

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

	Three Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
Revenue:			
Subscription license	\$ 84,936		
Subscription support & cloud services	97,641		
Total Subscription	182,577	\$ 185,483	\$ 142,376
Perpetual support	100,007	98,577	117,819
Total recurring revenue	282,584	284,060	260,195
Perpetual license	9,347	8,530	27,030
Total software revenue	291,931	292,590	287,225
Professional services	43,073	42,238	25,296
Total revenue ⁽¹⁾	335,004	334,828	312,521
Cost of revenue: ^{(2) (3)}			
Cost of software revenue	48,813	48,415	43,765
Cost of professional services revenue	36,604	35,343	34,361
Total cost of revenue	85,417	83,758	78,126
Gross margin	249,587	251,070	234,395
Operating expenses: ^{(2) (3)}			
Sales and marketing	101,307	111,701	109,198
Research and development	64,113	64,113	62,396
General and administrative	25,911	25,911	41,558
Amortization of acquired intangible assets	6,055	6,055	7,784
Restructuring and other charges, net	5,650	5,650	1,918
Total operating expenses	203,036	213,430	222,854
Operating income	46,551	37,640	11,541
Other expense, net ⁽³⁾	(12,767)	(12,790)	(10,872)
Income before income taxes	33,784	24,850	669
Provision (benefit) for income taxes ⁽⁴⁾	23,958	40,794	(12,522)
Net income (loss)	\$ 9,826	\$ (15,944)	\$ 13,191
Earnings (loss) per share:			
Basic	\$ 0.09	\$ (0.14)	\$ 0.11
Weighted average shares outstanding	115,025	115,025	117,823
Diluted	\$ 0.08	\$ (0.14)	\$ 0.11
Weighted average shares outstanding	115,897	115,025	119,580

(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.

(3) Periods prior to 2019 reflect immaterial expense reclassifications in connection with the adoption of new pension accounting prescribed in Accounting Standards Update 2017-07.

(4) Our tax provision for the fourth quarter of 2019 is based on estimates that are subject to final review.

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

	Twelve Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
Revenue:			
Subscription license	\$ 253,698		
Subscription support & cloud services	348,452		
Total Subscription	602,150	\$ 667,597	\$ 482,027
Perpetual support	415,248	411,030	496,826
Total recurring revenue	1,017,398	1,078,627	978,853
Perpetual license	70,702	72,191	109,634
Total software revenue	1,088,100	1,150,818	1,088,487
Professional services	167,531	160,676	153,337
Total revenue ⁽¹⁾	1,255,631	1,311,494	1,241,824
Cost of revenue: ⁽²⁾⁽³⁾			
Cost of software revenue	185,414	183,218	182,843
Cost of professional services revenue	139,964	134,936	143,659
Total cost of revenue	325,378	318,154	326,502
Gross margin	930,253	993,340	915,322
Operating expenses: ⁽²⁾⁽³⁾			
Sales and marketing	417,449	441,958	414,764
Research and development	246,888	246,888	249,786
General and administrative	127,919	127,919	143,045
Amortization of acquired intangible assets	23,841	23,841	31,350
Restructuring and other charges, net	51,114	51,114	3,764
Total operating expenses	867,211	891,720	842,709
Operating income	63,042	101,620	72,613
Other expense, net ⁽³⁾	(42,742)	(42,916)	(43,957)
Income before income taxes	20,300	58,704	28,656
Provision (benefit) for income taxes ⁽⁴⁾	47,760	55,725	(23,331)
Net income (loss)	\$ (27,460)	\$ 2,979	\$ 51,987
Earnings (loss) per share:			
Basic	\$ (0.23)	\$ 0.03	\$ 0.45
Weighted average shares outstanding	117,724	117,724	116,390
Diluted	\$ (0.23)	\$ 0.03	\$ 0.44
Weighted average shares outstanding	117,724	118,714	118,158

(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.

(3) Periods prior to 2019 reflect immaterial expense reclassifications in connection with the adoption of new pension accounting prescribed in Accounting Standards Update 2017-07.

(4) Our tax provision for fiscal 2019 is based on estimates that are subject to final review. Our 2018 year-to-date tax rate includes a benefit of \$12 million relating to the enactment of the Tax Cuts and Jobs Act.

PTC Inc.
SUPPLEMENTAL FINANCIAL DATA FOR REVENUE AND STOCK-BASED COMPENSATION
(in thousands)

Revenue by license, support and services is as follows:

	Three Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
License revenue ⁽¹⁾	\$ 94,283	\$ 173,514	\$ 152,675
Support and cloud services revenue	197,648	119,076	134,550
Professional services revenue	43,073	42,238	25,296
Total revenue	<u>\$ 335,004</u>	<u>\$ 334,828</u>	<u>\$ 312,521</u>

	Twelve Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
License revenue ⁽¹⁾	\$ 324,400	\$ 666,770	\$ 529,265
Support and cloud services revenue	763,700	484,048	559,222
Professional services revenue	167,531	160,676	153,337
Total revenue	<u>\$ 1,255,631</u>	<u>\$ 1,311,494</u>	<u>\$ 1,241,824</u>

(1) Under ASC 605, we have classified all subscription revenue as license revenue.

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

	Three Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
Cost of software revenue	\$ 1,791	\$ 1,791	\$ 1,180
Cost of professional services revenue	1,361	1,361	2,233
Sales and marketing	6,912	6,912	10,066
Research and development	7,168	7,168	3,862
General and administrative	(2,440)	(2,440)	13,583
Total stock-based compensation	<u>\$ 14,792</u>	<u>\$ 14,792</u>	<u>\$ 30,924</u>

	Twelve Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
Cost of software revenue	\$ 5,513	\$ 5,513	\$ 4,446
Cost of professional services revenue	6,426	6,426	7,079
Sales and marketing	32,026	32,026	24,893
Research and development	22,019	22,019	13,488
General and administrative	20,416	20,416	33,033
Total stock-based compensation	<u>\$ 86,400</u>	<u>\$ 86,400</u>	<u>\$ 82,939</u>

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

	Three Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
GAAP revenue	\$ 335,004	\$ 334,828	\$ 312,521
Fair value adjustment of acquired deferred subscription revenue	-	-	75
Fair value adjustment of acquired deferred services revenue	192	192	223
Settlement adjustment - subscription revenue ⁽²⁾	-	-	(5,250)
Settlement adjustment - services revenue ⁽²⁾	-	-	14,546
Non-GAAP revenue	<u>\$ 335,196</u>	<u>\$ 335,020</u>	<u>\$ 322,115</u>
GAAP gross margin	\$ 249,587	\$ 251,070	\$ 234,395
Fair value adjustment of acquired deferred revenue	192	192	298
Settlement adjustment - revenue ⁽²⁾	-	-	9,296
Fair value adjustment to deferred services cost	(88)	(88)	(91)
Stock-based compensation	3,152	3,152	3,413
Amortization of acquired intangible assets included in cost of revenue	6,874	6,874	6,677
Non-GAAP gross margin	<u>\$ 259,717</u>	<u>\$ 261,200</u>	<u>\$ 253,988</u>
GAAP operating income	\$ 46,551	\$ 37,640	\$ 11,541
Fair value adjustment of acquired deferred revenue	192	192	298
Settlement adjustment - revenue ⁽²⁾	-	-	9,296
Fair value adjustment to deferred services cost	(88)	(88)	(91)
Stock-based compensation	14,792	14,792	30,924
Amortization of acquired intangible assets included in cost of revenue	6,874	6,874	6,677
Amortization of acquired intangible assets	6,055	6,055	7,784
Acquisition-related and other transactional charges included in general and administrative costs	1,895	1,895	135
Restructuring and other charges, net	5,650	5,650	1,918
Non-GAAP operating income ⁽¹⁾	<u>\$ 81,921</u>	<u>\$ 73,010</u>	<u>\$ 68,482</u>
GAAP net income (loss)	\$ 9,826	\$ (15,944)	\$ 13,191
Fair value adjustment of acquired deferred revenue	192	192	298
Settlement adjustment - revenue ⁽²⁾	-	-	9,296
Fair value adjustment to deferred services cost	(88)	(88)	(91)
Stock-based compensation	14,792	14,792	30,924
Amortization of acquired intangible assets included in cost of revenue	6,874	6,874	6,677
Amortization of acquired intangible assets	6,055	6,055	7,784
Acquisition-related and other transactional charges included in general and administrative costs	1,895	1,895	135
Restructuring and other charges, net	5,650	5,650	1,918
Income tax adjustments ⁽³⁾	29,317	32,673	(16,843)
Non-GAAP net income	<u>\$ 74,513</u>	<u>\$ 52,099</u>	<u>\$ 53,289</u>
GAAP diluted earnings (loss) per share	\$ 0.08	\$ (0.14)	\$ 0.11
Fair value adjustment of acquired deferred revenue	-	-	-
Settlement adjustment - revenue ⁽²⁾	-	-	0.08
Stock-based compensation	0.13	0.13	0.26
Amortization of acquired intangibles	0.11	0.11	0.12
Acquisition-related and other transactional charges	0.02	0.02	-
Restructuring and other charges, net	0.05	0.05	0.02
Income tax adjustments	0.25	0.28	(0.14)
Non-GAAP diluted earnings per share	<u>\$ 0.64</u>	<u>\$ 0.45</u>	<u>\$ 0.45</u>
GAAP diluted weighted average shares outstanding	115,897	115,025	119,580
Dilutive effect of stock-based compensation plans	-	872	-
Non-GAAP diluted weighted average shares outstanding	<u>115,897</u>	<u>115,897</u>	<u>119,580</u>

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

	Three Months Ended		
	September 30,	September 30,	September 30,
	2019	2019	2018
	ASC 606	ASC 605	ASC 605
GAAP operating margin	13.9%	11.2%	3.7%
Fair value adjustment of acquired deferred revenue	0.1%	0.1%	0.1%
Settlement adjustment - revenue ⁽²⁾	0.0%	0.0%	2.4%
Fair value adjustment to deferred services cost	0.0%	0.0%	0.0%
Stock-based compensation	4.4%	4.4%	9.9%
Amortization of acquired intangibles	3.9%	3.9%	4.6%
Acquisition-related and other transactional charges	0.6%	0.6%	0.0%
Restructuring and other charges, net	1.7%	1.7%	0.6%
Non-GAAP operating margin	<u>24.4%</u>	<u>21.8%</u>	<u>21.3%</u>

(2) Our Q4'18 and 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 net revenue write-down recorded in the fourth quarter of 2018 was \$9.3 million, comprised of a \$14.5 million services revenue write-down, partially offset by new subscription revenue of \$5.2 million. We have excluded these amounts from our Non-GAAP results.

(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 2019 and 2018 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. The fourth quarter of 2018 excludes the GAAP benefit of a \$3 million valuation allowance release in a foreign jurisdiction as the jurisdiction was profitable on a non-GAAP basis.

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

	Twelve Months Ended		
	September 30, 2019	September 30, 2019	September 30, 2018
	ASC 606	ASC 605	ASC 605
GAAP revenue	\$ 1,255,631	\$ 1,311,494	\$ 1,241,824
Fair value adjustment of acquired deferred subscription revenue	66	66	341
Fair value adjustment of acquired deferred services revenue	721	721	929
Settlement adjustment - subscription revenue ⁽²⁾	-	-	(5,250)
Settlement adjustment - services revenue ⁽²⁾	-	-	14,546
Non-GAAP revenue	<u>\$ 1,256,418</u>	<u>\$ 1,312,281</u>	<u>\$ 1,252,390</u>
GAAP gross margin	\$ 930,253	\$ 993,340	\$ 915,322
Fair value adjustment of acquired deferred revenue	787	787	1,270
Settlement adjustment - revenue ⁽²⁾	-	-	9,296
Fair value adjustment to deferred services cost	(308)	(308)	(384)
Stock-based compensation	11,939	11,939	11,525
Amortization of acquired intangible assets included in cost of revenue	27,306	27,306	26,706
Non-GAAP gross margin	<u>\$ 969,977</u>	<u>\$ 1,033,064</u>	<u>\$ 963,735</u>
GAAP operating income	\$ 63,042	\$ 101,620	\$ 72,613
Fair value adjustment of acquired deferred revenue	787	787	1,270
Settlement adjustment - revenue ⁽²⁾	-	-	9,296
Fair value adjustment to deferred services cost	(308)	(308)	(384)
Stock-based compensation	86,400	86,400	82,939
Amortization of acquired intangible assets included in cost of revenue	27,306	27,306	26,706
Amortization of acquired intangible assets	23,841	23,841	31,350
Acquisition-related and other transactional charges included in general and administrative costs	3,110	3,110	1,853
Restructuring and other charges, net	51,114	51,114	3,764
Non-GAAP operating income ⁽¹⁾	<u>\$ 255,292</u>	<u>\$ 293,870</u>	<u>\$ 229,407</u>
GAAP net income (loss)	\$ (27,460)	\$ 2,979	\$ 51,987
Fair value adjustment of acquired deferred revenue	787	787	1,270
Settlement adjustment - revenue ⁽²⁾	-	-	9,296
Fair value adjustment to deferred services cost	(308)	(308)	(384)
Stock-based compensation	86,400	86,400	82,939
Amortization of acquired intangible assets included in cost of revenue	27,306	27,306	26,706
Amortization of acquired intangible assets	23,841	23,841	31,350
Acquisition-related and other transactional charges included in general and administrative costs	3,110	3,110	1,853
Restructuring and other charges, net	51,114	51,114	3,764
Income tax adjustments ⁽³⁾	29,719	11,816	(37,581)
Non-GAAP net income	<u>\$ 194,509</u>	<u>\$ 207,045</u>	<u>\$ 171,200</u>
GAAP diluted earnings (loss) per share	\$ (0.23)	\$ 0.03	\$ 0.44
Fair value adjustment of acquired deferred revenue	0.01	0.01	0.01
Settlement adjustment - revenue ⁽²⁾	-	-	0.08
Stock-based compensation	0.73	0.73	0.70
Amortization of acquired intangibles	0.43	0.43	0.49
Acquisition-related and other transactional charges	0.03	0.03	0.02
Restructuring and other charges, net	0.43	0.43	0.03
Income tax adjustments	0.25	0.10	(0.32)
Non-GAAP diluted earnings per share	<u>\$ 1.64</u>	<u>\$ 1.74</u>	<u>\$ 1.45</u>
GAAP diluted weighted average shares outstanding	117,724	118,714	118,158
Dilutive effect of stock-based compensation plans	990	-	-
Non-GAAP diluted weighted average shares outstanding	<u>118,714</u>	<u>118,714</u>	<u>118,158</u>

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

	Twelve Months Ended		
	September 30, 2019	September 30, 2019	September 30, 2018
	ASC 606	ASC 605	ASC 605
GAAP operating margin	5.0%	7.7%	5.8%
Fair value adjustment of acquired deferred revenue	0.1%	0.1%	0.1%
Settlement adjustment - revenue ⁽²⁾	0.0%	0.0%	0.6%
Fair value adjustment to deferred services cost	0.0%	0.0%	0.0%
Stock-based compensation	6.9%	6.6%	6.7%
Amortization of acquired intangibles	4.1%	3.9%	4.7%
Acquisition-related and other transactional charges	0.2%	0.2%	0.1%
Restructuring and other charges, net	4.1%	3.9%	0.3%
Non-GAAP operating margin	<u>20.3%</u>	<u>22.4%</u>	<u>18.3%</u>

(2) Our Q4'18 and 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 net revenue write-down recorded in the fourth quarter of 2018 was \$9.3 million, comprised of a \$14.5 million services revenue write-down, partially offset by new subscription revenue of \$5.2 million. We have excluded these amounts from our Non-GAAP results.

(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 2019 and 2018 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. The fourth quarter of 2018 excludes the GAAP benefit of a \$3 million valuation allowance release in a foreign jurisdiction as the jurisdiction was profitable on a non-GAAP basis and a non-cash benefit of approximately \$12 million related to the enactment of the Tax Cuts and Jobs Act.

PTC Inc.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS ⁽¹⁾
(in thousands)

	<u>September 30, 2019</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
	<u>ASC 606 ⁽²⁾</u>	<u>ASC 605</u>	<u>ASC 605</u>
ASSETS			
Cash and cash equivalents	\$ 269,579	\$ 269,579	\$ 259,946
Marketable securities	57,435	57,435	55,951
Accounts receivable, net	372,743	107,921	129,297
Property and equipment, net	105,531	105,531	80,613
Goodwill and acquired intangible assets, net	1,408,128	1,408,128	1,382,659
Other assets	452,600	523,314	420,556
Total assets	<u>\$ 2,666,016</u>	<u>\$ 2,471,908</u>	<u>\$ 2,329,022</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deferred revenue	\$ 396,632	\$ 578,748	\$ 499,442
Debt, net of deferred issuance costs	669,134	669,134	643,268
Other liabilities	398,252	347,693	311,723
Stockholders' equity	1,201,998	876,333	874,589
Total liabilities and stockholders' equity	<u>\$ 2,666,016</u>	<u>\$ 2,471,908</u>	<u>\$ 2,329,022</u>

- (1) Our consolidated balance sheet as of September 30, 2019 under ASC 606 is preliminary, pending final adjustments required as a result of our adoption of ASC 606. In addition, the tax balances are based on estimates that are subject to final review. We expect the adjustments to be finalized prior to the filing of our Form 10-K for fiscal 2019.
- (2) The adoption of ASC 606 resulted in up front license recognition under our subscription contracts, resulting in unbilled receivables, and an increase in receivables previously included in other current assets under ASC 605 related to billed but uncollected support and subscription receivables that had corresponding deferred revenue. The adoption also resulted in a decrease in deferred revenue primarily due to the up front license recognition to accumulated deficit at the time of adoption related to on-premise subscription software licenses.

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

	Three Months Ended		Twelve Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Cash flows from operating activities:				
Net income (loss)	\$ 9,826	\$ 13,191	\$ (27,460)	\$ 51,987
Stock-based compensation	14,792	30,924	86,400	82,939
Depreciation and amortization	19,190	22,105	77,824	87,408
Accounts receivable	(58,808)	(799)	29,446	20,396
Accounts payable and accruals	23,420	37,150	4,102	(1,737)
Deferred revenue	20,550	(26,653)	45,875	56,141
Income taxes	14,717	(16,228)	1,940	(46,233)
Other ⁽¹⁾	11,529	2,270	67,018	(3,149)
Net cash provided by operating activities ⁽⁴⁾	<u>55,216</u>	<u>61,960</u>	<u>285,145</u>	<u>247,752</u>
Capital expenditures	(4,832)	(17,375)	(64,411)	(36,041)
Acquisition of businesses, net of cash acquired ⁽²⁾	-	-	(86,737)	(3,000)
Purchase of intangible asset	-	-	-	(3,000)
Borrowings (payments) on debt, net	(30,000)	(50,000)	25,000	(70,000)
Net proceeds associated with issuance of common stock ⁽³⁾	8,817	1,008,182	12,975	1,015,654
Repurchases of common stock ⁽³⁾	(24,999)	(1,000,000)	(114,994)	(1,100,000)
Payments of withholding taxes in connection with vesting of stock-based awards	(175)	(577)	(44,366)	(45,374)
Proceeds from (purchase of) investments	-	-	(7,500)	(1,000)
Contingent consideration	-	(525)	(1,575)	(8,275)
Purchases of marketable securities, net	(2,778)	(1,748)	(1,051)	(6,171)
Other financing & investing activities	5,166	(2,851)	9,675	(2,851)
Foreign exchange impact on cash	(4,708)	(4,201)	(2,565)	(7,810)
Net change in cash, cash equivalents, and restricted cash ⁽¹⁾	1,707	(7,135)	9,596	(20,116)
Cash, cash equivalents, and restricted cash, beginning of period	<u>268,982</u>	<u>268,228</u>	<u>261,093</u>	<u>281,209</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 270,689</u>	<u>\$ 261,093</u>	<u>\$ 270,689</u>	<u>\$ 261,093</u>

(1) In the first quarter of fiscal 2019, we adopted Accounting Standards Update (ASU) 2016-18 - *Statement of Cash Flows (Topic 230)*. In accordance with this guidance, we excluded the \$0.5 million increase and \$0.1 million increase related to the change in restricted cash from the change in other current assets for the three months and twelve months ended September 30, 2018, respectively.

(2) On December 29, 2018, we acquired Frustum for \$70 million, net of cash acquired.

(3) In the fourth quarter of 2018, Rockwell Automation made a \$1.0 billion equity investment in PTC as part of a strategic alliance. Using the cash proceeds from this investment, PTC entered into a \$1.0 billion accelerated share repurchase.

(4) Our consolidated cash flows as of September 30, 2019 are preliminary, pending final balance sheet adjustments required as a result of our adoption of ASC 606. In addition, our tax balances are based on estimates that are subject to final review. Any adjustments will impact components of operating cash flow, but not total cash from operating activities. We expect the adjustments to be finalized prior to the filing of our Form 10-K for fiscal year 2019.