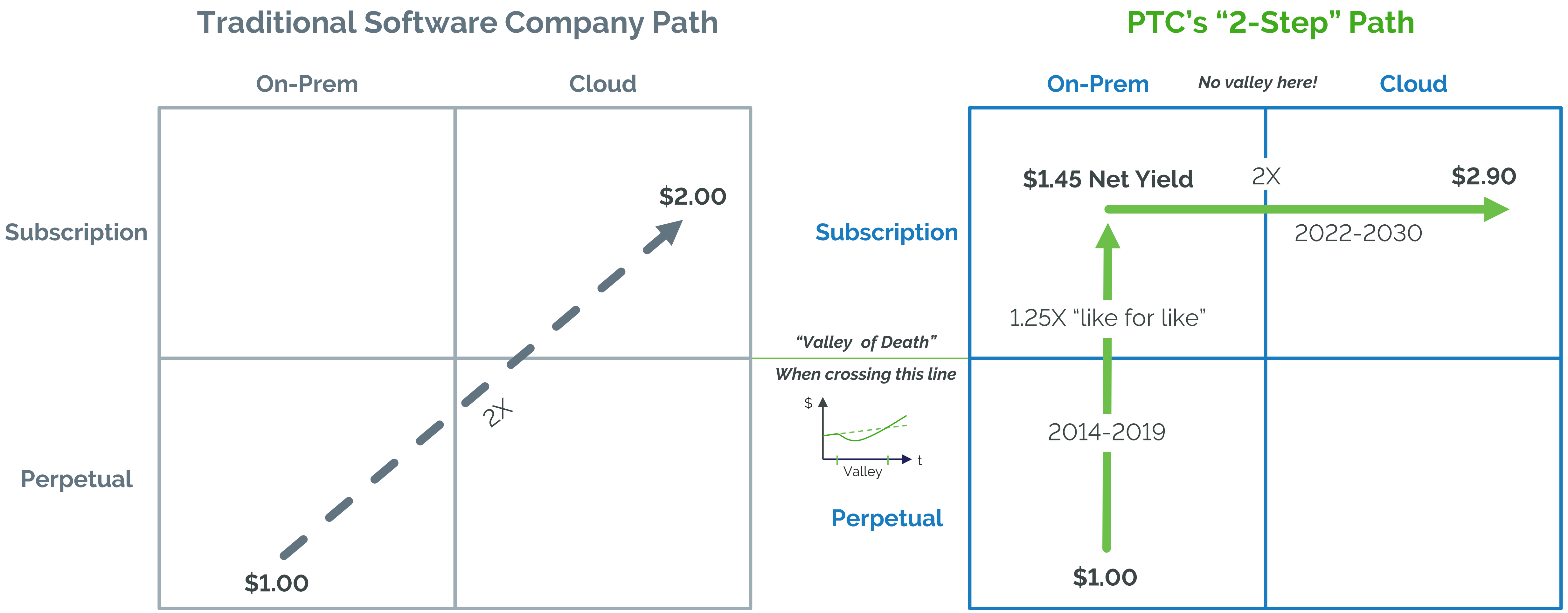
SaaS eliminates friction in the digital thread

SaaS DRIVES 2X ARR UPLIFT

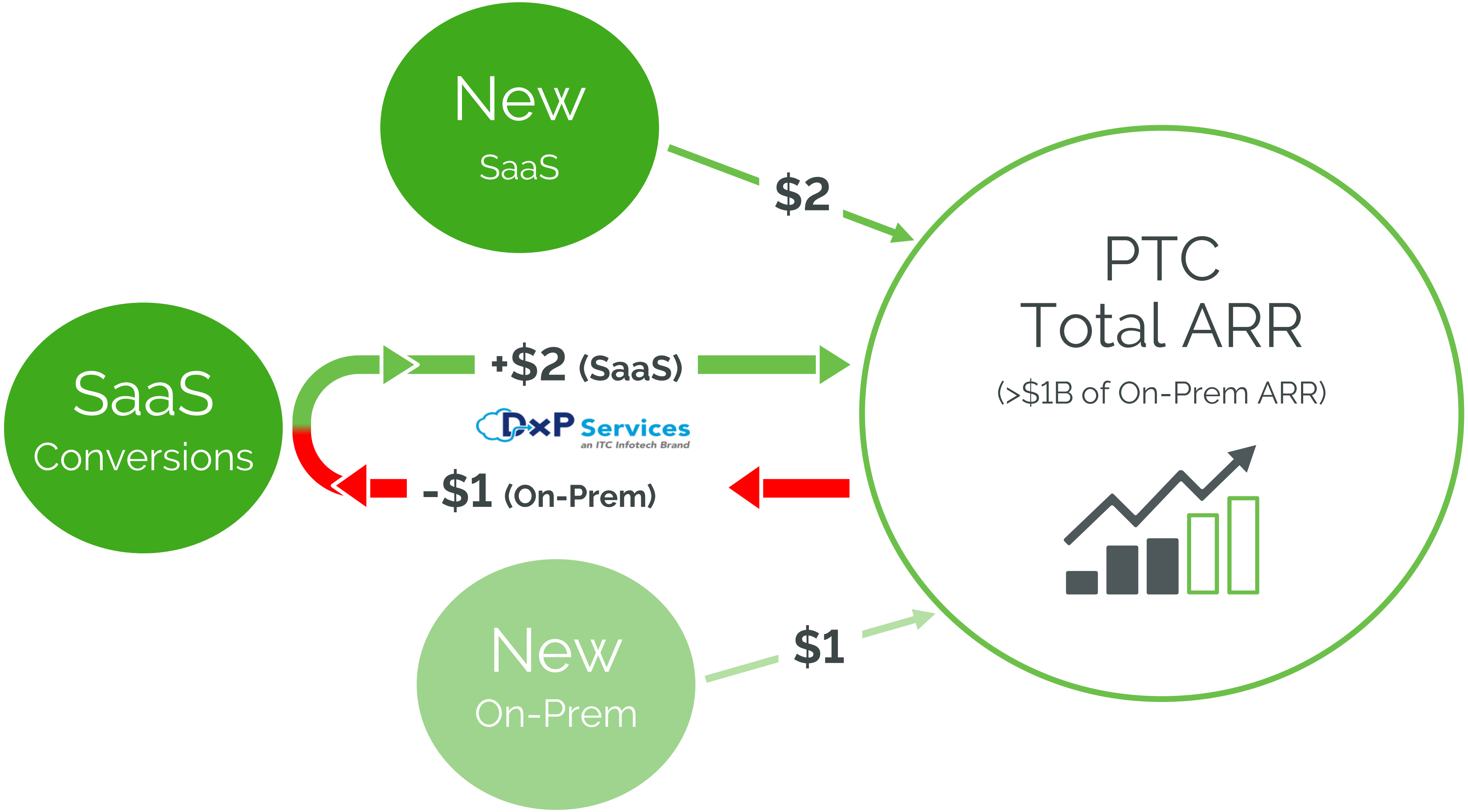


- We are in the early days of Windchill+, with limited data points, but actual results so far are better than 2X, ranging from 2.4X to more than 3X.
- Lower discounting rates typical for SaaS is a helpful factor.
- We continue to think 2X is an appropriately conservative number to plan against.

CHARTING PTC'S PATH TO SUBSCRIPTION AND SaaS

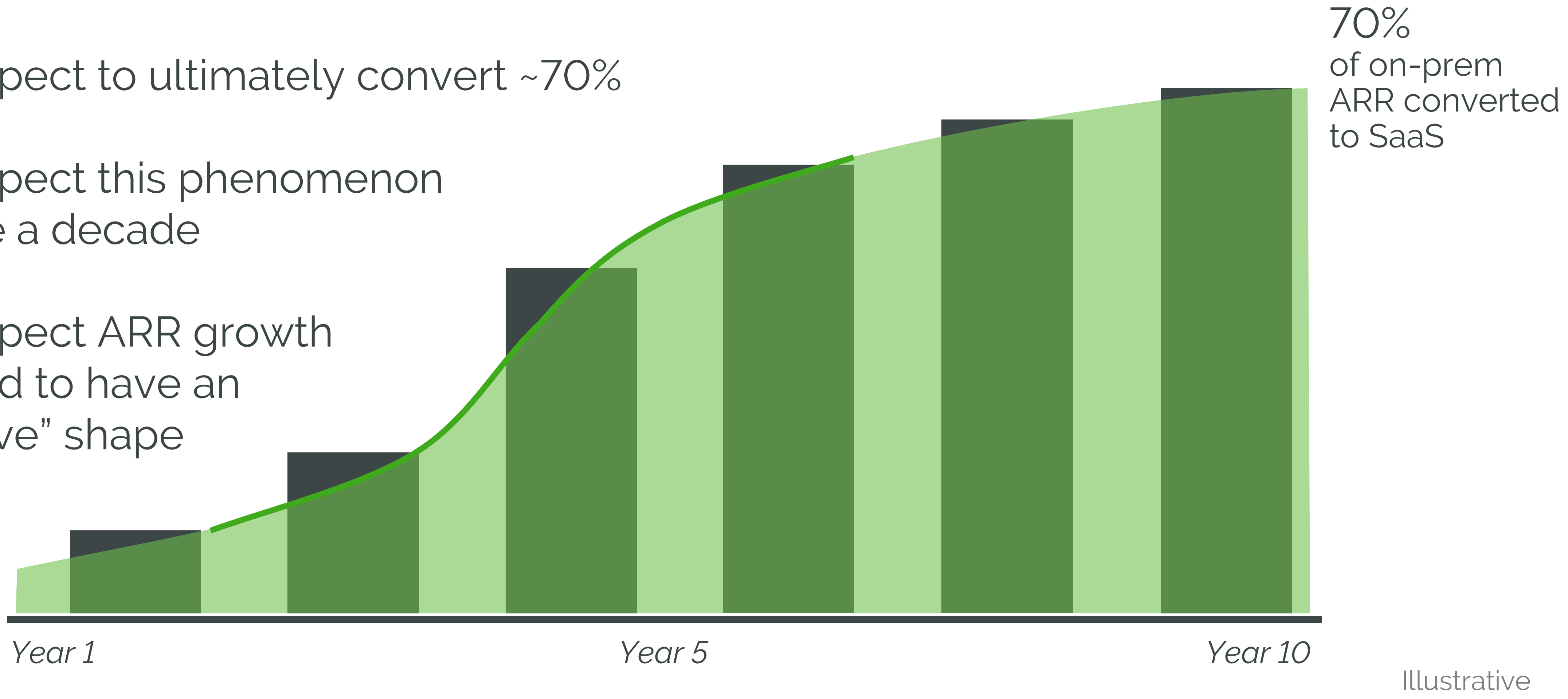


SaaS WILL BE A LONG-TERM GROWTH DRIVER



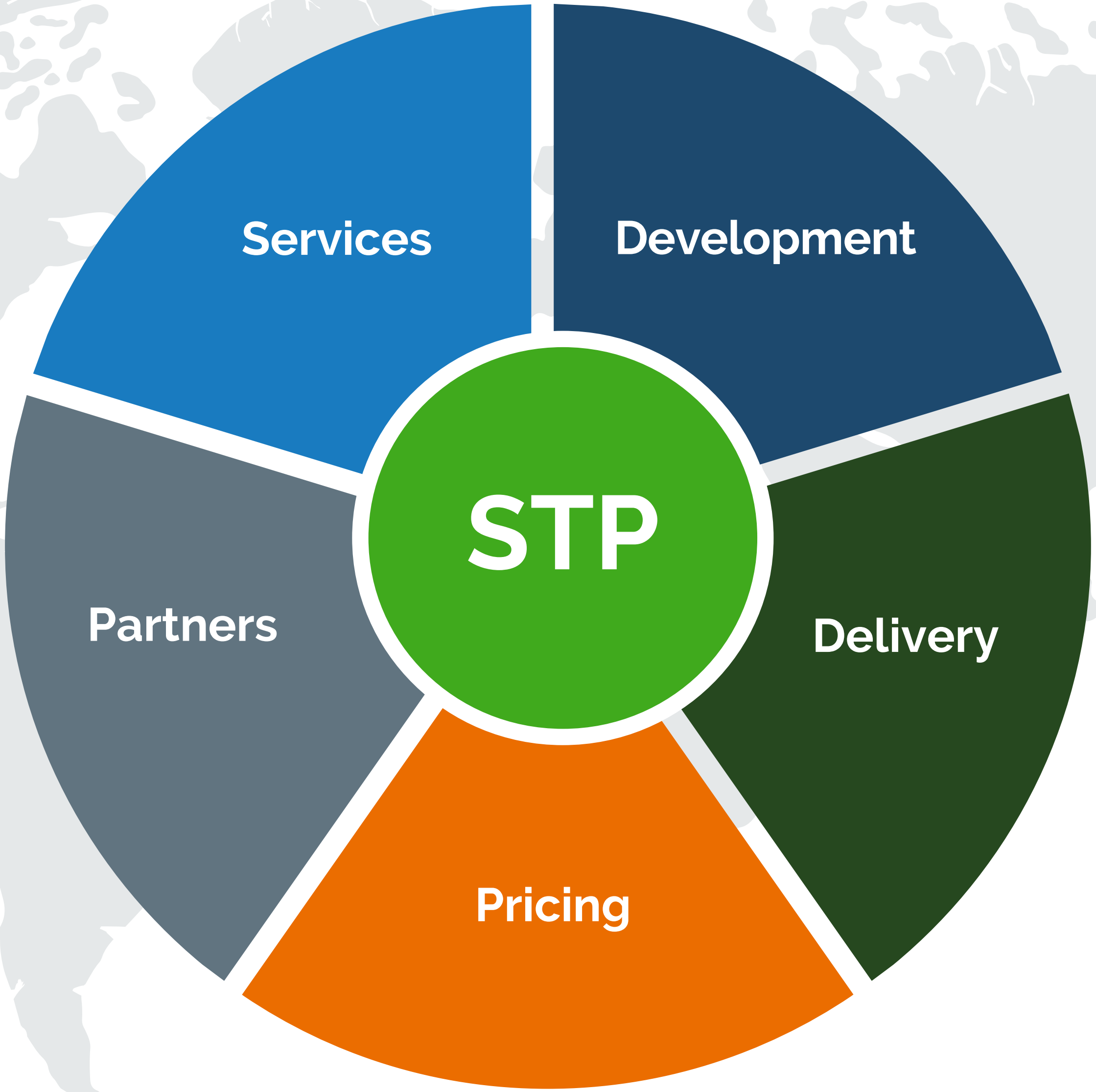
SaaS CONVERSIONS ➔ ARR GROWTH TAILWIND

- We have >$1B on-prem ARR
- We expect to ultimately convert ~70%
- We expect this phenomenon to take a decade
- We expect ARR growth tailwind to have an "S-curve" shape



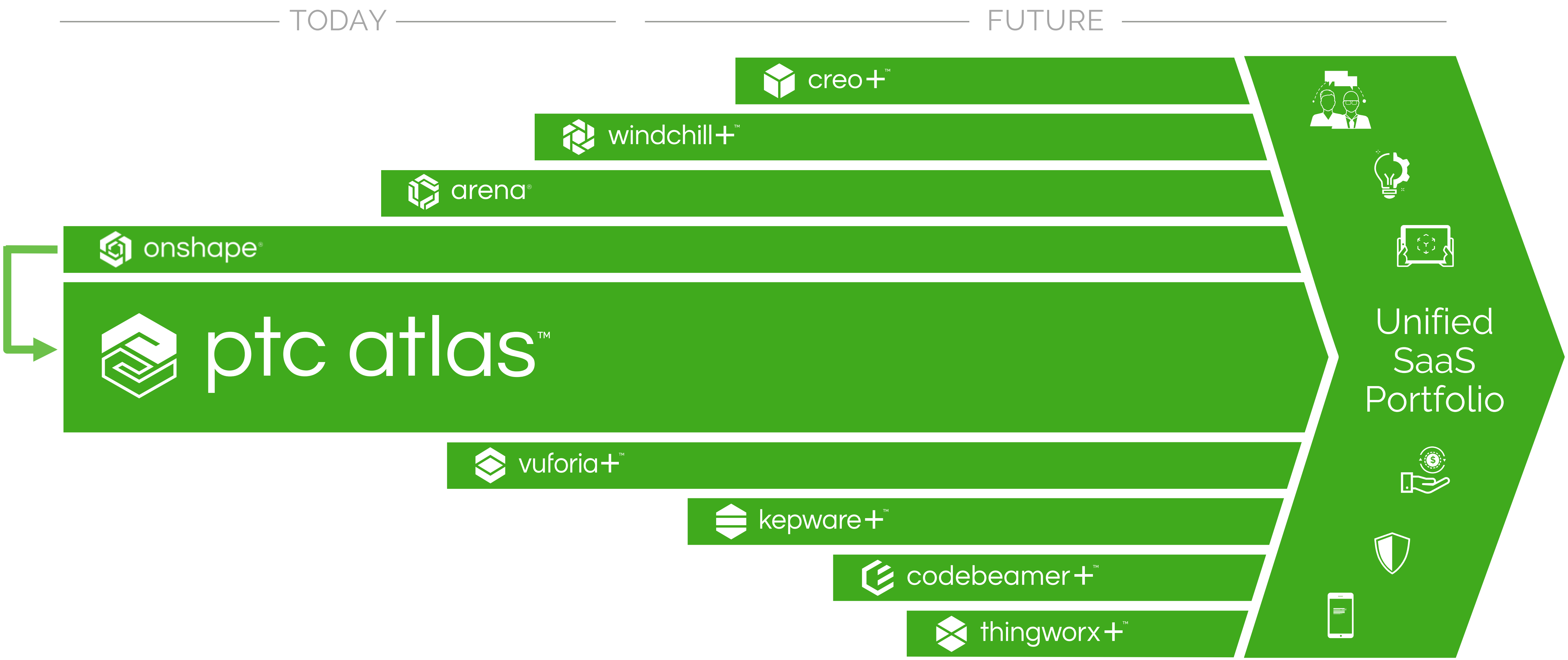
GOVERNED BY MAJOR SaaS TRANSITION PROGRAM (STP)

Mission:
Accelerate PTC's SaaS value creation opportunity by driving SaaS-first practices (across people, processes, products, and systems)



60+ leaders working together across 30+ workstreams to drive our SaaS transition

ATLAS SaaS PLATFORM



Note: we plan to continue to indefinitely offer on-prem offerings for Creo, Windchill, Integrity/Codebeamer, ThingWorx and Vuforia built from same code bases.

SaaS PRODUCT OFFERINGS

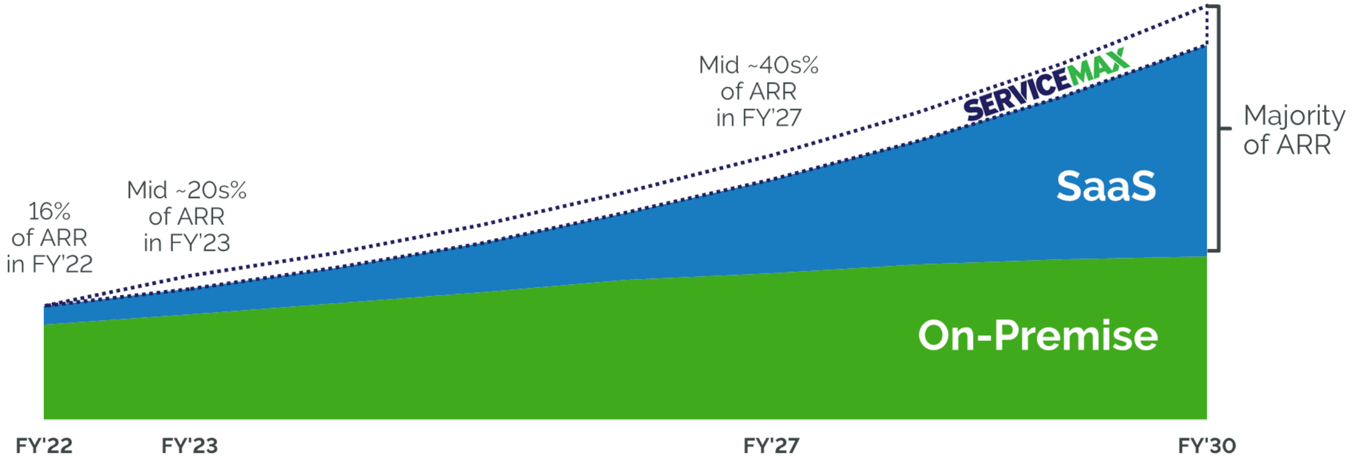
Cloud-Native SaaS	"Plus" Products Today	December 2022	May 2023
onshape®	windchill+™	kepware+™	creo+™
arena®	vuforia+™		

In Development

thingworx+™ codebeamer+™

LEADING OUR INDUSTRY TO SaaS

- SaaS tipping point has occurred in B2B software
- PTC is all in with our SaaS Transition Program
- Customer interest in SaaS is high
- SaaS will be a growth tailwind
- Converting the customer base will be a multi-year journey



ServiceMax acquisition expected to close early January 2023

KRISTIAN TALVITIE

Chief Financial Officer

FINANCIAL STRATEGY

Align with market demand

Capital allocation aligned with technology leadership

Drive sustainable top-line ARR growth

Value creation through transformation

Grow free cash flow

Business model and operational discipline

ptc

DIGITAL TRANSFORMS PHYSICAL

ARR AND FREE CASH FLOW ARE THE BEST INDICATORS OF PTC'S BUSINESS PERFORMANCE

Top-Line

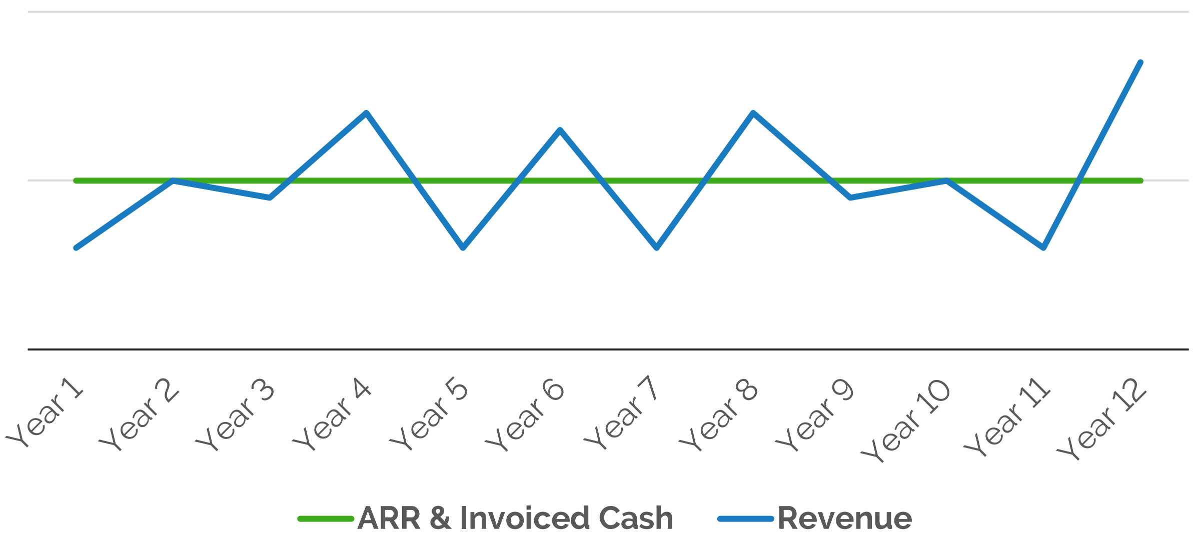
We believe that **ARR** is the best indicator of PTC's top-line performance

Bottom-Line

We believe that **free cash flow** is the best indicator of PTC's bottom-line performance

WHY WE FOCUS ON ARR AND FREE CASH FLOW[1]

ASC 606 Volatility: Revenue versus ARR
(refer to Q4'22 earnings call)



$1 ARR → $1 Revenue

over the term of a contract

Free Cash Flow = f(ARR)

Revenue is noise[2] when assessing PTC's business performance

[1] Refer to appendix slides and our Q4'22 earnings call for a more fulsome review

[2] Technical definition: irregular fluctuations that accompany a transmitted signal but are not part of it and tend to obscure it

A LOOK BACK AT RESULTS VERSUS FY'22 TARGETS

Strong results, despite FX headwinds and macro uncertainty

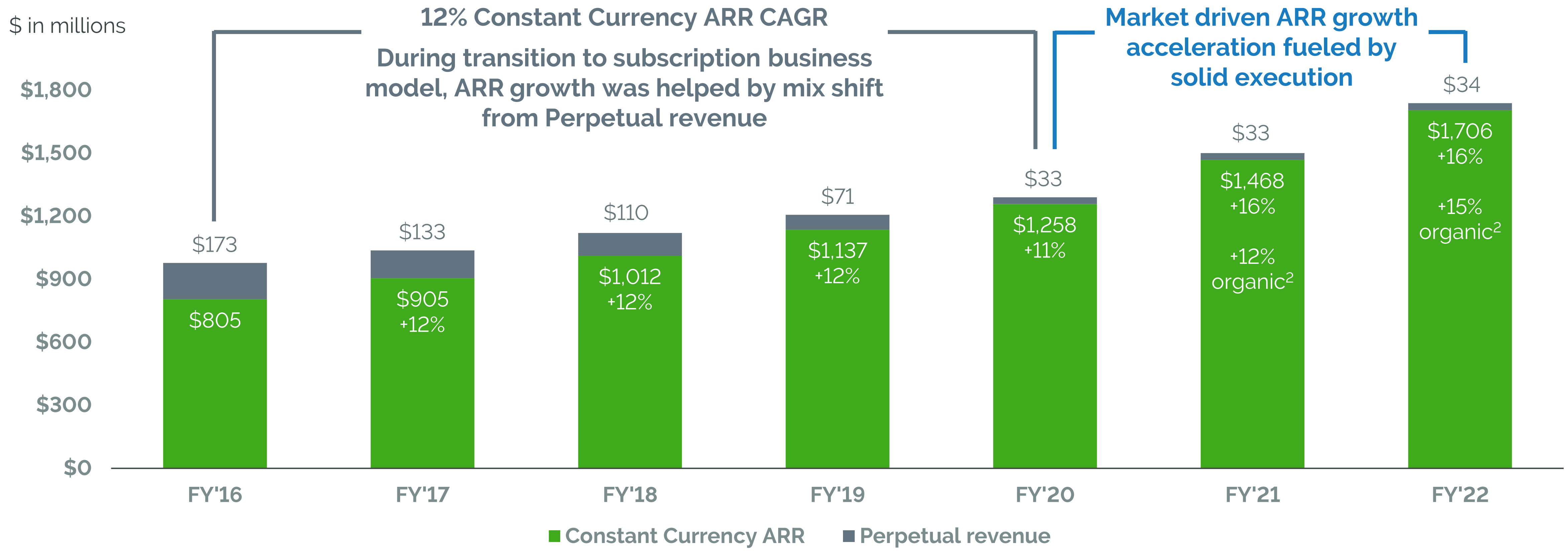
$ in millions	FY'22 Initial Growth Guidance	FY'22 Initial Guidance	FY'22 Actual Growth	FY'22 Actual Results
ARR at Constant Currency[1]	10% - 13%	$1,615 - $1,660	+16%	$1,706
Cash from Operations	~17%	~$430	+18%	$435
Free Cash Flow	~16%	~$400	+21%	$416
Adjusted Free Cash Flow	~15%	~$450	+20%	$468
Revenue	2% - 9%	$1,850 - $1,975	+7%	$1,933

FY'22 organic constant currency ARR growth of 15% (excluding Codebeamer), versus initial guidance of 10% to 13%

[1] On a constant currency basis, using our FY'22 Plan foreign exchange rates (rates as of September 30, 2021) for all periods

ARR GROWTH ACCELERATION[1]

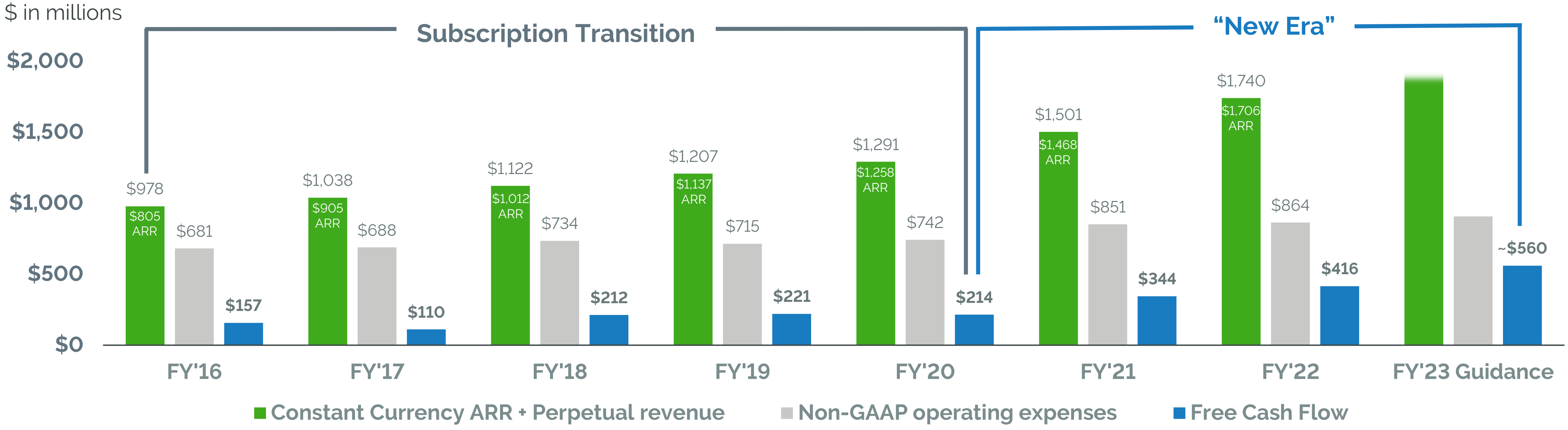
Organic constant currency ARR growth accelerated to 15%



1 On a constant currency basis, using our FY'22 Plan foreign exchange rates (rates as of September 30, 2021) for all periods
2 Arena acquisition in Q2'21, Russia exit in Q2'22, and Codebeamer acquisition in Q3'22

A "NEW ERA" OF FREE CASH FLOW GROWTH AND STABILITY

Market leading products + subscription model + cost discipline = operating leverage

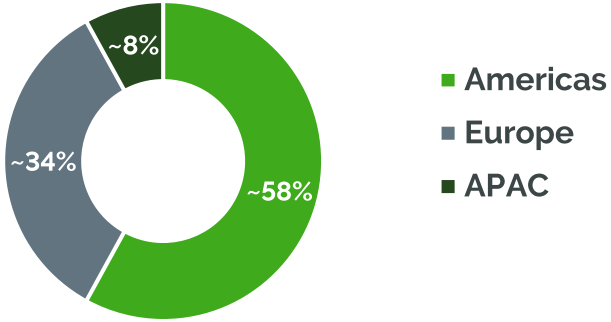


	FY'16 to FY'20 CAGR	FY'20 to FY'22 CAGR	FY'23 Growth Guidance
Constant Currency ARR[1] growth	12%	16%	10% - 14%
Non-GAAP Operating Expense growth	2%	8%	0% - 1%
Free Cash Flow growth	**8%**	**40%**	**~35%**

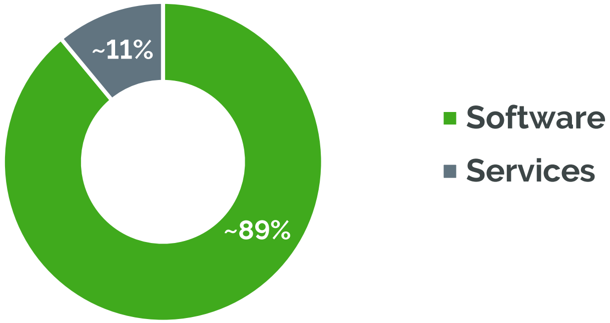
[1] On a constant currency basis, using our FY'22 Plan foreign exchange rates (rates as of September 30, 2021) for all periods

SERVICEMAX KEY FIGURES

Expected FY'23 Revenue by Geographic Region



Expected FY'23 Revenue by Line of Business



ServiceMax within PTC	FY'23 Expectation
Constant Currency ARR[1]	~$175 million (~$160 million in Q2'23)
ARR Collections mix	~95% U.S. Dollar
Free Cash Flow impact to PTC[2]	~$5 million accretive
Revenue	~$140 million from Q2'23 - Q4'23
Non-GAAP Gross Margin %	~70%
Non-GAAP Operating Expense	~$70 million from Q2'23 - Q4'23

[1] On a constant currency basis, using our FY'23 Plan foreign exchange rates (rates as of September 30, 2022)
[2] On a net basis, taking into account ServiceMax's free cash flow, partially offset by transaction-related payments and incremental interest payments

CAPITAL STRUCTURE UPDATE

Strong balance sheet as of September 30, 2022

- Cash and cash equivalents of $272 million
- Gross borrowings of $1.359 billion with an aggregate interest rate of 3.9%
  - $1.0 billion of senior notes with an aggregate interest rate of 3.8%
  - $359 million drawn on revolving credit facility (RCF) with a variable interest rate of 4.1%

The ServiceMax acquisition will be funded in two stages

- $808 million to be paid at closing, funded with a new $500 million committed term loan and borrowings under our RCF
- $650 million to be paid in October 2023, funded with cash on hand and borrowings under our RCF
- Expect total interest and other payments of ~$85 million in FY'23, ~$120 million in FY'24, and ~$70 million in FY'25, which assumes a 6% interest rate on our variable interest rate debt
- Expect to repay RCF and new $500 million term loan by end of FY'25

Share repurchase program

- Given the interest rate environment, we expect to prioritize paying down our debt in FY'23 and FY'24
- Our long-term goal, assuming our Debt/EBITDA ratio is below 3x, is to return approximately 50% of our free cash flow to shareholders via share repurchases, while also taking into consideration the interest rate environment and strategic opportunities

FY’23 GUIDANCE INCLUDING SERVICEMAX

$ in millions	FY'22 Actual	FY'23 Guidance (excluding ServiceMax)	FY'23 Growth (excluding ServiceMax)	FY'23 Guidance (including ServiceMax)	FY'23 Growth (including ServiceMax)
ARR at Constant Currency[1]	$ 1,572	$1,730 - $1,790	10% - 14%	$1,905 - $1,965	21% - 25%
Cash from Operations	$ 435	~$580	~33%	~$585	~34%
Free Cash Flow	$ 416	~$560	~35%	~$565	~36%
Adjusted Free Cash Flow	$ 468	~$562	~20%	~$573	~22%
Revenue	$ 1,933	$1,910 - $1,990	(1)% - 3%	$2,050 - $2,130	6% - 10%

External factors that could positively or negatively impact FY’23 targets include

- Macro economic environment
- Foreign exchange rates

[1] On a constant currency basis, using our FY’23 Plan foreign exchange rates (rates as of September 30, 2022) for all periods

FY'25 TARGETS INCLUDING SERVICEMAX

$ in millions	FY'22 Actual (excluding ServiceMax)	FY'25 Targets (including ServiceMax)
Constant Currency ARR growth	16% (15% organic)	Mid-teens %
Non-GAAP Cash Contribution Margin %[1]	32%	~40%
Free Cash Flow	$416	$825 to $875

External factors that could positively or negatively impact FY'25 targets include

- Macro economic environment
- Foreign exchange rates
- Impact of Internal Revenue Code Section 174
  - Included in FY'25 free cash flow target; there would be ~$75 million upside if repealed

[1] Cash contribution margin % = Cash generation less non-GAAP cost of revenue and non-GAAP operating expenses, divided by cash generation
Cash generation = ARR + Perpetual revenue + Professional services revenue

MODELING CASH GROSS MARGIN % DURING SaaS EVOLUTION

ServiceMax included in FY'23 and beyond

Cash Generation by line of business $ in millions	FY'22 Actual	FY'23 Illustrative	FY'25 Illustrative	FY'27 Illustrative	Illustrative Non-GAAP Gross Margin %	Assumptions
On-premise ARR[1]	$ 1,320	$ 1,480	$ 1,480	$ 1,480	92%	1
SaaS subscriptions ARR[1]	$ 252	$ 460	$ 950	$ 1,575	70%	1
Perpetual license revenue	$ 34	$ 25	$ 25	$ 25	96%	2
Professional services revenue	$ 163	$ 125	$ 115	$ 105	6% (13% in FY'22)	3

Total	FY'22 Actual	FY'23 Illustrative	FY'25 Illustrative	FY'27 Illustrative
Total cash generation gross margin %	**81%**	**~82%**	**~80%**	**~78%**

Assumptions

1. SaaS includes hosting services. FY'23 ARR modeled at midpoint of guidance. Thereafter, ARR is prudently modeled to grow 12% annually (below FY'25 "mid-teens" growth guidance). Furthermore, to "stress test" this cash gross margin model, the higher margin on-prem ARR is held flat, and all of the growth is put to the lower margin SaaS ARR. **This is not what we expect, but instead illustrates a scenario that puts pressure on gross margin.**
2. FY'23 Perpetual license revenue modeled in-line with the Illustrative FCF model from our Q4'22 earnings presentation, and flat thereafter
3. FY'23 Professional services revenue modeled in line with the Illustrative FCF model from our Q4'22 earnings presentation, and continuing to decline thereafter; Non-GAAP gross margin % is expected to decline in FY'23, compared to FY'22, due to the acquisition of ServiceMax

1 On a constant currency basis, using our FY'23 Plan foreign exchange rates (rates as of September 30, 2022) for all periods

DELIVERING SHAREHOLDER VALUE OVER TIME

Performing while transforming

- Subscription business model
- Leading our industry to SaaS
- Growth acceleration and margin expansion
- Continuous spend optimization
- Onshape, Arena, Codebeamer, and ServiceMax acquisitions

Management has demonstrated an ability to proactively adapt to changing macro environments and market opportunities

Disciplined operational management

- Non-GAAP Operating Expense growth at less than half the rate of ARR growth
- Free Cash Flow growth faster than ARR growth

We will control costs in turbulent times, but also invest in long-term opportunities

WRAP UP

STRONG PORTFOLIO AND STRATEGY

Portfolio of products is unique and compelling

Strategy and evolving portfolio align well to customer demand

Ranked as technology leader across portfolio

STRONG EXECUTION

Sustainable double-digit top-line growth

Targeting mid-teens constant currency ARR growth in FY'25

PROFITABILITY EXPANSION

FY'25 target non-GAAP cash contribution margin of ~40%

Hiring and investing in-line with macro environment and market opportunity

POSITONED TO DRIVE STRONG GROWTH

Business model, market position, and execution support continued growth

Highly resilient model with SaaS tailwinds

PTC has never been in a better position to create shareholder value

QUESTIONS?

DIGITAL TRANSFORMS PHYSICAL

THANK YOU

ptc.com

APPENDIX: COMPARISON OF ARR VS. REVENUE (SUMMARY)

\$1 ARR → \$1 Revenue

Free Cash Flow = f(ARR)

Revenue is noise[1] when assessing PTC's business performance

[1] Technical definition: irregular fluctuations that accompany a transmitted signal but are not part of it and tend to obscure it

APPENDIX: KEY DEFINITIONS

Bookings

Bookings represents 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.

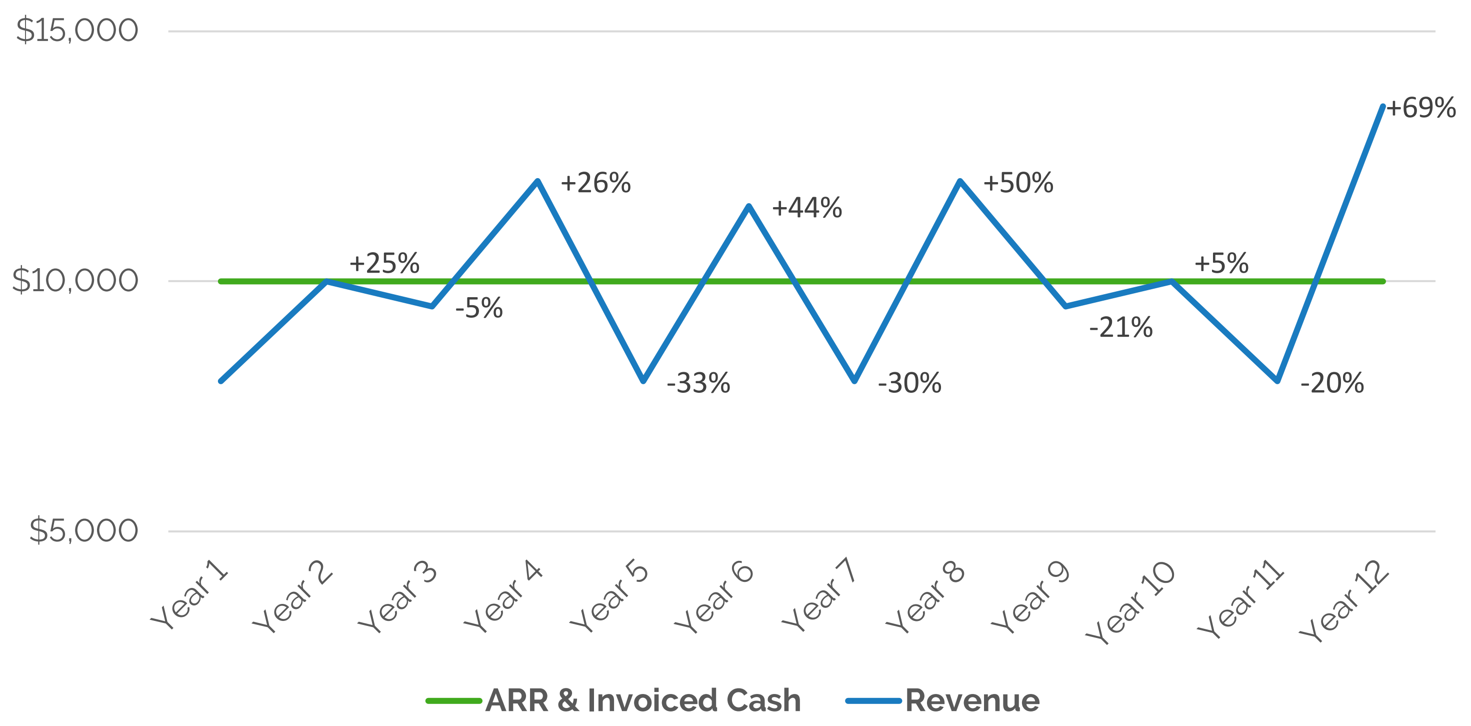
ARR (Annual Run Rate)

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.

We believe ARR is a valuable operating metric to measure the health of a subscription business because it captures the expected subscription and support cash generation from customers.

ARR is a close proxy for subscription invoicing

APPENDIX: COMPARISON OF ARR VS. REVENUE (EXHIBIT A)



This hypothetical model assumes

- No growth, price increases, or churn
- No changing software type (e.g. support to subscription, or subscription to SaaS)
- All contracts the same size ($1,000)
- No changing contract lengths (e.g. 1 year to 3 year, or 3 year to 1 year)
- No FX impact

Key takeaways

- ARR (Annual Run Rate) is the same ($10,000) every year
- Invoiced cash is the same ($10,000) every year
- Revenue is highly dependent on the mix of contracts starting/renewing in any given year; growth rates range from -33% to +69% (and everything in between!)

Over the term of each contract, each $1 of ARR will turn into $1 of revenue

How and when that revenue is recognized can vary significantly from period to period

APPENDIX: COMPARISON OF ARR VS. REVENUE (EXHIBIT B)

Type of Software

Term Length

Upfront Recog. %

Total Contract Value

Primary variables impacting revenue

- Type of software
- Upfront recognition %
- Term length
- Contract size
- FX rates

Deal	Software Type	Upfront Recog.	Term Length	Renewal Quarter	ARR	TCV	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	On Prem Subs	50%	1	1	1,000	1,000	625	125	125	125	625	125	125	125	625	125	125	125	625	125	125	125
2	On Prem Subs	50%	1	4	1,000	1,000				625	125	125	125	625	125	125	125	625	125	125	125	625
3	On Prem Subs	50%	2	2	1,000	2,000		1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125	125
4	On Prem Subs	50%	2	3	1,000	2,000			1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125
5	On Prem Subs	50%	3	2	1,000	3,000		1,625	125	125	125	125	125	125	125	125	125	125	125	1,625	125	125
6	On Prem Subs	50%	4	1	1,000	4,000	2,125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
7	On Prem Support	0%	1	2	1,000	1,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
8	On Prem Support	0%	1	3	1,000	1,000			250	250	250	250	250	250	250	250	250	250	250	250	250	250
9	SaaS/Cloud	0%	2	1	1,000	2,000	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
10	SaaS/Cloud	0%	3	2	1,000	3,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250

Hypothetical example with 10 contracts

APPENDIX: COMPARISON OF ARR VS. REVENUE (EXHIBIT B)

Type of Software

Upfront Recog. %

Term Length

Total Contract Value

Primary variables impacting revenue

- Type of software
- Upfront recognition %
- Term length
- Contract size
- FX rates

Deal	Software Type	Upfront Recog.	Term Length	Renewal Quarter	ARR	TCV	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	On Prem Subs	50%	1	1	1,000	1,000	625	125	125	125	625	125	125	125	625	125	125	125	625	125	125	125
2	On Prem Subs	50%	1	4	1,000	1,000				625	125	125	125	625	125	125	125	625	125	125	125	625
3	On Prem Subs	50%	2	2	1,000	2,000		1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125	125
4	On Prem Subs	50%	2	3	1,000	2,000			1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125
5	On Prem Subs	50%	3	2	1,000	3,000		1,625	125	125	125	125	125	125	125	125	125	125	125	1,625	125	125
6	On Prem Subs	50%	4	1	1,000	4,000	2,125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
7	On Prem Support	0%	1	2	1,000	1,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
8	On Prem Support	0%	1	3	1,000	1,000			250	250	250	250	250	250	250	250	250	250	250	250	250	250
9	SaaS/Cloud	0%	2	1	1,000	2,000	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
10	SaaS/Cloud	0%	3	2	1,000	3,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250

Key takeaways

- For SaaS/Cloud and On-Prem support, revenue recognition is ratable
- Term length and contract value do not impact revenue on an annual basis

APPENDIX: COMPARISON OF ARR VS. REVENUE (EXHIBIT B)

Type of Software

Term Length

Upfront Recog. %

Total Contract Value

Primary variables impacting revenue

- Type of software
- Upfront recognition %
- Term length
- Contract size
- FX rates

Deal	Software Type	Upfront Recog.	Term Length	Renewal Quarter	ARR	TCV	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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2	On Prem Subs	50%	1	4	1,000	1,000				625	125	125	125	625	125	125	125	625	125	125	125	625
3	On Prem Subs	50%	2	2	1,000	2,000		1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125	125
4	On Prem Subs	50%	2	3	1,000	2,000			1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125
5	On Prem Subs	50%	3	2	1,000	3,000		1,625	125	125	125	125	125	125	125	125	125	125	125	1,625	125	125
6	On Prem Subs	50%	4	1	1,000	4,000	2,125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
7	On Prem Support	0%	1	2	1,000	1,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
8	On Prem Support	0%	1	3	1,000	1,000			250	250	250	250	250	250	250	250	250	250	250	250	250	250
9	SaaS/Cloud	0%	2	1	1,000	2,000	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
10	SaaS/Cloud	0%	3	2	1,000	3,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250

Key takeaways

- For On-Prem subscription, a portion of the TCV of the contract is upfront recognition, and a portion is ratable
- Upfront Recognition %, Term length, and TCV significantly impact revenue on a quarterly and annual basis

APPENDIX: COMPARISON OF ARR VS. REVENUE (EXHIBIT B)

Type of Software

Upfront Recog. %

Term Length

Total Contract Value

Primary variables impacting revenue

- Type of software
- Upfront recognition %
- Term length
- Contract size
- FX rates

Deal	Software Type	Upfront Recog.	Term Length	Renewal Quarter	ARR	TCV	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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2	On Prem Subs	50%	1	4	1,000	1,000				625	125	125	125	625	125	125	125	625	125	125	125	625
3	On Prem Subs	50%	2	2	1,000	2,000		1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125	125
4	On Prem Subs	50%	2	3	1,000	2,000			1,125	125	125	125	125	125	125	125	1,125	125	125	125	125	125
5	On Prem Subs	50%	3	2	1,000	3,000		1,625	125	125	125	125	125	125	125	125	125	125	125	1,625	125	125
6	On Prem Subs	50%	4	1	1,000	4,000	2,125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
7	On Prem Support	0%	1	2	1,000	1,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
8	On Prem Support	0%	1	3	1,000	1,000			250	250	250	250	250	250	250	250	250	250	250	250	250	250
9	SaaS/Cloud	0%	2	1	1,000	2,000	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
10	SaaS/Cloud	0%	3	2	1,000	3,000		250	250	250	250	250	250	250	250	250	250	250	250	250	250	250

Key takeaways

- For On-Prem subscription, a portion of the TCV of the contract is upfront recognition, and a portion is ratable
- Upfront Recognition %, Term length, and TCV significantly impact revenue on a quarterly and annual basis

FORWARD-LOOKING STATEMENTS AND RISKS

Statements in this presentation that are not historic facts, including those noted under the title “Cautionary Note About Forward-Looking Statements,” 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 effects of the COVID-19 pandemic, including supply chain disruptions, increasing interest rates and inflation, volatile foreign exchange rates and the current strength of the U.S. dollar, and the effects of the Russia/Ukraine conflict, including the effect on energy supplies to Europe, 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; our strategic initiatives and investments, including our accelerated investments in our transition to SaaS, may not deliver the results when or as we expect; our announced transaction to acquire ServiceMax, Inc. is subject to approval under the Hart-Scott-Rodino Act and satisfaction of other closing conditions and may not be completed when or as we expect and, if completed, may not perform as we expect or contribute to ARR and cash flow as expect; and foreign exchange rates may differ materially from those 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.

OPERATING MEASURES

ARR: We provide an ARR (Annual Run Rate) operating measure to help investors understand and assess the performance of our business as a SaaS and on-premises subscription company. 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.

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.

Organic Constant Currency ARR: We provide an organic constant currency ARR measure to help investors understand and assess the performance of our business without the effect of ARR (other than insignificant amounts) from acquisitions in the comparative period and foreign exchange rate fluctuations.

Because our ARR 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.

Churn: We provide churn measures to enable investors to understand and assess our customer contract retention. Churn represents the difference between the ARR amount for all subscription software, cloud, SaaS, and support contracts ended within a reporting period and the annualized renewal transactions started within a reporting period, as of the end of the reporting period.

NON-GAAP FINANCIAL 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; certain non-operating charges and credits; 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 24 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021..

Free Cash Flow and Adjusted Free Cash Flow: PTC 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 goals and intent to return approximately 50% of our free cash flow to shareholders via stock repurchases. Free cash flow is cash provided by (used in) operations net of capital expenditures. Adjusted free cash flow is free cash flow net of restructuring payments, acquisition and transaction-related payments, and non-ordinary course tax-related payments or receipts. Free cash flow and adjusted free cash flow are not measures of cash available for discretionary expenditures.

Constant Currency (CC): 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, FY'22 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, 2021, rather than the actual exchange rates in effect during that period. All discussion of FY'23 and comparative prior period ARR results (including FY'22 baseline amounts) are reflected using the foreign exchange rates as of September 30, 2022.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

PTC Inc.
NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS (UNAUDITED)
(in millions)

	Twelve Months Ended				
	September 30, 2018	September 30, 2019	September 30, 2020	September 30, 2021	September 30, 2022
ARR as reported	$ 1,010	$ 1,111	$ 1,264	$ 1,468	$ 1,572
Perpetual license	110	71	33	33	34
Professional services [1]	168	168	144	158	163
Cash generation	$ 1,287	$ 1,349	$ 1,440	$ 1,659	$ 1,769
GAAP Cost of Revenue	(326)	(325)	(334)	(371)	(386)
COR Stock-based compensation expense	12	12	14	19	23
COR Amortization of acquired intangible assets	27	27	27	30	26
Non-GAAP Cost of Revenue	$ (288)	$ (286)	$ (293)	$ (322)	$ (338)
Non-GAAP Cash generation gross margin	$ 999	$ 1,063	$ 1,147	$ 1,337	$ 1,432
Non-GAAP Cash generation gross margin %	78%	79%	80%	81%	81%
GAAP Cost of Revenue + Operating Expenses	$ (1,169)	$ (1,193)	$ (1,248)	$ (1,426)	$ (1,486)
Stock-based compensation expense	83	86	115	177	175
Amortization of acquired intangible assets	58	51	56	59	61
Restructuring and other charges (credits)	4	51	33	2	36
Acquisition and transaction-related charges	2	3	9	15	13
Non-GAAP Cost of Revenue + Operating Expenses	$ (1,022)	$ (1,001)	$ (1,035)	$ (1,173)	$ (1,201)
Non-GAAP Contribution Margin	$ 265	$ 349	$ 405	$ 487	$ 568
Non-GAAP Contribution Margin %	21%	26%	28%	29%	32%

[1] Our FY'18 GAAP revenue results include the impact of a settlement of a customer dispute concerning a professional services receivable. The settlement, reached in September 2018, included partial payment of the receivable and new software purchases. The professional services revenue write-down as a result of this settlement was $14.5 million. We have included the settlement in FY'18's professional services line in the cash generation model above.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

PTC Inc.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS (UNAUDITED)

(in millions)

	Twelve Months Ended			FY'23 Guidance
	September 30, 2010	September 30, 2021	September 30, 2022	September 30, 2023
Cash provided by operating activities	$ 285	$ 369	$ 435	$ 585
Capital expenditures	(64)	(25)	(19)	(20)
Free cash flow	$ 221	$ 344	$ 416	$ 565
Restructuring and other related payments		14	41	1
Acquisition and transaction-related payments		15	12	7
Non-ordinary course tax payment [1]		18	-	-
Adjusted free cash flow		$ 391	$ 468	$ 573

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

PTC Inc.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS (UNAUDITED)

(in millions)

	Twelve Months Ended	
	September 30, 2010	**September 30 2022**
Rev enue	$ 1,010.0	$ 1,933.3
GAAP operating income	$ 74.8	$ 447.4
Stock-based compensation	48.9	174.9
Amortization of acquired intangible assets	34.0	60.5
Acquisition and transaction-related charges	-	13.2
Restructuring and other charges (credits), net	-	36.2
Non-GAAP operating income	$ 157.7	$ 732.2
GAAP operating margin	7.4%	23.1%
Stock-based compensation	4.8%	9.0%
Amortization of acquired intangibles	3.4%	3.1%
Acquisition and transaction-related charges	0.0%	0.7%
Restructuring and other charges (credits), net	0.0%	1.9%
Non-GAAP operating margin	15.6%	37.9%