



# Pegasystems Investor Presentation Q3 2023

**NASDAQ: PEGA**

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October 25, 2023

## Safe Harbor Statement

Certain statements in this presentation may be “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Words such as expects, anticipates, intends, plans, believes, will, could, should, estimates, may, targets, strategies, intends to, projects, forecasts, guidance, likely, and usually or variations of such words and other similar expressions identify forward-looking statements, which speak only as of the date the statement was made and are based on current expectations and assumptions.

Factors that could cause the Company's results to differ materially from those expressed in forward-looking statements are contained in the Company's press release announcing its Q3 2023 results and in the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2022 and other recent filings with the SEC.

Investors are cautioned not to place undue reliance on such forward-looking statements, and there are no assurances that the results included in such statements will be achieved. Although subsequent events may cause our view to change, except as required by applicable law, we do not undertake and expressly disclaim any obligation to publicly update or revise these forward-looking statements whether as the result of new information, future events, or otherwise. Any forward-looking statements in this presentation represent our views as of October 25, 2023.

## Non-GAAP Financial Measures

Our non-GAAP financial measures should only be read in conjunction with our consolidated financial statements prepared in accordance with GAAP. We believe that these measures help investors understand our core operating results and prospects, consistent with how management measures and forecasts our performance without the effect of often one-time charges and other items outside our normal operations. They are not a substitute for financial measures prepared under U.S. GAAP. Constant currency measures are calculated by applying the Q3 2022 foreign exchange rates to all periods shown. Reconciliations of GAAP and non-GAAP measures are in the Company's press release announcing its Q3 2023 results and at the end of this presentation.

## Additional Notes

This presentation may contain industry market data, industry forecasts, and other statistical information. Such information was obtained from publicly available information, industry publications, and other third-party sources, and the Company makes no representations as to the accuracy of such information. The Company has not independently verified any such information. Certain information in this presentation is based upon management forecasts and reflects prevailing conditions and management's views as of the date of this presentation, all of which are subject to change.

# Pega Overview

OUR VISION

**To change the way the  
world builds software.**

OUR MISSION

**To deliver innovative software that  
crushes business complexity so our  
clients can solve problems today and  
transform for tomorrow.**

What we do

# PEGA CRUSHES BUSINESS COMPLEXITY

How we do it

with a powerful **LOW-CODE PLATFORM FOR WORKFLOW AUTOMATION AND AI-POWERED DECISIONING**

Our Solutions  
are organized  
into 3  
Engagement  
Strategies

## 1:1 Customer Engagement

### ADAPT WITH EASE

Adapt instantly | Personalize for long  
term loyalty | Engage with empathy

**186% - 598% ROI < 3-12 months**

## Customer Service

### AUTOMATE & SAVE TIME

Resolve issues faster | Find new ways  
to cut costs | Increase revenue &  
retention

**298% ROI < 6 months**

## Intelligent Automation

### MAXIMIZE VALUE

Streamline experiences | Automate  
workflows at scale | Build critical apps  
fast

**489% ROI < 6 months**

Why we're  
different

### Intelligent technology

Our **Pega Infinity™** portfolio of software, all built on our **open, cloud-native platform**, with **AI** embedded everywhere, drives smarter, more intuitive workflows, and customer and employee experiences.

### Scalable architecture

Our patented **Situational Layer Cake®** transcends channels and internal data silos and manages variations for maximum reuse and enterprise scale.

### Rapid Innovation

**Pega Express™** design-thinking best practices are built right into our **low-code platform**, so you can design and deploy mission-critical workflows and experiences quickly and collaboratively

### Client-centricity

Our clients have a lot at stake, and we don't let them down. Ever. Together with our **world-class partners** and **highly skilled Client Success teams**, we keep our promises every step of your journey.

# Leading Digital Transformation



**Founded:** 1983  
**HQ:** Cambridge, MA  
**Employees:** 5,000+

## Q3 2023

**10%**

ACV  
Growth <sup>(1)</sup>

**14%**

Pega Cloud ACV  
Growth <sup>(1)</sup>

**13%**

Free Cash Flow Margin <sup>(2)</sup>

**\$335M**

Revenue

*(1) Constant currency change since September 30, 2022.*

*(2) For the Nine Months Ended September 30, 2023. Starting in the third quarter of 2023, the Company has calculated free cash flow as cash provided by (used in) operating activities less investments in property and equipment. To ensure comparability, previously disclosed amounts have been updated. For more information, refer to the reconciliation included later in this investor presentation.*



# Corporate Social Responsibility at Pega

## E

### ENVIRONMENTAL

We are committed to reducing the environmental impact of our operations on air, land, and water



## S

### SOCIAL

We strive to be a responsible corporate citizen and active contributor in communities where our employees, partners, and clients' work



## G

### GOVERNANCE

We believe that corporate governance is important to ensure that Pega is managed for the long-term benefit of all our stakeholders



<https://www.pega.com/corporate-social-responsibility>

# Key Investment Highlights

- Rapidly growing enterprise software company, with a view towards a **\$78B+ market opportunity**
- **Large enterprise client base** in key verticals: financial services, insurance, telecommunications, health care, manufacturing, and public sector
- A proven **technology leader** in customer engagement and intelligent automation
- **Mission critical** to our clients
- Strong business driving to **Rule of 40** effectiveness



# Solution Overview

# What are the Business Problems We Solve?

Pega drives better business outcomes by...



## ***Making Decisions***

Delivering 1:1 customer engagement powered by *real-time, omni-channel AI*



## ***Getting work done***

Making customer and employee-facing processes more efficient through *end-to-end automation & robotics*



...and very often we do both

For example, in the context of **Customer Service** or **KYC/CLM**, when customer interactions involve processing work to resolve a request.

## 1:1 Customer Engagement Customer Service Intelligent Automation



# Crushing business complexity

Solving the problems no one else can. Delivering value, fast.

One-to-one  
customer  
engagement

**Maximize customer lifetime value**

**489% ROI**  
**< 6 months payback**

Customer  
service

**Simplify service and reduce costs**

**298% ROI**  
**< 6 months payback**

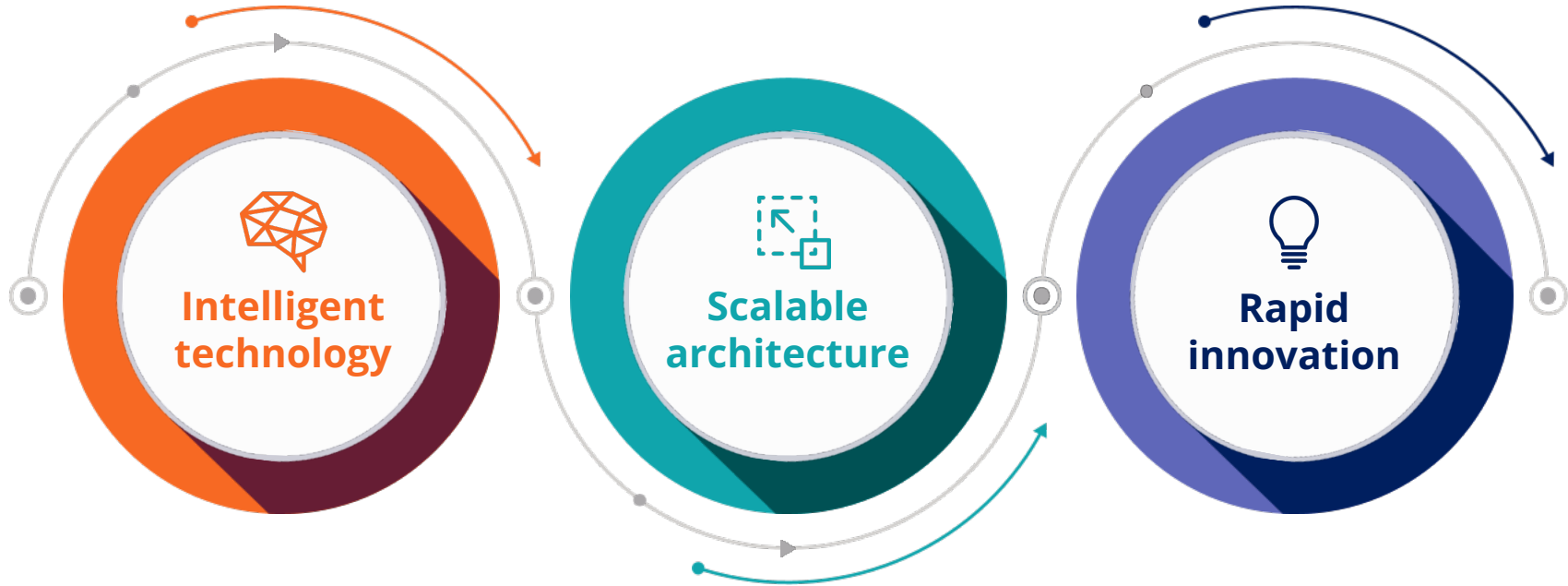
Intelligent  
automation

**Boost efficiency**

**186% – 598% ROI**  
**< 3 - 12 months payback**

# So how do we do it?

Our software can handle quick fixes, lasting transformation, and everything in between.



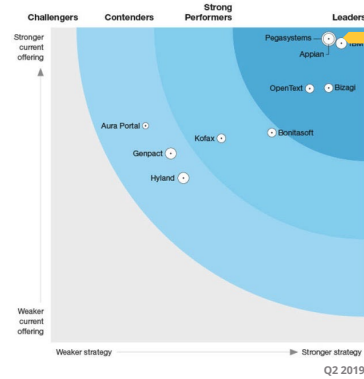
## Customer engagement

Figure 1: Magic Quadrant for the CRM Customer Engagement Center



Gartner.

## Digital process automation



FORRESTER

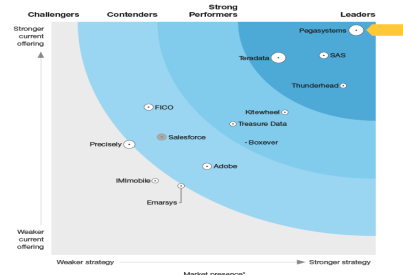
# Together, we're redefining the technology industry

## Unified, market-leading technology

*Changing the way organizations work and engage*

## Real-time decisions & AI

THE FORRESTER WAVE™  
Real-Time Interaction Management  
Q4 2020



\*A gray bubble indicates a nonparticipating vendor.

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102486

FORRESTER

Q4 2020

## End-to-end work management



Gartner.

We've built the

**#1 real-time interaction management**

**#1 digital decisioning**

**#1 digital process automation**

**#1 intelligent business process management**

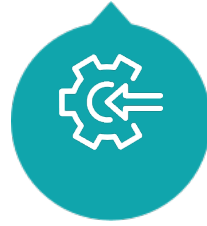


# Business Overview

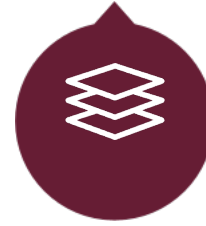
# WHY PEGA WINS



**Differentiated  
Architecture**



**Ease of  
Integration**



**Depth of Platform  
Functionality**



**Strong  
Team**



**Deep Vertical  
Expertise**



**Robust  
ROI**

# Selling High-Value Use Cases to Some of the World's Largest Companies

## BUYER



Robert  
**Chief Customer  
Officer**

## OFFERING

**1:1 Customer  
Engagement**

## VALUE PROPOSITION

**Maximize top-line growth** with a centralized, real-time AI-powered customer decision hub that delivers next-best-actions at every customer interaction, across various channels.



Teresa  
**SVP, Customer  
Service**

**Customer  
Service**

**Reduce cost and streamline service** experiences for customers and employees with a state-of-the-art customer service application and out-of-the-box, industry-specific microjourneys.






Chen  
**SVP,  
Operations**

**Intelligent  
Automation**

**Make customer and employee-facing processes more efficient** through intelligent automation powered by end-to-end robotics and case management.

# How Do Our Clients Drive Value Using Pega?

	CLIENT	ILLUSTRATIVE USE CASE	IMPACT AND RESULT
1:1 Customer Engagement	 Commonwealth Bank	<b>Retain customers</b>	<ul style="list-style-type: none"><li>• 50 million next best action conversations delivered across 18 channels</li><li>• +12 lead in NPS over the competition</li></ul> <a href="https://www.pegacom/customers/cba-marketing">Read more   https://www.pegacom/customers/cba-marketing</a>
Customer Service	 Elevance Health	<b>Inquire into account info</b>	<ul style="list-style-type: none"><li>• Tripled customer satisfaction</li><li>• Increased cardmember spend by 10%</li><li>• Lowered card attrition 4x</li></ul> <a href="https://www.pegacom/insights/resources/anthem-now-elevance-health-creates-next-generation-service-desktop-pegacom">Read more   https://www.pegacom/insights/resources/anthem-now-elevance-health-creates-next-generation-service-desktop-pegacom</a>
Intelligent Automation	 SIEMENS	<b>Streamline processes &amp; reduce costs</b>	<ul style="list-style-type: none"><li>• 11-point increase in NPS</li><li>• 3-minute drop in average handling time (AHT)</li><li>• 100 processes automated</li></ul> <a href="https://www.pegacom/insights/resources/anthem-now-elevance-health-creates-next-generation-service-desktop-pegacom">Read more   https://www.pegacom/insights/resources/anthem-now-elevance-health-creates-next-generation-service-desktop-pegacom</a>

# Financial Details

# Financial Outlook



**Massive Market Opportunity**



**Subscription Journey**



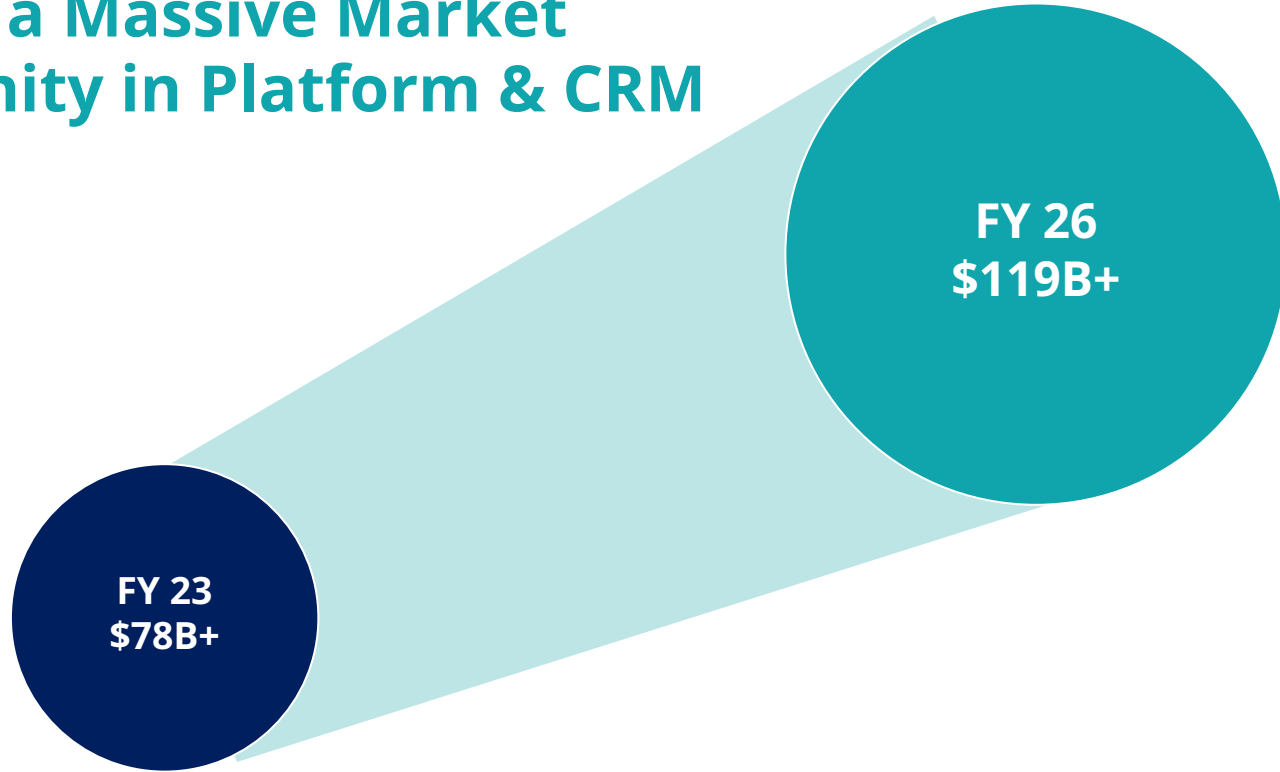
**Recurring Model**



**Margin Expansion Opportunities**



# Pursuing a Massive Market Opportunity in Platform & CRM



Source: IDC Worldwide ICT Spending Guide (Feb. 2023)

# Subscription Journey

## From...

Perpetual ▶

Less Predictable ▶

Lagging Growth & Margins ▶

## To...

▶ Recurring

▶ More Predictable

▶ Rule of 40 Driven

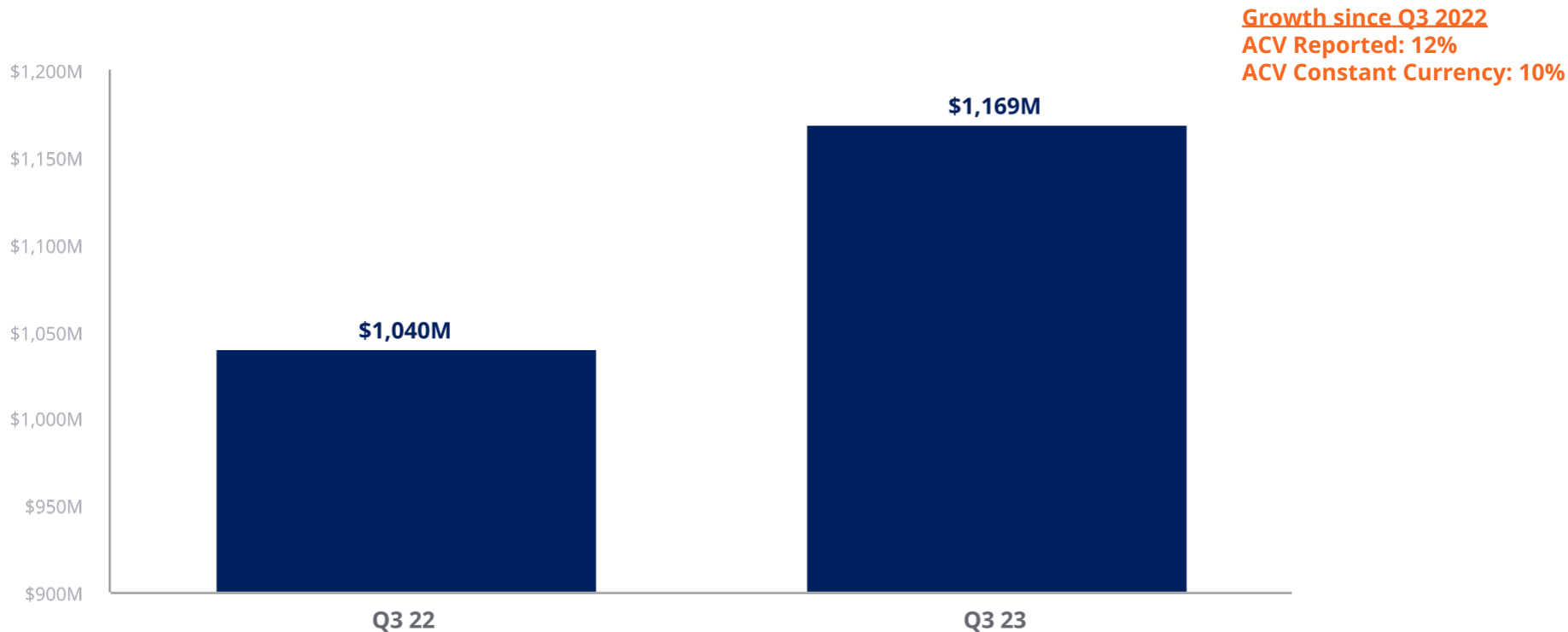
SUBSCRIPTION  
TRANSITION  
TIMELINE

2017

2023

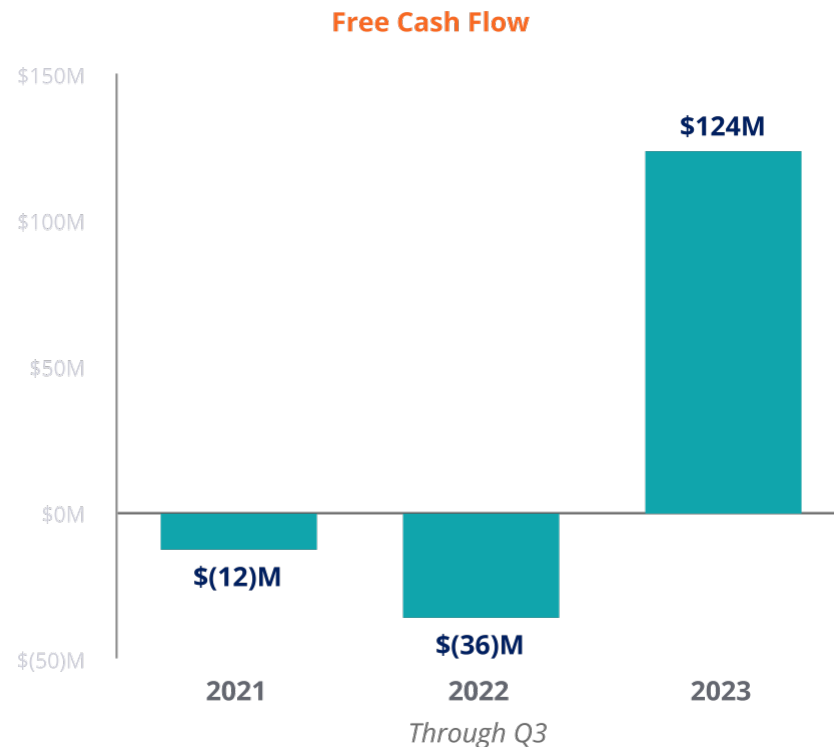
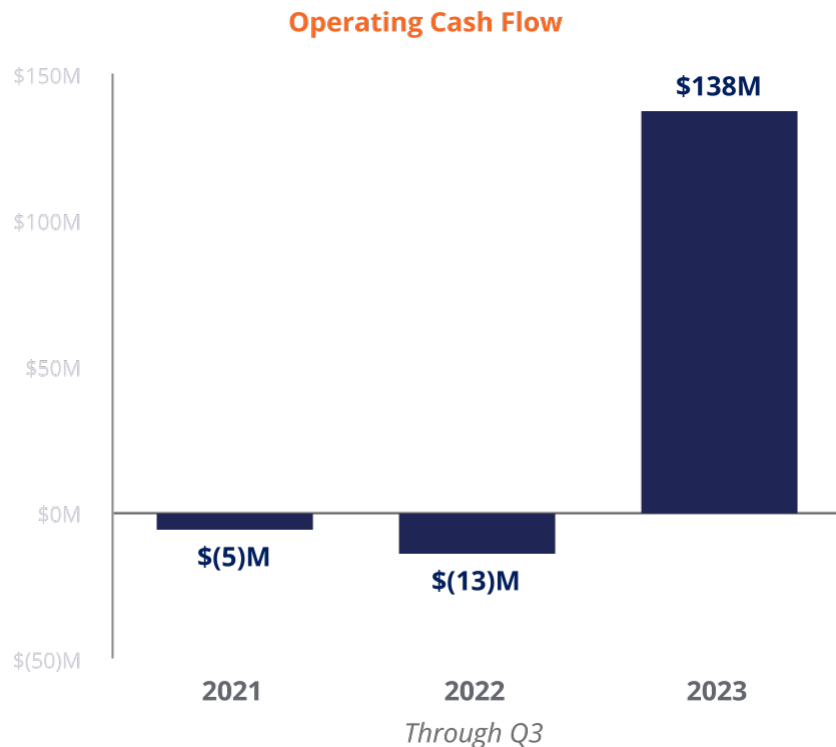
# Recurring Subscription Model

ACV



ACV represents the annualized value of our active contracts as of the measurement date. The contract's total value is divided by its duration in years to calculate ACV. ACV is a performance measure that we believe provides useful information to our management and investors. In 2023, the Company revised its ACV methodology for maintenance and all contracts less than 12 months as its overall client renewal rate exceeds 90%. The impact of the change was \$3 million and 0.3% of Total ACV or less for all quarters in 2022. Previously disclosed ACV amounts have been updated to allow for comparability.

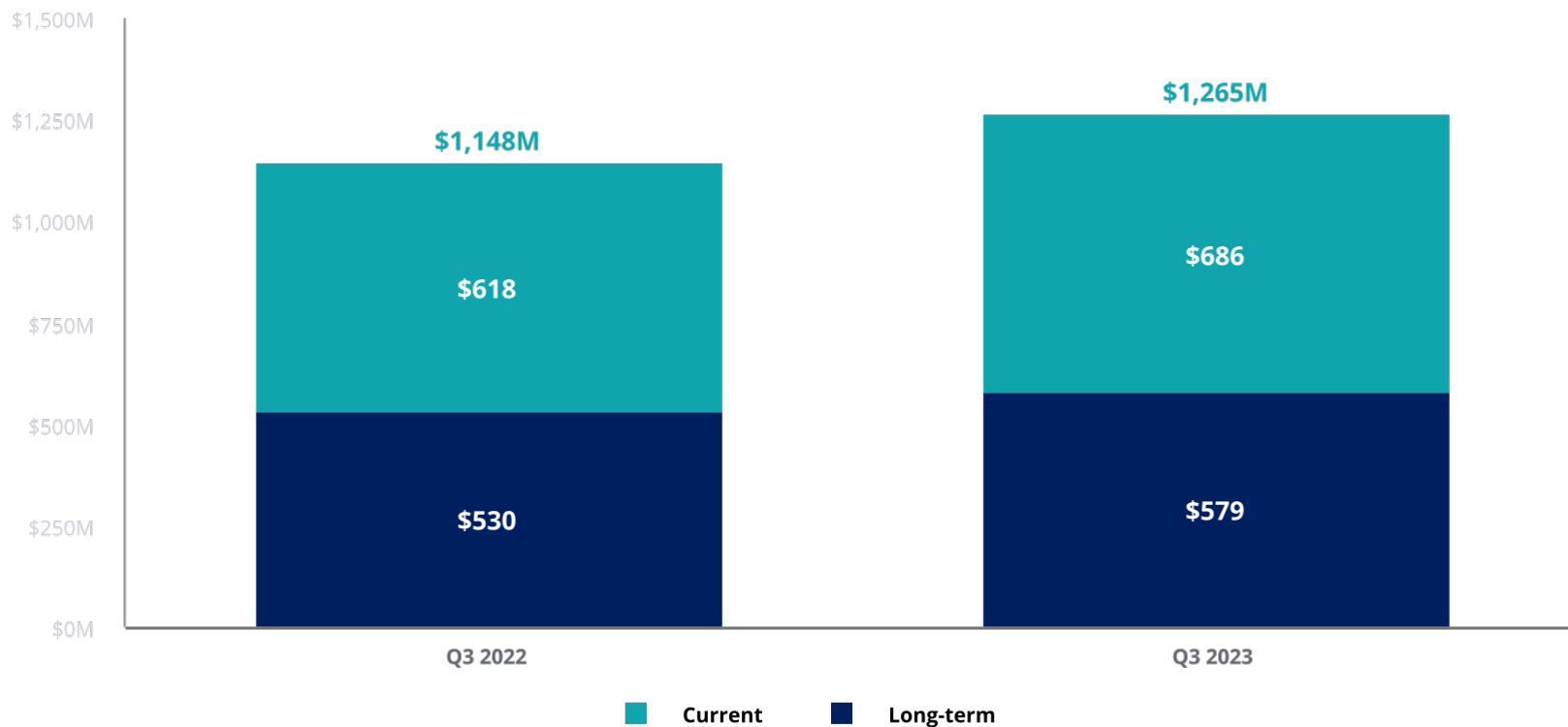
# Cash Flow Growth



*Note: Starting in the third quarter of 2023, the Company has calculated free cash flow as cash provided by (used in) operating activities less investments in property and equipment. To ensure comparability, previously disclosed amounts have been updated. For additional information refer to explanatory notes on slide [32](#)*

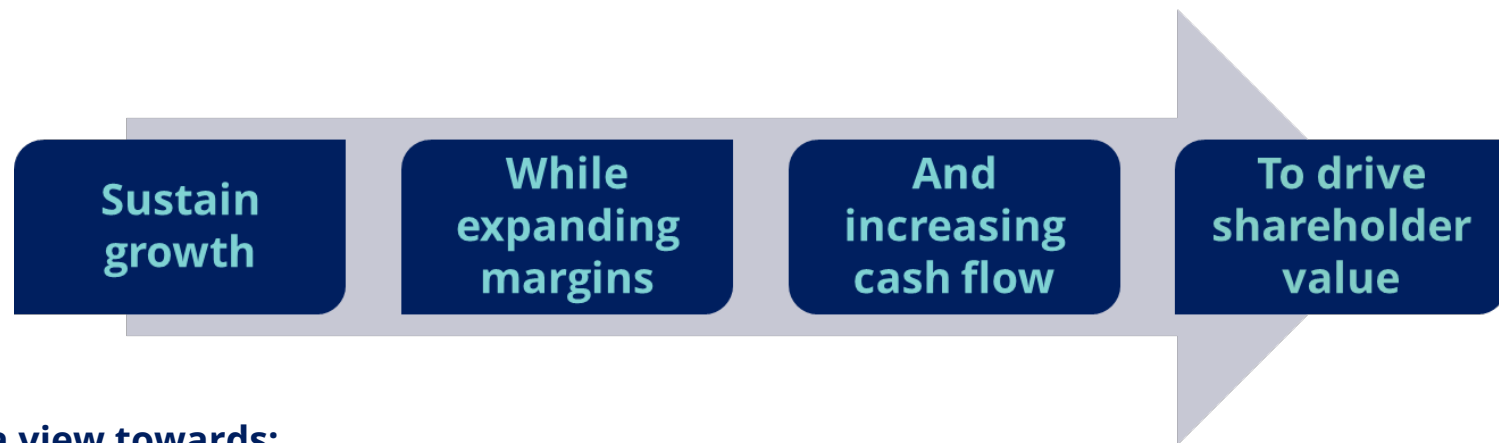
# Backlog

Total Backlog Up 10% as Reported (7% Constant Currency)



# What Does this All Mean?

Strive to build a growing, recurring business to drive increased value



## With a view towards:

- Continuing our technology leadership
- Improving sales productivity
- Executing our target organization go-to-market strategy
- Driving ACV growth
- Leveraging Cloud Choice differentiation
- Balancing growth & margin
- “Rule of 40”



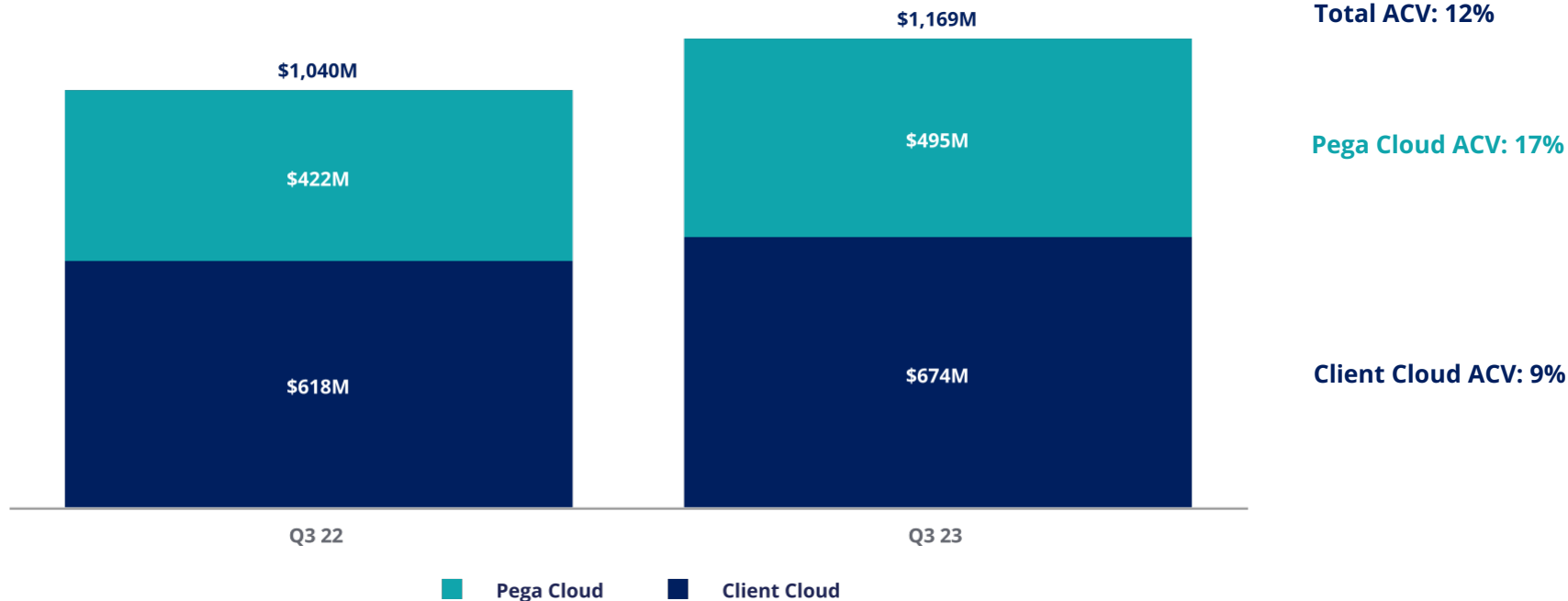


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# Reported ACV

Pega Cloud and Client Cloud

Growth since Q3 2022

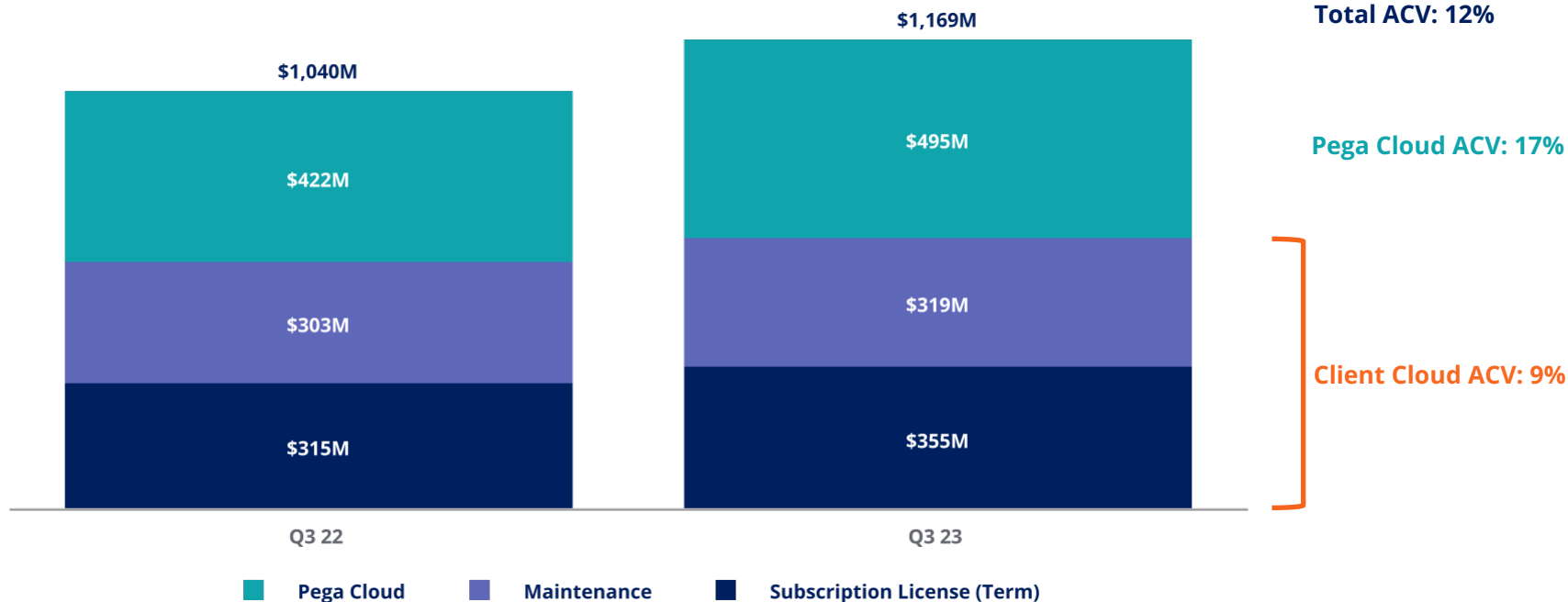


ACV represents the annualized value of our active contracts as of the measurement date. The contract's total value is divided by its duration in years to calculate ACV. ACV is a performance measure that we believe provides useful information to our management and investors. In 2023, the Company revised its ACV methodology for maintenance and all contracts less than 12 months as its overall client renewal rate exceeds 90%. The impact of the change was \$3 million and 0.3% of Total ACV or less for all quarters in 2022. Previously disclosed ACV amounts have been updated to allow for comparability.

# Reported ACV

Pega Cloud, Maintenance, and Subscription License (Term)

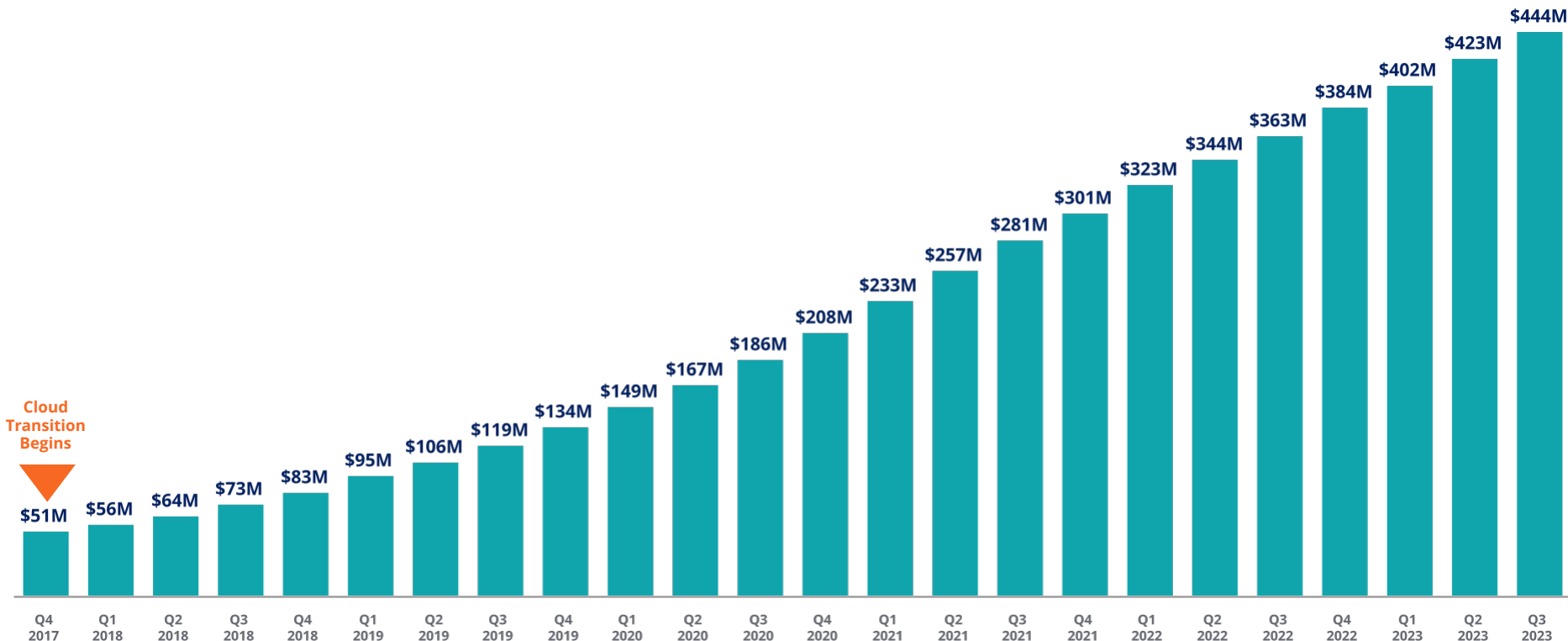
Growth since Q3 2022



ACV represents the annualized value of our active contracts as of the measurement date. The contract's total value is divided by its duration in years to calculate ACV. ACV is a performance measure that we believe provides useful information to our management and investors. In 2023, the Company revised its ACV methodology for maintenance and all contracts less than 12 months as its overall client renewal rate exceeds 90%. The impact of the change was \$3 million and 0.3% of Total ACV or less for all quarters in 2022. Previously disclosed ACV amounts have been updated to allow for comparability.

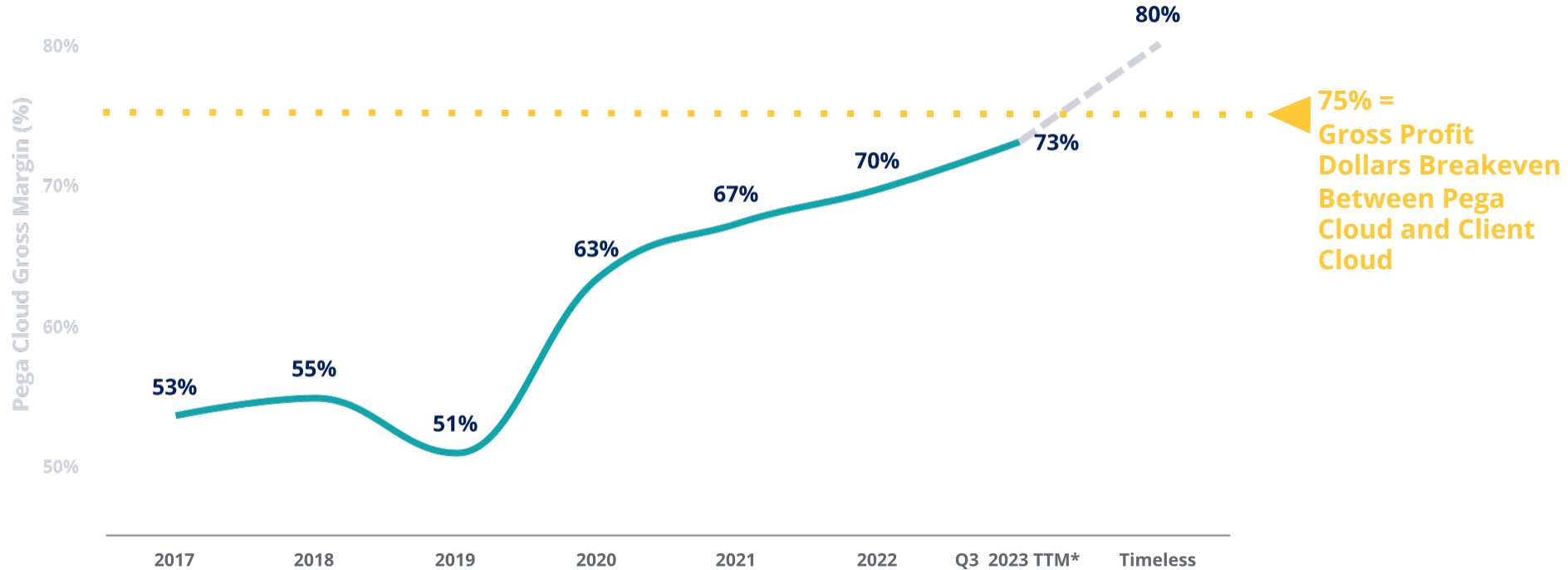
# Pega Cloud Revenue

Trailing 12 Months



# Pega Cloud Gross Margin

At or above a 75% gross margin, Pega Cloud generates higher gross profit dollars than Client Cloud in a timeless illustrative model



## Operating and Free Cash Flow Reconciliation <sup>(1)</sup>

(Dollars in thousands)

Investment in property and equipment

## Free cash flow

### Additional information <sup>(3)</sup>

## Legal fees

## Restructuring

## Interest on convertible senior notes

Other

2023			2022			2021		
	Margin <sup>(2)</sup>			Margin <sup>(2)</sup>			Margin <sup>(2)</sup>	
\$ 137,920	14 %	\$ (13,446)	(1)%	\$ (5,321)	(1)%			
(14,271)		(22,285)		(7,089)				
<u>\$ 123,649</u>	13 %	<u>\$ (35,731)</u>	(4) %	<u>\$ (12,410)</u>	(1) %			
\$ 5,867		\$ 37,944		\$ 5,750				
21,576		—		—				
4,134		4,500		4,500				
—		3,266		115				
<u>\$ 31,577</u>		<u>\$ 45,710</u>		<u>\$ 10,365</u>				

(1) Our non-GAAP free cash flow is defined as cash provided by (used in) operating activities less investment in property and equipment. Investment in property and equipment fluctuates in amount and frequency and are significantly affected by the timing and size of investments in our facilities. We provide information on free cash flow to enable investors to assess our ability to generate cash without incurring additional external financings. This information is not a substitute for financial measures prepared under U.S. GAAP. Starting in the third quarter of 2023, the Company has calculated free cash flow as cash provided by (used in) operating activities less investments in property and equipment. To ensure comparability, previously disclosed amounts have been updated.

(2) Operating and Free Cash Flow Margin are calculated by comparing the respective cash flow to Total Revenue.

(3) *The additional information discloses items that affect our cash flows and are considered by management not to be representative of our core business operations and ongoing operational performance.*

- *Legal fees: Includes legal and related fees arising from proceedings outside the ordinary course of business.*
- *Restructuring: Restructuring fluctuates in amount and frequency and is significantly affected by the timing and size of our restructuring activities.*
- *Interest on convertible senior notes: In February 2020, we issued convertible senior notes, due March 1, 2025, in a private placement. The Notes accrue interest at an annual rate of 0.75%, payable semi-annually in arrears on March 1 and September 1, beginning September 1, 2020.*
- *Other: Includes fees related to capital advisory services, canceled in-person sales and marketing events, and incremental costs incurred integrating acquisitions.*

# Operating and Free Cash Flow Reconciliation

Nine Months Ended September 30, 2023

(in thousands)

## Cash provided by operating activities

Investment in property and equipment

Free cash flow

## Additional information

Legal fees

Restructuring

Interest on convertible senior notes

	Three Months Ended			Nine Months Ended September 30, 2023
	March 31, 2023	June 30, 2023	September 30, 2023	
Cash provided by operating activities	\$ 68,107	\$ 45,645	\$ 24,168	\$ 137,920
Investment in property and equipment	(11,487)	(2,446)	(338)	(14,271)
Free cash flow	\$ 56,620	\$ 43,199	\$ 23,830	\$ 123,649
Legal fees	\$ 1,515	\$ 1,435	\$ 2,917	\$ 5,867
Restructuring	14,458	3,063	4,055	21,576
Interest on convertible senior notes	2,250	—	1,884	4,134
	\$ 18,223	\$ 4,498	\$ 8,856	\$ 31,577

Note: For additional information refer to explanatory notes on slide [32](#)

# GAAP to Non-GAAP Reconciliation

Trailing 12 Months

## Gross Margin - GAAP

Stock-Based Compensation

## Gross Margin - Non-GAAP

## Pega Cloud Gross Margin - GAAP

## Pega Cloud Gross Margin - Non-GAAP

## Sales and Marketing as % of Revenue - GAAP

Stock-Based Compensation

## Sales and Marketing as % of Revenue - Non-GAAP

## Research and Development as % of Revenue - GAAP

Stock-Based Compensation

## Research and Development as % of Revenue - Non-GAAP

Twelve Months Ended	
September 30, 2023	September 30, 2022
72 %	71 %
2 %	2 %
74 %	73 %
73 %	69 %
73 %	69 %
43 %	52 %
(5) %	(5) %
38 %	47 %
22 %	23 %
(2) %	(2) %
20 %	21 %

The non-GAAP measures reflect the following adjustment:

- Stock-based compensation: We have excluded stock-based compensation from our non-GAAP operating expenses and profitability measures. Although stock-based compensation is a key incentive offered to our employees, and we believe such compensation contributed to our revenues recognized during the periods presented and is expected to contribute to our future revenues, we continue to evaluate our business performance, excluding stock-based compensation.