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# Investor Briefing

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Certain statements contained in this presentation may be construed as “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. The words 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. Because such statements deal with future events, they are subject to various risks and uncertainties. Actual results for fiscal year 2019 and beyond could differ materially from the Company’s current expectations.

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 Q1 2019 earnings, its Annual Report on Form 10-K for the year ended December 31, 2018 and other recent filings with the United States Securities and Exchange Commission. Investors are cautioned not to place undue reliance on such forward-looking statements and there are no assurances that the results contained 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 specifically disclaim any obligation to publicly update or revise these forward-looking statements whether as the result of new information, future events, or otherwise.

## Non-GAAP Financial Measures

This presentation includes non-GAAP financial measures. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. For a detailed explanation of the adjustments made to comparable GAAP measures, the reasons why management uses these measures, the usefulness of these measures, and the material limitations on the usefulness of these measures, see the disclosures included with the Company’s press release announcing its Q1 2019 financial results available on our investor relations website at <http://www.pega.com/about/investors>.

# Agenda

## 1. Welcome

Alan Trefler | Founder & CEO

## 2. Product Transformation

Don Schuerman | CTO & VP, Product Strategy and Marketing

Francis Carden | VP, Digital Transformation & Robotics

## 3. Sales Transformation

Eva Krauss | VP, Sales Effectiveness

## 4. Organizational Transformation

Adriana Bokel Herde | Chief People Officer

## 5. Business Transformation Strategy

Ken Stillwell | CFO



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# Business Transformation Strategy

Ken Stillwell, CFO

# Business Transformation Strategy



Accelerate growth



Transition to recurring



Deliver on Cloud Choice



What does this mean?

# Business Transformation Strategy



## Accelerate Growth

- Pursue a massive market opportunity
- Increase Pega sales capacity
- Continue selling high-value use cases
- Drive total ACV growth
- Grow Pega Cloud

# Pursue a massive market opportunity

Customer Relationship Management & Platform



Data source: IDC Semiannual Software Tracker Publication Date: May 2019 H2 Forecast Release

# Increase sales capacity

A key focus of our sales hiring in FY 19 is to increase coverage of enterprise customers in target verticals and geos

## Pega's Account Coverage



Part of Account Executive



Often an  
addressable opportunity of \$100M+  
per organization

## Competitor Account Coverage



Numerous Account Executives

# Sell high-value use cases – CRM and DPA

Digital Transformation: Customer Engagement and Digital Process Automation

## 1:1 Customer Engagement

**Drive real-time 1:1 customer engagement** to optimize customer lifetime value using real-time omni-channel AI delivered by a single “customer brain.”

## Proactive, Digital Customer Service

**Automate service interactions while providing next-best-action guidance** across agent-assisted and self-service interactions. We anticipate service issues and intervene to resolve proactively.

## Digital Process Automation

**Make customer and employee-facing processes more efficient** through Digital process automation (DPA) powered by end-to-end robotics and case management.

# Drive total ACV growth

Annual contract value (“ACV”) is a leading indicator of future billings and cash flows

## How is ACV Calculated?

- **For term arrangements:**

$$ACV = \frac{\text{License Contract Value}}{\text{Length of License}}$$

Example: An \$8 million term license with a length of four years would translate to ACV of \$2 million.

- **For cloud arrangements:**

$$ACV = \frac{\text{Cloud Contract Value}}{\text{Length of Cloud Contract}}$$

Example: An \$8 million cloud with a length of four years would translate to ACV of \$2 million.

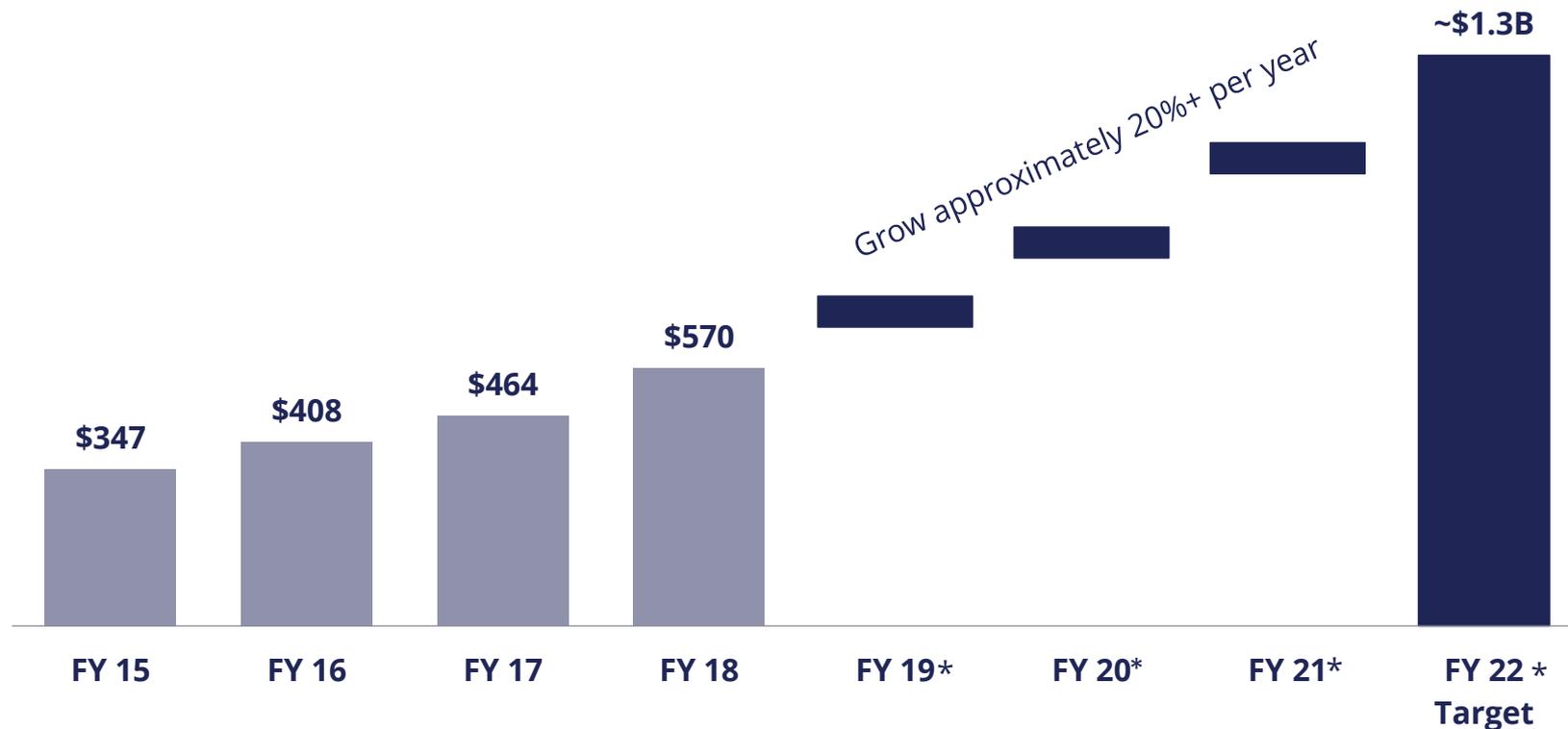
- **For maintenance arrangements:**

$$ACV = \text{Current Quarter Maintenance} \times 4$$

Example: A maintenance contract with GAAP revenue of \$250K in a quarter would translate to ACV of \$1 million.

- Total ACV, as of a given date, is the sum of all term license, cloud, and maintenance ACV as calculated above.

# Drive total ACV growth: +20% per year

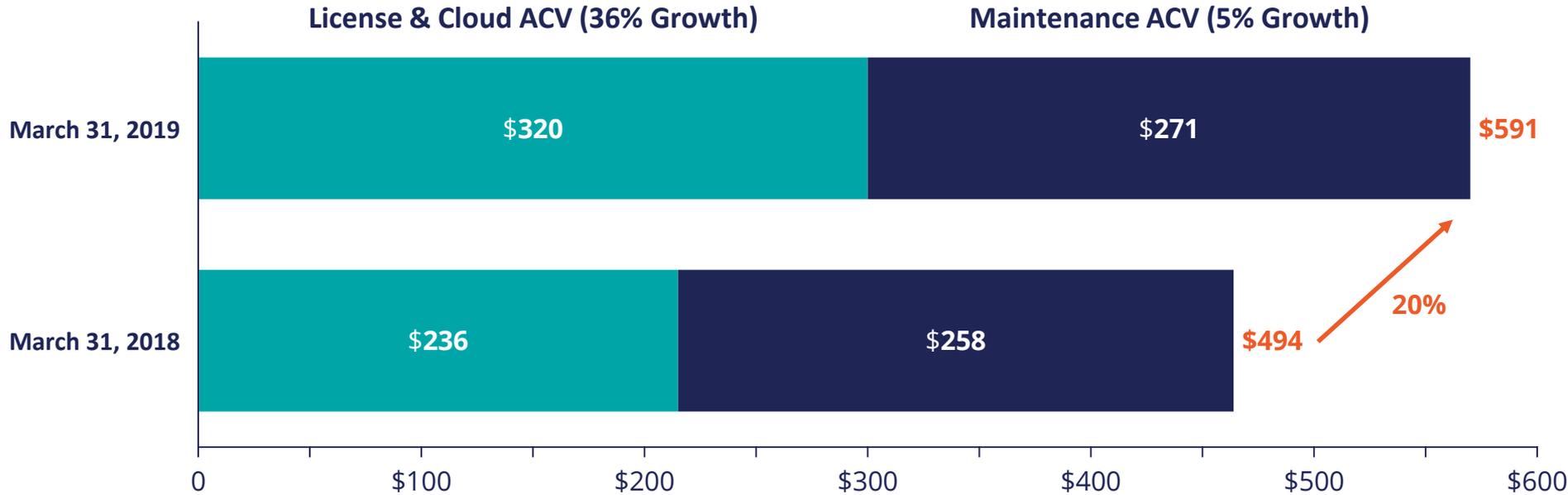


Note: Year 2015 is under ASC 605, all other periods under ASC 606.

\* For illustration purposes only and does not constitute guidance. Assumes no adjustments for currency fluctuation.

# Drive total ACV growth: \$100 million increase from Q1 18 to Q1 19

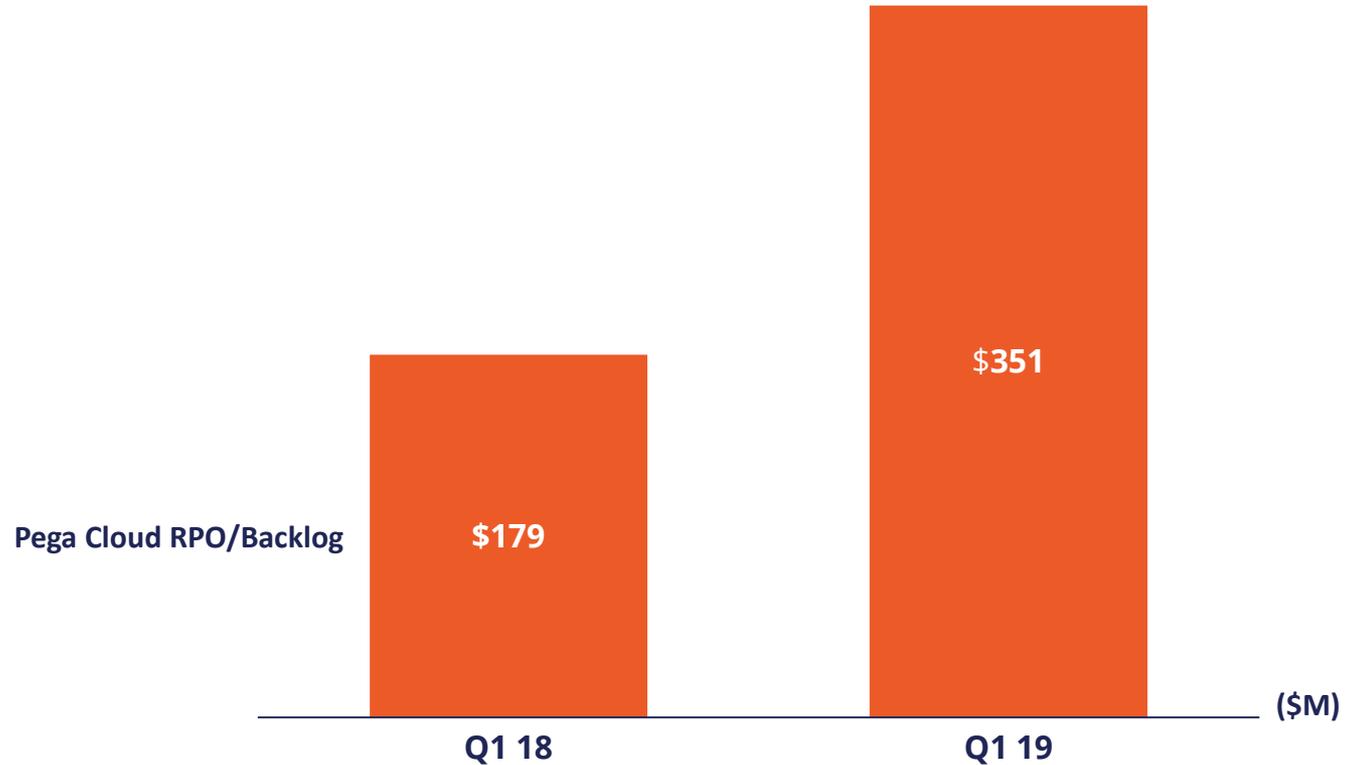
(In millions)



Total ACV, as of a given date, is the sum of the following two components: 1. The sum of the annual value of each term and cloud contract in effect on such date, with the annual value of a term or cloud contract being equal to the total value of the contract divided by the total number of years of the contract. 2. Maintenance revenue reported for the quarter end on such date, multiplied by four.

# Grow Pega Cloud RPO/Backlog

Increased 96 percent from Q1 18 to Q1 19



# Business Transformation Strategy

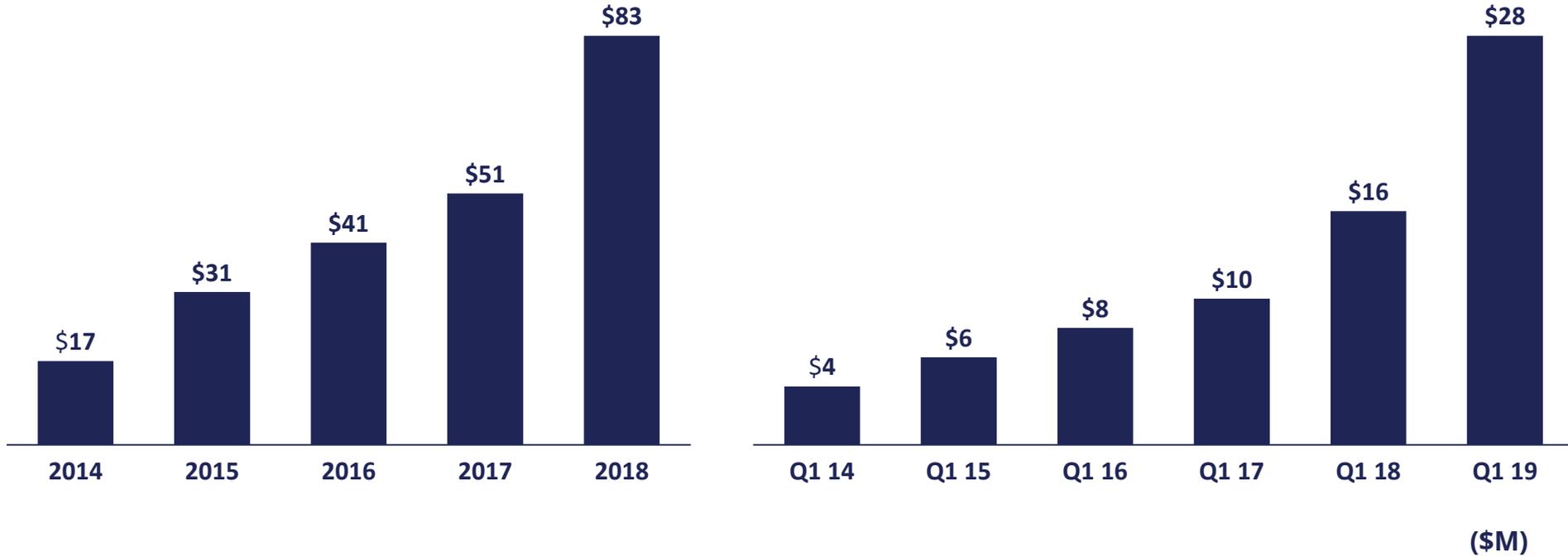


## Transition to recurring

- Grow Pega Cloud
- Grow recurring contribution

# Grow cloud business – full year and Q1 compares

Cloud revenue grew an amazing 75 percent from Q1 18 to Q1 19

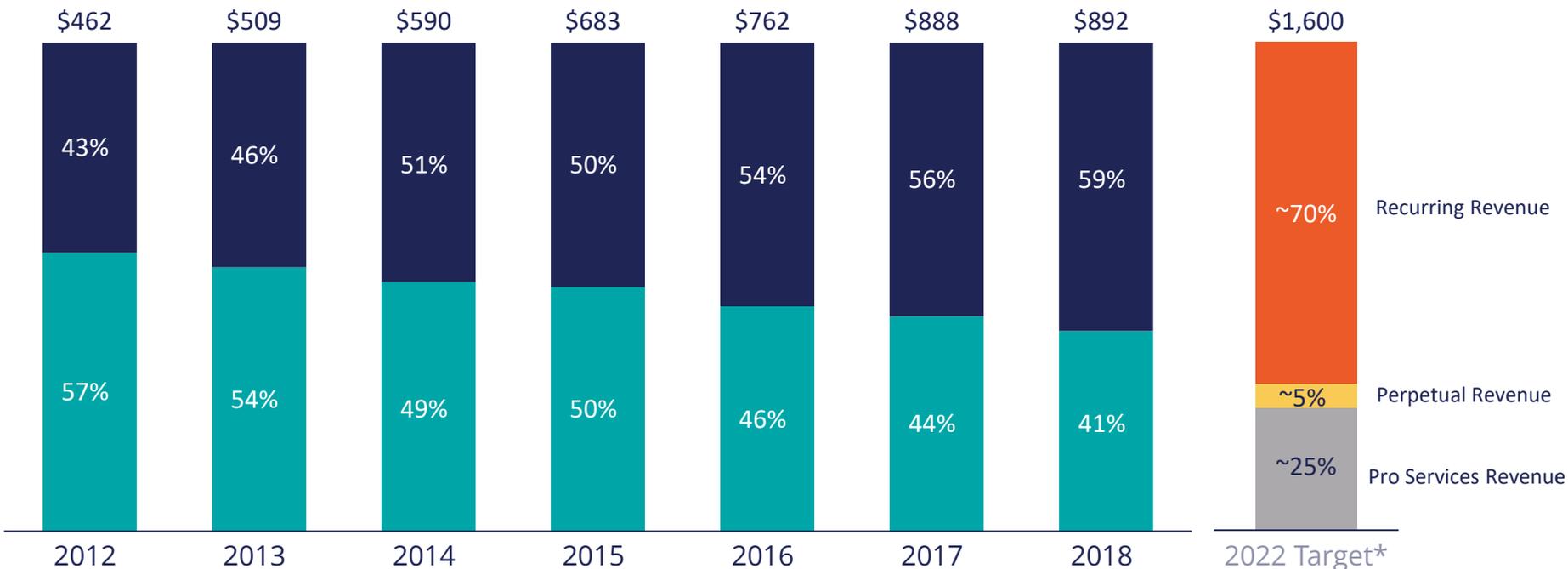


Note: Years 2014-2015 are under ASC 605, all other periods under ASC 606.

# Transition to recurring revenue: The trend continues

Total revenue (\$ millions)

■ Recurring Revenue  
■ Non-Recurring Revenue



Note: Years 2012-2015 are under ASC 605, all other periods under ASC 606.

\* For illustration purposes only and does not constitute guidance.

# Business Transformation Strategy



## Deliver on Cloud Choice

- Grow adoption of cloud – Pega Cloud and Client Cloud
- Grow Pega Cloud as a percentage of our business

# Grow adoption of cloud – Pega Cloud and Client Cloud

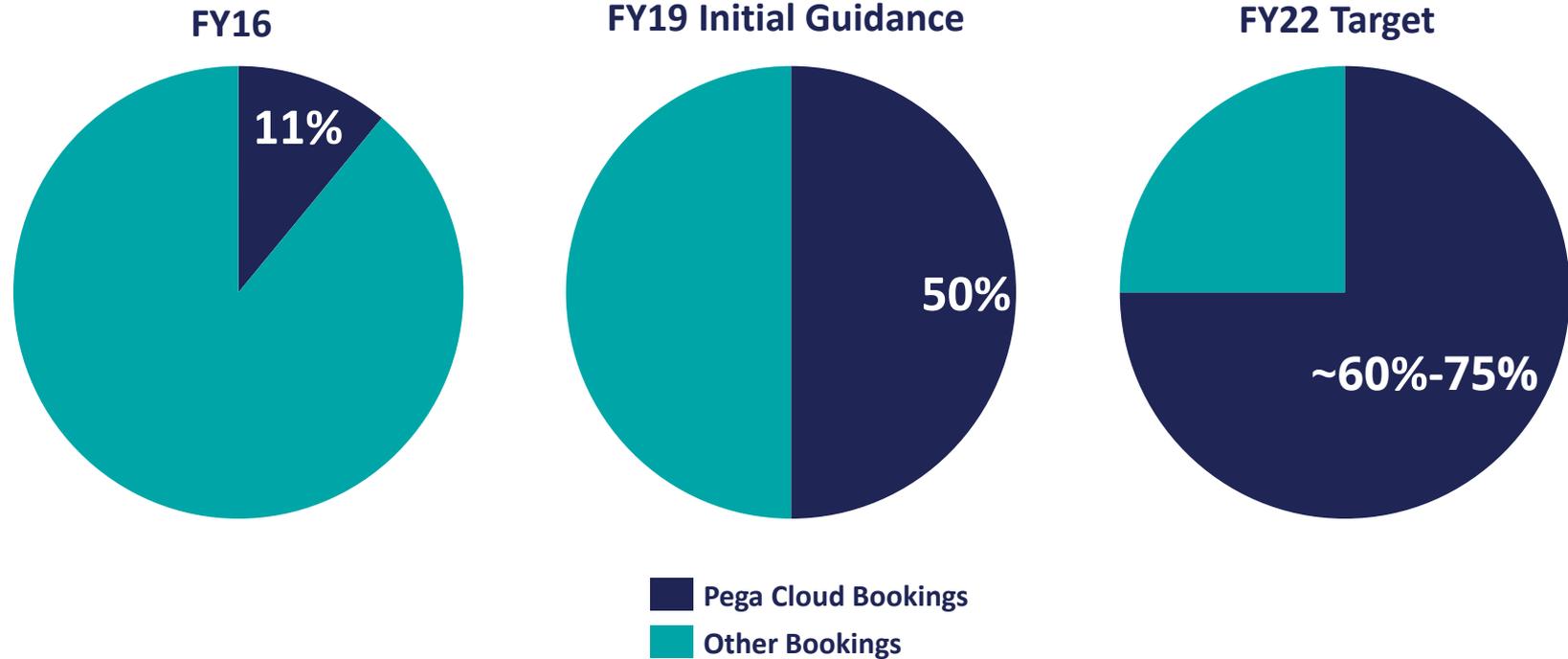
(In millions)



ACV, as of a given date, is the sum of the following two components:

- Client Cloud: the sum of (1) the annual value of each term license contract in effect on such date, which is equal to its total value divided by the total number of years and (2) maintenance revenue reported for the quarter ended on such date, multiplied by four. We do not provide hosting for Client Cloud arrangements.
- Pega Cloud: the total of the annual value of each cloud contract in effect on such date, which is equal to its total value divided by the total number of years.

# Grow Pega Cloud as a percentage of new business



Note: Assumes adjustment for currency fluctuations. For illustration purposes only and does not constitute guidance.

# Business Transformation Strategy



## What does this mean?

- Shorter-term:
  - More complicated & awkward optics until 2022
  - Focus on Total ACV growth as leading indicator
  - Pega Cloud backlog growth as a confirming metric
- Longer-term:
  - Increasingly predictable revenue and cash flows

## Shorter-term: Awkward optics on the revenue line

		12/31/2019	12/31/2020	12/31/2021	12/31/2022
<u>BOOK DEAL</u>	<i>Perpetual License</i>	\$3M			
	<i>Term License*</i>	\$3M			
	<i>Pega Cloud</i>	\$3M			
<u>BILL CUSTOMER</u>	<i>Perpetual License</i>	\$3M			
	<i>Term License*</i>	\$1M	\$1M	\$1M	
	<i>Pega Cloud</i>	\$1M	\$1M	\$1M	
<u>RECORD REVENUE</u>	<i>Perpetual License</i>	\$3M			
	<i>Term License*</i>	\$3M			
	<i>Pega Cloud</i>	\$0M	\$1M	\$1M	\$1M

Transition into selling recurring cloud replaces large up-front revenue and cash with revenue and cash that's received over multiple years – causing a lag between business we win and its revenue

\* Client Cloud

# What does this all mean?

Building a faster growing, recurring business to drive increased value

Sustain higher  
growth

Through transition  
to recurring

To drive  
shareholder value

- Capitalize on high-growth markets
- Continue our technology leadership
- Increase capacity
- Improve execution
- Drive ACV growth
- Leverage Cloud Choice differentiation
- Balance growth & margin
- “Rule of 40”



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Thank you

Q&A