Q4'24 AND FY'24 FINANCIAL RESULTS

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CEO

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CFO

November 6, 2024

FORWARD LOOKING STATEMENTS

This presentation includes forward looking statements regarding PTC's future financial performance, strategic outlook and expectations, anticipated future operations, expected effects of strategic investments and initiatives, and share repurchase expectations. Because such statements deal with future events, actual results may differ materially from those projected in the forward-looking statements. Information about 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, targets and estimates. 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.

NEIL BARUA, CEO

OUR UNIQUE PORTFOLIO HELPS CUSTOMERS ACCELERATE TIME TO MARKET AND MANAGE INCREASING COMPLEXITY

PLM

Product Lifecycle Management

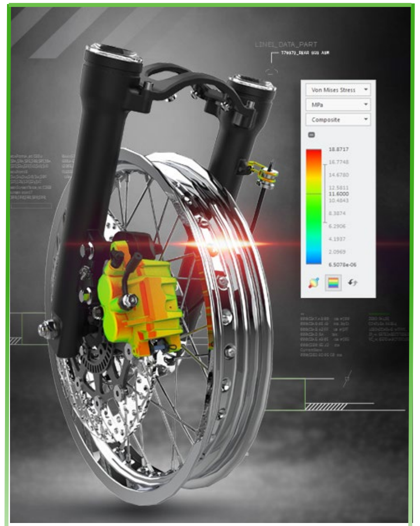
ALM

Application Lifecycle Management

SLM

Service Lifecycle Management

CAD



Computer Aided Design

SaaS

Software as a Service

SCALING OUR BUSINESS THROUGH CONSISTENT EXECUTION

Realigning existing go-to-market organization along industry lines

Go-to-market realignment plan includes:

Hiring a new Chief Revenue Officer; expected to start in December

Realigning existing sales, customer success, and marketing resources with our market opportunities in each major geography

Reinvesting in technical resources to better support customer adoption and utilization of our software

Approximately $20 million of expected cash outflows, of which approximately $12 million is expected in Q1'25; this has been factored into our cash flow guidance for FY'25 and Q1'25

KRISTIAN TALVITIE, CFO

Q4'24 AND FY'24 ARR AND CASH FLOW RESULTS

ARR

$ in millions	Q4'24	Q4'23	YoY Change	Q4'24 Guidance
ARR as reported	$2,255	$1,979	14%	
Constant currency ARR **at FY'24 Plan FX rates**[1]	$2,207	$1,979	12%	$2,200 to $2,220

CASH FLOW: Driven by ARR increase and operating efficiency[2] expansion

$ in millions	Q4'24	Q4'23	YoY Change	Q4'24 Guidance
Operating cash flow	$98	$50	97%	~$88
Free cash flow	$94	$44	113%	~$83

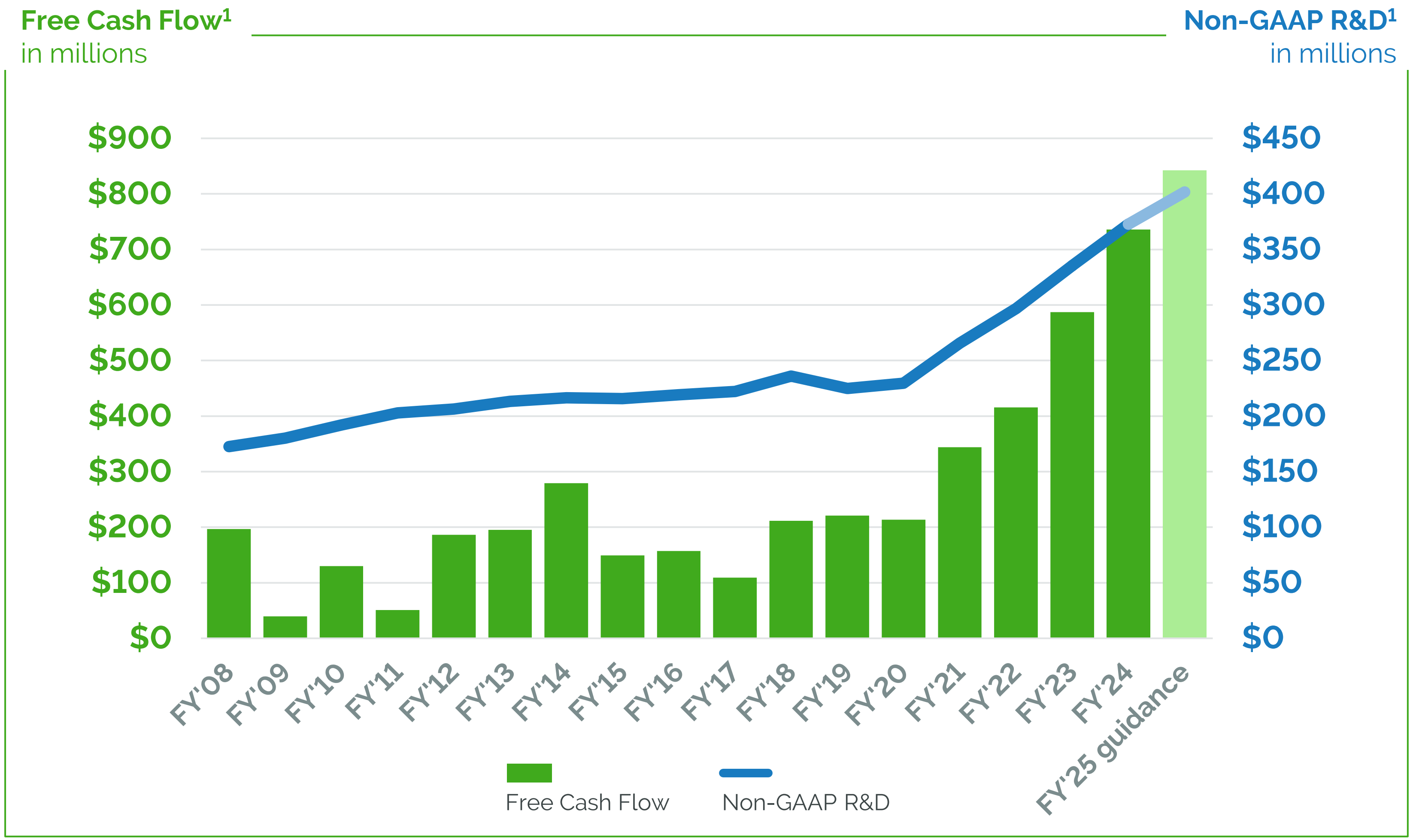
$ in millions	FY'24	FY'23	YoY Change	FY'24 Guidance
Operating cash flow	$750	$611	23%	~$740
Free cash flow	$736	$587	25%	~$725

- FY'24 operating efficiency[2] of 42% improved by 370 basis points compared to 38% in FY'23
- Over the mid-term, we expect free cash flow to grow faster than ARR, with non-GAAP operating expenses expected to grow at roughly half the rate of ARR

[1] On a constant currency basis, using our FY'24 Plan foreign exchange rates (rates as of September 30, 2023) for all periods.
[2] Operating Efficiency % = 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.

INVESTING IN GROWTH WHILE DELIVERING SOLID FCF

Subscription model enables operating leverage AND significant reinvestment, particularly in R&D



4 Year (FY'21 to FY'25) Compound Annual Growth Rate (CAGR)

Constant currency ARR ~15%

Free Cash Flow ~25%[1]

Non-GAAP R&D ~11%[1]

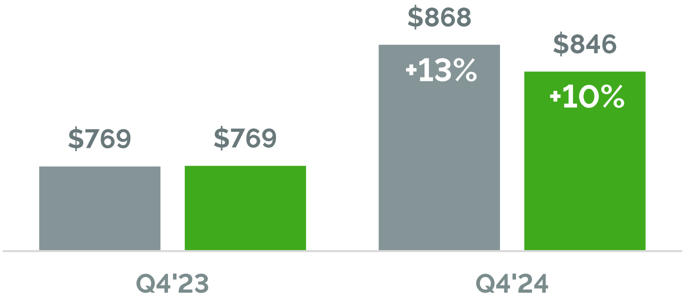
Non-GAAP SG&A ~4%[1]

Non-GAAP Opex ~6%[1]

[1] Refer to the non-GAAP to GAAP reconciliation tables on slides 30 through 32.

ARR BY PRODUCT GROUP AND GEOGRAPHIC REGION

CAD: Product data authoring software

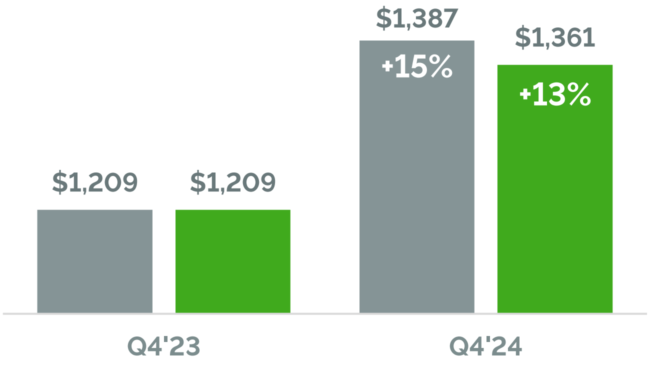


$ in millions

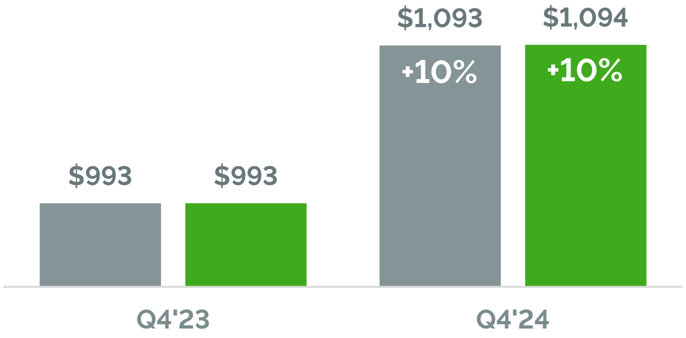
As Reported

Constant Currency

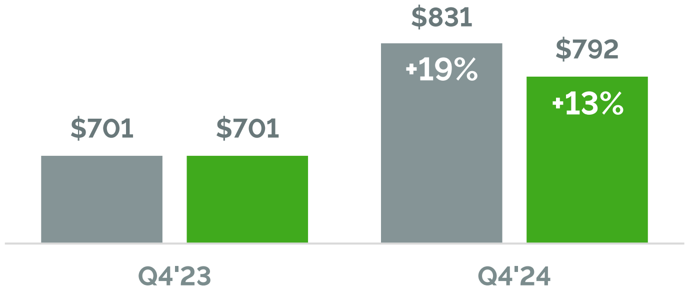
PLM: Product data management and process orchestration software



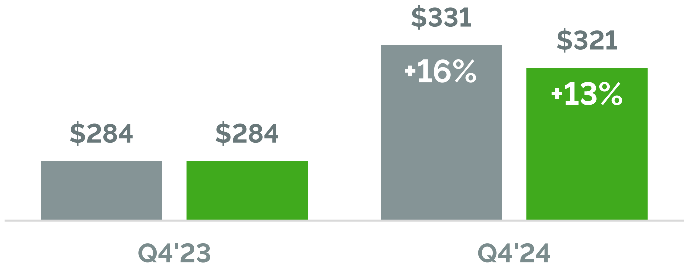
Americas



Europe



APAC



BALANCE SHEET AND SHARE REPURCHASE PROGRAM

Balance sheet

$ in millions	Q4'24	Q3'24	QoQ Change	Q4'23	YoY Change
Cash and cash equivalents	**$ 266**	**$ 248**	**$ 18**	**$ 288**	**$ (22)**
Senior notes with an aggregate interest rate of 3.8%	$ 1,000	$ 1,000	$ -	$ 1,000	$ -
Term loan with a variable interest rate of 6.9%	491	494	(3)	500	(9)
$1,250 revolving credit facility with a variable interest rate of 6.9%	262	322	(60)	202	60
Deferred acquisition payment made in October 2023 related to ServiceMax	-	-	-	620	(620)
Gross debt with a weighted average interest rate of 5.1% as of Q4'24	**$ 1,753**	**$ 1,816**	**$ (63)**	**$ 2,322**	**$ (569)**

- In FY'24, our gross debt balance decreased by $569 million
  - In FY'24, we used substantially all of the free cash flow we generated to pay down debt ($694 million)
  - This was partially offset by an increase in gross debt of $125 million in Q1'24, related to pure::variants and ServiceMax
- Debt/EBITDA ratio at the end of Q4'24 was 1.9x
- $500 million senior notes due in February 2025 expected to be retired with cash on hand and drawing on our revolver

$2 billion share repurchase authorization through FY'27

- In FY'25, we currently intend to repurchase approximately $300 million of our common stock, as we balance debt paydown with returning capital to shareholders
- 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
- Fully diluted share count currently expected to be approximately flat in FY'25

FY'25 ARR GUIDANCE AND REPORTING

For comparative purposes, we provide ARR guidance and report ARR on a constant currency basis

- To help investors understand and assess our business performance excluding FX volatility, we provide constant currency ARR guidance and report constant currency ARR
- **For FY'25, we set our constant currency ARR guidance** and will report constant currency ARR results for all periods **using FX rates as of September 30, 2024 (our FY'25 Plan FX rates)**
- **Historical constant currency ARR amounts by Product Group recast using FX rates as of September 30, 2024** can be found in the Financial Data Tables for Q4'24 on our IR website

$ in millions

Previous: using FX rates as of September 30, 2023 (FY'24 Plan FX rates)	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24
Constant Currency ARR by Product Group								
CAD (product data authoring)	$ 712	$ 730	$ 752	$ 769	$ 785	$ 808	$ 824	$ 846
PLM (product data management and process orchestration)	924	1,119	1,153	1,209	1,231	1,267	1,300	1,361
Ending ARR	**$ 1,636**	**$ 1,850**	**$ 1,904**	**$ 1,979**	**$ 2,016**	**$ 2,075**	**$ 2,125**	**$ 2,207**

Recast: using rates as of September 30, 2024 (FY'25 Plan FX rates)	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24
Constant Currency ARR by Product Group								
CAD (product data authoring)	$ 731	$ 750	$ 772	$ 790	$ 806	$ 829	$ 846	$ 868
PLM (product data management and process orchestration)	943	1,139	1,173	1,231	1,254	1,291	1,325	1,387
Ending ARR	**$ 1,674**	**$ 1,889**	**$ 1,945**	**$ 2,021**	**$ 2,059**	**$ 2,119**	**$ 2,170**	**$ 2,255**

FY’25 AND Q1’25 GUIDANCE

$ in millions	FY’24 Actual Results	FY’25 Guidance	FY’25 YoY Growth Guidance	Q1’25 Guidance
Constant currency ARR **at FY'25 Plan FX rates**[1]	$2,255	9% to 10% growth	9% to 10%	~10.5% growth
Operating cash flow	$750	$850 to $865[3]	13% to 15%	~$234[3]
Free cash flow[2]	$736	$835 to $850[3]	14% to 16%	~$230[3]
Revenue	$2,298	$2,505 to $2,605	9% to 13%	$540 to $570
Earnings per share	$3.12	$3.68 to $4.57	18% to 47%	$0.28 to $0.52
Non-GAAP earnings per share[2]	$5.08	$5.60 to $6.30	10% to 24%	$0.75 to $0.95

In FY’25, we expect approximately 55%+ of our free cash flow to be generated in the first half of the year; FY’25 cash flow guidance includes approximately $20 million of outflows related to go-to-market realignment, of which approximately $12 million is expected in Q1’25

[1] On a constant currency basis, using our FY’25 Plan foreign exchange rates (rates as of September 30, 2024) for all periods.
[2] Refer to the non-GAAP to GAAP reconciliation tables on slides 30 through 32.
[3] FY’25 cash flow guidance includes approximately $20 million of outflows related to go-to-market realignment, of which approximately $12 million is expected in Q1’25.

FY'25 ILLUSTRATIVE CONSTANT CURRENCY ARR MODEL

What does PTC need to deliver to achieve our FY'25 constant currency ARR guidance?

Using FX rates as of September 30, 2024 $ in millions	Actual FY'22	Actual FY'23	Actual FY'24	What you need to believe FY'25
Beginning ARR	$ 1,411	$ 1,641	$ 2,021	$ 2,255
Ending ARR	**1,641**	**2,021**	**2,255**	**2,469**
ARR growth	$ 231	$ 379	$ 234	$ 214
Acquisitions and exits[1]	(12)	(160)	-	-
Net ARR growth	**$ 219**	**$ 219**	**$ 234**	**$ 214**

- Using FX rates as of September 30, 2024 for all periods
- FY'25 ending ARR modelled at 9.5% growth; guidance is for 9% to 10% growth
- We expect churn to remain low
- To hit 9.5% ARR growth for FY'25, we need $214 million of net ARR growth
  - $20 million less than FY'24; $5 million less than FY'23 and FY'22
  - FY'24 benefitted by approximately $10 million due to deferred ARR
  - Our guidance factors in potential impacts related to our go -to-market realignment

[1] Russia exit and Codebeamer acquisition in FY'22, ServiceMax acquisition in FY'23.

Q1'25 ILLUSTRATIVE CONSTANT CURRENCY ARR MODEL

What does PTC need to deliver to achieve our Q1'25 constant currency ARR guidance?

Using FX rates as of September 30, 2024 $ in millions	Actual Q1'23	Actual Q2'23	Actual Q3'23	Actual Q4'23	Actual Q1'24	Actual Q2'24	Actual Q3'24	Actual Q4'24	What you need to believe Q1'25
Beginning ARR	$ 1,641	$ 1,674	$ 1,889	$ 1,945	$ 2,021	$ 2,059	$ 2,119	$ 2,170	$ 2,255
Ending ARR	**1,674**	**1,889**	**1,945**	**2,021**	**2,059**	**2,119**	**2,170**	**2,255**	**2,275**
Sequential ARR growth	$ 32	$ 215	$ 56	$ 76	$ 39	$ 60	$ 51	$ 84	$ 20
Acquisitions and exits[1]	-	(160)	-	-	-	-	-	-	-
Sequential net ARR growth	**$ 32**	**$ 55**	**$ 56**	**$ 76**	**$ 39**	**$ 60**	**$ 51**	**$ 84**	**$ 20**

- Using FX rates as of September 30, 2024 for all periods
- Q1'25 ending ARR modelled at 10.5% growth; guidance is for approximately 10.5% growth
- We expect churn to remain low
- To hit 10.5% ARR growth for Q1'25, we need $20 million of sequential net ARR growth
  - $19 million less than Q1'24; $12 million less than Q1'23
  - Sequential net new ARR growth in Q1'25 is expected to be impacted by two factors, both timing-related; these two factors are expected to have a combined impact of approximately $10 million on Q1'25, but no impact on FY'25
    - The amount of deferred ARR that is expected to start in Q1'25 vs later in FY'25
    - A couple of contracts that have already been committed to, which will show up as churn in Q1'25 and will come back into ARR later in FY'25
  - In addition, our guidance factors in potential impacts related to our go-to-market realignment

[1] ServiceMax acquisition in Q2'23.

FY'25 ILLUSTRATIVE FREE CASH FLOW MODEL[1]

At our ARR guidance, what does PTC need to deliver to achieve the midpoint of FY'25 FCF guidance?

$ in millions	FY'24 Actual		FY'25 Illustrative		Comments
Annual Run Rate (ARR)	**$ 2,255**	**$ 2,255**	**$ 2,469**	**$ 2,469**	For FY'25: using 9.5% growth, the midpoint of our constant currency ARR guidance range
Perpetual revenue	32	32	25	25	Primarily our Kepware business, which is moving to subscription over time
Professional services (PS) revenue	132	132	120	120	In accordance with plans to transition part of our Professional Services business to DxP over time
Cash generation	**$ 2,419**	**$ 2,419**	**$ 2,614**	**$ 2,614**	
	GAAP	**Non-GAAP**	**GAAP**	**Non-GAAP**	
Cost of revenue	$ (445)	$ (385)	$ (469)	$ (415)	Factors in approximately $20 million of expected cash outflows related to go-to-market realignment for FY'25, as well as the timing of new hires and the in-year expense associated with those new hires
Operating expenses	(1,266)	(1,019)	(1,310)	(1,070)	
Subtotal	$ (1,710)	$ (1,404)	$ (1,779)	$ (1,485)	
Cash contribution margin	$ 709	$ 1,015	$ 835	$ 1,129	
Operating efficiency %	**29.3%**	**42.0%**	**31.9%**	**43.2%**	Subscription business model with low churn, combined with our budgeting process
Stock compensation expense	$ 223	$ -	$ 215	$ -	In accordance with guidance assumptions provided on slide 19
Depreciation expense	28	28	28	28	
Amortization expense	81	-	79	-	In accordance with guidance assumptions provided on slide 19
Restructuring-related	(2)	(1)	-	-	
Acquisition and transaction-related	(0)	(3)	-	-	
Capital expenditures	(14)	(14)	(15)	(15)	In accordance with guidance assumptions provided on slide 19
Cash interest payments	(137)	(137)	(90)	(90)	In accordance with guidance assumptions provided on slide 19
Cash tax payments	(69)	(69)	(110)	(110)	In accordance with guidance assumptions provided on slide 19
Other	(82)	(82)	(99)	(99)	For FY'24 and FY'25: primarily FX (net impact) and working capital to support growth
Subtotal	$ 27	$ (279)	$ 8	$ (286)	
Free cash flow	**$ 736**	**$ 736**	**$ 843**	**$ 843**	

FX fluctuations, interest rate fluctuations, and changes in the macroeconomic environment can impact free cash flow

[1] Our model uses ARR because ARR is the best approximation of billings related to recurring contracts. Cash generation, cash contribution margin, operating efficiency %, and cash flow derived therefrom are estimates we use to calculate free cash flow. Refer to the non-GAAP to GAAP reconciliation tables on slides 30 through 32 for a reconciliation of the non-GAAP elements to the GAAP elements.

Q&A

THANK YOU

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APPENDIX

APPENDIX: FY'25 GUIDANCE INCLUDES THE FOLLOWING ASSUMPTIONS

- We provide ARR guidance on a constant currency basis, using our FY'25 Plan foreign exchange rates (rates as of September 30, 2024) for all periods.
- We expect churn to remain low.
- For cash flow, due to invoicing seasonality, and consistent with the past 4 years, we expect the majority of our collections to occur in the first half of our fiscal year and for fiscal Q4 to be our lowest cash flow generation quarter.
- Compared to FY'24, at our FY'25 ARR guidance, FY'25 GAAP operating expenses are expected to increase approximately 4% and FY'25 non-GAAP operating expenses are expected to increase approximately 5%, primarily due to investments to drive future growth and foreign exchange rate fluctuations.
- Cash flow guidance includes approximately $20 million of outflows related to go-to-market realignment.
- Capital expenditures are expected to be approximately $15 million.
- Cash interest payments are expected to be approximately $90 million.
- Cash tax payments are expected to be approximately $110 million.
- GAAP and non-GAAP tax rates are expected to be approximately 25%.
- GAAP P&L results are expected to include the items below, totaling approximately $279 million to $309 million, as well as their related tax effects:
  - approximately $200 million to $230 million of stock-based compensation expense, and
  - approximately $79 million of intangible asset amortization expense.
- 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.
  - We currently intend to repurchase approximately $300 million of our common stock in FY'25 and retire the $500 million senior notes due in Q2'25.
  - We currently expect our fully diluted share count to be approximately flat in FY'25.

APPENDIX: EXPANDING THE FOOTPRINT OF WINDCHILL AND CREO TO INCREASE SPEED AT AN AEROSPACE COMPANY

Goal

- This customer is a global leader in the personal aircraft sector. Demand for their new products is seeing strong growth. However, their **reliance on manual processes within engineering and manufacturing significantly limits their ability to keep up with their backlog. They are focused on increasing their production capacity, while continuing to deliver high levels of quality as a regulated company.**

Solution and Impact

- **This customer decided to step up their focus on digital transformation to unlock production capacity.** They are increasing their usage of Windchill PLM and Creo CAD – expanding seats to more users, as well as leveraging more advanced capabilities.
- **Windchill's role will be expanded from traditional product data management to also encompass BOM (Bill of Materials) management. Windchill seats will also be expanded to 80% of employees, including a majority of people on the manufacturing floor**. By relying more on Windchill and streamlining the flow of product data between Windchill and other key systems such as ERP (Enterprise Resource Planning) and MES (Manufacturing Execution System), this customer expects to unlock significant productivity improvements.
- The **new composites module introduced with Creo 10** facilitates the design, simulation, and manufacturing of composite parts, and was a catalyst for this customer to **upgrade their Creo capabilities and add additional Creo seats** for new product development.

windchill® creo®

APPENDIX: DRIVING GROWTH BY EXTENDING THE DIGITAL THREAD WITH SERVICEMAX AT AN INDUSTRIAL COMPANY

Goal

- This customer is a global leader in the cranes industry and has been a large PTC customer for many years, using both Creo CAD and Windchill PLM. However, they currently manage their field service business using a complex system, comprised of multiple applications from disparate vendors. **Their products have long lifecycles, and a top corporate initiative is to grow aftermarket sales and profits.**

Solution and Impact

- **As a large customer of Creo and Windchill, this customer appreciates the value of having a digital thread that connects product data across design and manufacturing. They now want to extend their digital thread to aftermarket field service. Effective cross-selling was a key part of this deal.**
- ServiceMax SLM was selected based on product capabilities that are aligned with the customer's priority to leverage a digital thread approach as they consolidate their tech stack. **After a thorough assessment process, PTC's digital thread vision came out on top.**
- By equipping their customer support team with ServiceMax, and enabling visibility to information in Creo and Windchill, this customer sees potential to drive higher warranty renewal and conversion rates while reducing warranty leakage and concessions.
- With a digital thread of product data across CAD, PLM, and SLM, remote engineers will be able to provide uniquely advanced on-line support to field service technicians.

servicemax®

APPENDIX: ACCELERATING TIME TO MARKET WITH MODEL BASED DEFINITION (MBD) AT AN INDUSTRIAL COMPANY

Goal

- This customer is a global leader in power generation solutions and has been a large PTC customer for many years, using both Creo CAD and Windchill PLM. **To further accelerate time to market, this customer wants to remove bottlenecks between engineering and manufacturing. They want to rely less on disconnected tools and manual processes, and instead leverage their 3D Creo models and Windchill system to a greater extent.**

Solution and Impact

- **This customer is taking a large step forward in their digital transformation journey. They purchased additional licenses that enable them to modernize key production processes by leveraging the Model Based Definition (MBD) capabilities of Creo and Windchill.**
- **The customer's legacy processes are inefficient and time-consuming:** Starting in engineering with the 3D model of their product they created in Creo, they arrange views of their 3D model in a 2D drawing. Next, they annotate the 2D drawing with additional information required for manufacturing and quality-assurance (QA). Next, they convert the 2D drawing into a PDF and send the PDF to manufacturing and QA. Finally, they input the product information from the PDF manually into machines on their manufacturing floor.
- **MBD is expected to drive productivity and time to market, because the customer's processes will be streamlined and automated:** They will add manufacturing and QA information to their 3D models within Creo, then use their Windchill system to seamlessly transfer the unified product information to downstream manufacturing and QA processes.

creo® windchill®

APPENDIX: DISPLACING A COMPETITOR WITH WINDCHILL+ SaaS AT A MEDICAL DEVICE COMPANY

Goal

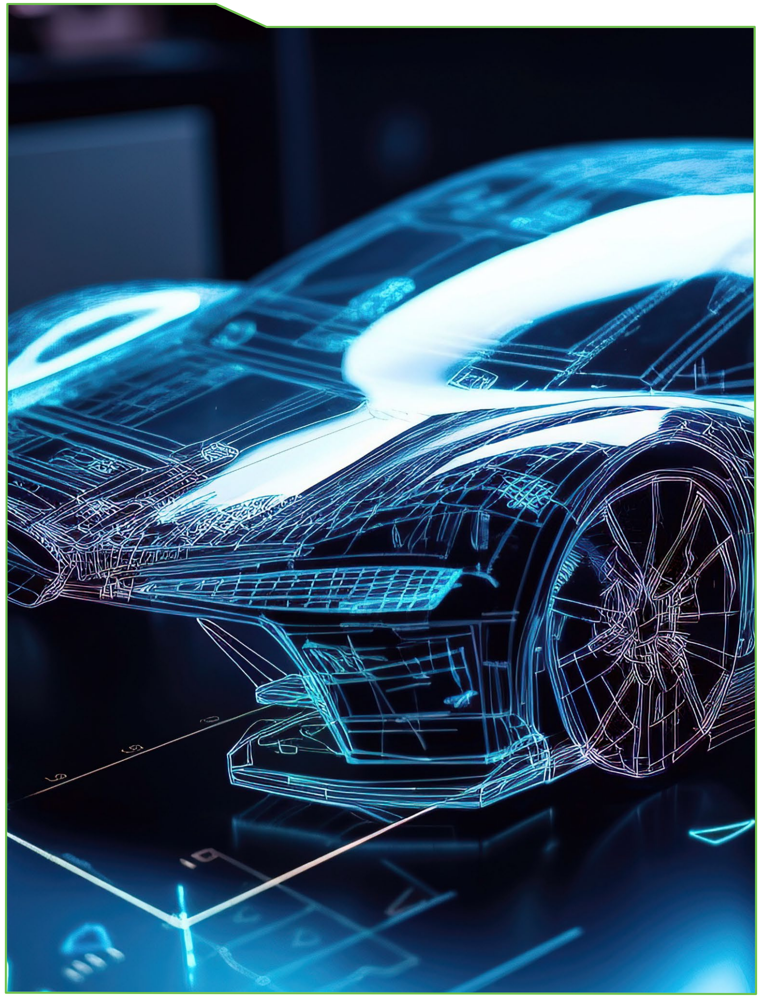
- This subsidiary of a global industrial conglomerate is a global leader in optical microscopes. **They determined their PLM system was no longer adequate to support their business**, due to it being a complex system that maintains product data across many separate legacy engineering applications and requires high levels of manual data processing.
- **Since extensive changes are needed to modernize their PLM system, this customer also wants to make the move from on-premises to SaaS at the same time.**

Solution and Impact

- This customer decided to standardize on PTC for CAD and PLM. They continue to use Creo for product design and will move forward with **Windchill+ Select Medical Device** for PLM.
- **As a cloud platform specifically for medical device customers, Windchill+ Select Medical Device is expected to fast-track this customer's digital transformation and ease industry-specific compliance burdens.** By streamlining and moving key engineering workflows to Windchill+, this customer sees potential to drive more automation, scale more effectively, enable more efficient product development, and further improve quality.
- This is a competitive displacement, with the first phase focused on establishing a strong product data foundation and the second phase focused on expanding the use of PLM to drive collaboration across the company. **This customer currently has approximately 50 Creo users and has committed to expand Windchill+ to over 2,500 employees.**

windchill+™

APPENDIX: CODEBEAMER EXPANSION FOR SOFTWARE DEFINED VEHICLES AT LEADING AUTO MANUFACTURERS



Significant follow-on expansion deals in Q4'24 at 3 global automobile manufacturers for new, committed software defined vehicle production programs

2 of which are top 10 automobile manufacturers by revenue

codebeamer™

APPENDIX: FX IMPACT ON ARR

$ in millions

Using FX rates as of September 30, 2023 (FY'24 Plan FX rates)	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24
Constant Currency ARR by Product Group								
CAD (product data authoring)	$ 712	$ 730	$ 752	$ 769	$ 785	$ 808	$ 824	$ 846
PLM (product data management and process orchestration)	924	1,119	1,153	1,209	1,231	1,267	1,300	1,361
Ending ARR on a constant currency basis	**$ 1,636**	**$ 1,850**	**$ 1,904**	**$ 1,979**	**$ 2,016**	**$ 2,075**	**$ 2,125**	**$ 2,207**

As reported	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24
ARR by Product Group								
CAD (product data authoring)	$ 727	$ 748	$ 764	$ 769	$ 805	$ 814	$ 824	$ 868
PLM (product data management and process orchestration)	936	1,134	1,165	1,209	1,252	1,275	1,302	1,387
Ending ARR	**$ 1,663**	**$ 1,882**	**$ 1,929**	**$ 1,979**	**$ 2,057**	**$ 2,088**	**$ 2,126**	**$ 2,255**
Impact of FX fluctuations embedded in ARR as reported	**$ 26**	**$ 32**	**$ 24**	**$ 0**	**$ 41**	**$ 14**	**$ 2**	**$ 47**

We report constant currency ARR to help investors understand and assess our business performance excluding FX volatility

FORWARD-LOOKING STATEMENTS

Statements in this document that are not historic facts, including statements about our future financial and growth expectations and targets, potential stock repurchases and the expected effect of our go-to-market realignment, 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 or may deteriorate due to, among other factors, high interest rates or increases in interest rates and inflation, volatile foreign exchange rates, tightening of credit standards and availability, the effects of the conflicts between Russia and Ukraine and in the Middle East, and growing tensions with China, any of which could cause customers to delay or reduce purchases of new software, reduce the number of subscriptions they carry, or delay payments to us, which would adversely affect ARR and/or our financial results and cash flow; our investments in our software solutions may not drive expansion of those solutions and/or generate the ARR and/or cash flow we expect if customers are slower to adopt those solutions than we expect or if they adopt competing solutions; our go-to-market realignment and other strategic initiatives to improve organizational and operational efficiency may not do so when or as we expect and may disrupt our business to a greater extent than we expect; other uses of cash or our credit facility limits could limit or preclude the return of 50% of free cash flow to shareholders via share repurchases, or could change the amount and timing of any share repurchases; 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 changes to tax laws in the U.S. and other countries and 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, Quarterly Reports on Form 10-Q, and other filings with the U.S. Securities and Exchange Commission.

OPERATING MEASURE

ARR: ARR (Annual Run Rate) represents the annualized value of our portfolio of active subscription software, SaaS, hosting, and support contracts as of the end of the reporting period. We calculate ARR as follows:

- We consider a contract to be active when the product or service contractual term commences (the "start date") until the right to use the product or service ends (the "expiration date"). Even if the contract with the customer is executed before the start date, the contract will not count toward ARR until the customer right to receive the benefit of the products or services has commenced.
- For contracts that include annual values that increase over time as there are additional deliverables in subsequent periods, which we refer to as ramp contracts, we include in ARR only the annualized value of components of the contract that are considered active as of the date of the ARR calculation. We do not include the future committed increases in the contract value as of the date of the ARR calculation.
- As ARR includes only contracts that are active at the end of the reporting period, ARR does not reflect assumptions or estima tes regarding future customer renewals or non-renewals.
- Active contracts are annualized by dividing the total active contract value by the contract duration in days (expiration date minus start date), then multiplying that by 365 days (or 366 days for leap years).

We believe ARR is a valuable operating measure to assess the health of a subscription business because it is aligned with the amount that we invoice the customer on an annual basis. We invoice customers annually for the current year of the contract. A customer with a one-year contract will typically be invoiced for the total value of the contract at the beginning of the contractual term, while a customer with a multi-year contract will be invoiced for each annual period at the beginning of each year of the contract.

ARR increases by the annualized value of active contracts that commence in a reporting period and decreases by the annualized value of contracts that expire in the reporting period.

OPERATING MEASURE (CONTINUED)

As ARR is not annualized recurring revenue, it is not calculated based on recognized or unearned revenue and is not affected by variability in the timing of revenue under ASC 606, particularly for on-premises license subscriptions where a substantial portion of the total value of the contract is recognized at a point in time upon the later of when the software is made available, or the subscription term commences.

ARR should be viewed independently of recognized and unearned revenue and is not intended to be combined with, or to replace, either of those items. Investors should consider our ARR operating measure only in conjunction with our GAAP financial results.

Organic ARR: We provide an organic ARR measure to help investors understand and assess the performance of our business without the distorting effects of ARR from acquisitions in the comparative period. We do not adjust for acquisitions that have an immaterial impact on our ARR results when providing organic ARR results.

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 distorting effects of ARR from acquisitions in the comparative period and foreign exchange rate fluctuations. We do not adjust for acquisitions that have an immaterial impact on our ARR results when providing organic constant currency ARR results.

Deferred ARR: Deferred ARR is ARR attributable to our portfolio of subscription software, cloud, SaaS and support contracts that are not active as of the end of the reporting period but are contractually committed to commence in a future period.

Because ARR is independent of recognized and unearned revenue, deferred ARR should not be viewed as a measurement of revenue which will be recognized in future periods.

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 and transaction-related charges included in general and administrative expenses; restructuring and other charges, net; non-operating charges and credits shown in the reconciliation provided; 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” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

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 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 (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’24 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, 2023, rather than the actual exchange rates in effect during that period. All discussion of FY’25 and comparative prior period ARR results (including FY’24 baseline amounts) are reflected using the foreign exchange rates as of September 30, 2024.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP

Diluted earnings per share: GAAP vs. Non-GAAP

	FY'24	FY'25 Guidance	Q1'25 Guidance
Diluted earnings per share	$3.12	$3.68 to $4.57	$0.28 to $0.52
Stock-based compensation expense	1.85	1.65 to 1.90	0.40 to 0.46
Intangible asset amortization expense	0.67	~0.65	~0.16
Acquisition and transaction-related expense	0.03	-	-
Restructuring and other charges (credits)	(0.01)	-	-
Other non-operating expenses	0.02	-	-
Income tax adjustments related to the reconciling items	(0.59)	(0.63) to (0.57)	(0.15) to (0.13)
Non-GAAP diluted earnings per share	$5.08	$5.60 to $6.30	$0.75 to $0.95

GAAP vs. Non-GAAP Cost of revenue

In millions	FY'24
GAAP Cost of revenue	$445
License and subscription stock-based compensation expense	(0)
Support stock-based compensation expense	(14)
Professional services stock-based compensation expense	(7)
Software amortization of acquired intangible assets	(38)
Non-GAAP Cost of revenue	$385

GAAP vs. Non-GAAP Operating Expenses

In millions	FY'24
GAAP Operating Expenses	$1,266
Stock-based compensation	(202)
Amortization of acquired intangible assets	(42)
Acquisition and transaction-related charges	(3)
Restructuring and other credits, net	1
Non-GAAP Operating Expenses	$1,019

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP

R&D Expense: GAAP vs. Non-GAAP

In millions	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16
GAAP research and development expense	$182	$189	$202	$211	$215	$222	$226	$228	$229
Stock-based compensation expense	(9)	(8)	(9)	(9)	(9)	(9)	(10)	(12)	(10)
Non-GAAP research and development expense	$173	$180	$192	$203	$206	$213	$216	$216	$219

In millions	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
GAAP research and development expense	$236	$250	$247	$257	$300	$339	$394	$433
Stock-based compensation expense	(14)	(13)	(22)	(27)	(34)	(42)	(59)	(60)
Non-GAAP research and development expense	$222	$236	$225	$230	$266	$297	$335	$373

FY'21 to FY'25 Compounded Annual Growth Rate

	Research & Development Expense	Sales, Marketing, General & Administrative Expense	Total Operating Expense
Total GAAP Expense	12%	3%	6%
Adjustment for stock-based compensation expense	-1%	0%	0%
Adjustment for amortization of acquired intangible assets	-	-	0%
Adjustment for acquisition and transaction-related charges	-	1%	0%
Adjustment for restructuring and other credits, net	-	-	0%
Adjustment for non-operating charges, net	-	-	0%
Total Non-GAAP Expense	11%	4%	6%

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP

Free Cash Flow

In millions	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16
Net cash provided by (used in) operating activities	$222	$70	$157	$79	$218	$225	$305	$180	$183
Capital expenditures	(25)	(30)	(27)	(28)	(31)	(29)	(25)	(31)	(26)
Free cash flow	$197	$40	$130	$51	$187	$195	$279	$149	$157

In millions	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25 Guidance
Net cash provided by (used in) operating activities	$135	$248	$285	$234	$369	$435	$611	$750	$850 to $865
Capital expenditures	(25)	(36)	(64)	(20)	(25)	(19)	(24)	(14)	~(15)
Free cash flow	$110	$212	$221	$214	$344	$416	$587	$736	$835 to $850

In millions	Q4'23	Q4'24	Q1'25 Guidance
Net cash provided by (used in) operating activities	$50	$98	~$234
Capital expenditures	(6)	(5)	~(4)
Free cash flow	$44	$94	~$230