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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 Q2 2020 earnings, its Annual Report on Form 10-K for the year ended December 31, 2019 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.

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**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 it 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 Q2 2020 financial results available on our investor relations website at http://www.pega.com/about/investors.
Agenda

1. **Welcome**  
   Ken Stillwell | CFO  
   Peter Welburn | VP, Investor Relations

2. **Pega Solution Overview**  
   Peter Welburn | VP, Investor Relations

3. **Process Fabric**  
   Don Schuerman | CTO & VP, Product Strategy and Marketing

4. **Financial Discussion**  
   Ken Stillwell | CFO

5. **Q&A**  
   Ken Stillwell | CFO
Financial Discussion
Financial Outlook

Massive Market Opportunity

Transition to Cloud Underway

High Growth, Recurring Model

Margin Expansion Opportunities
Pursuing a Massive Market Opportunity in Platform & CRM

Complementary to Other Major Players

FY 19
$50B+

FY 23
$80B+

CRM remains BOTH the largest and fastest growing enterprise application software category, according to Gartner*


Transition to Cloud Well Underway

From...
- Perpetual
- Less Predictable
- Lagging Growth & Margins

To...
- Recurring
- More Predictable
- Rule of 40

CLOUD TRANSITION TIMELINE

2017

TODAY

2022
Transition to Cloud Underway:
Key Growth Metrics

- Pega Cloud Bookings as a Percentage of Total New License Bookings*
- Annual Contract Value (ACV) Growth
- Remaining Performance Obligation (RPO) – also known as Backlog

*Total new license bookings equals the sum of perpetual, term, and Pega Cloud license bookings.
Transition to Cloud Underway: Growing Pega Cloud as a Percentage of New Business

FY16
- Pega Cloud Bookings: 11%
- Other Bookings:

FY20 Year to Date
- Pega Cloud Bookings: ~50%
- Other Bookings:

FY22 Target
- Pega Cloud Bookings: ~60%-75%
- Other Bookings:

*Other bookings equals the sum of perpetual and term new license bookings.
Transition to Cloud Underway: Focus on Total ACV Growth as Leading Indicator

(in millions)

<table>
<thead>
<tr>
<th>30-Jun-20</th>
<th>Client Cloud ($527)</th>
<th>Pega Cloud ($211)</th>
<th>Total ($738)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Jun-19</td>
<td>$476</td>
<td>$135</td>
<td>$611</td>
</tr>
</tbody>
</table>

ACV represents the annualized value of our active contracts as of the measurement date. ACV for term license and Pega Cloud contracts is calculated by dividing the contract’s total value by the duration of the contract in years. ACV for maintenance is calculated as maintenance revenue for the quarter then ended multiplied by four. Client Cloud ACV is composed of maintenance ACV and ACV from term license contracts. We believe the presentation of ACV on a constant currency basis enhances the understanding of our results, as it provides visibility into the impact of changes in foreign currency exchange rates, which are outside of our control. All periods shown reflect foreign currency exchange rates as of June 30, 2020.
Transition to Cloud Underway: Backlog as Confirming Metric

Pega Cloud RPO/Backlog up 26%, Total RPO/Backlog Up 30%
High Growth, Recurring Model

ACV Growth is the Best Indicator of Growth During the Cloud Transition

ACV represents the annualized value of our active contracts as of the measurement date. ACV for term license and Pega Cloud contracts is calculated by dividing the contract’s total value by the duration of the contract in years. ACV for maintenance is calculated as maintenance revenue for the quarter then ended multiplied by four. Client Cloud ACV is composed of maintenance ACV and ACV from term license contracts. We believe the presentation of ACV on a constant currency basis enhances the understanding of our results, as it provides visibility into the impact of changes in foreign currency exchange rates, which are outside of our control. All periods shown reflect foreign currency exchange rates as of June 30, 2020.
Margin Expansion Opportunities: Revenue Growth

Fastest Growing Revenue Stream is Pega Cloud

Trailing 12 Months Pega GAAP Cloud Revenue Increased by 100%+ since Q4 2018

Cloud Transition Begins

Source: Company filings
Margin Expansion Opportunities: Cloud Margin

Pega Cloud Revenues Growing at 62% Presenting an Opportunity to Expand Cloud Margins

Two-Year Pega Cloud Revenue % Change

Pega Cloud Gross Margins

Target
Illustrative Model: Revenue Growth During a Cloud Transition

The chart illustrates the projected revenue growth over a five-year period as a company transitions to a cloud-based model. The growth rates for each year are as follows:

- **Year 0**: 11%
- **Year 1**: 4%
- **Year 2**: -8%
- **Year 3**: 2%
- **Year 4**: 16%
- **Year 5**: 22%

The model suggests a significant initial dip in revenue growth followed by a rebound, indicating a recovery period before achieving steady growth.
Illustrative Model: Pega’s Revenue Growth During Its Cloud Transition vs Model

Model Revenue Growth

Pega Revenue Growth

Year 0

Year 1

Year 2

Year 3

Year 4

Year 5

17%

11%

4%

0%

2%

-8%

2%

16%

22%
What does this mean?

• Shorter-term:
  − Continued 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
What Does This All Mean?
Key Growth Metrics: Longer-Term

- ACV Growth
- Free Cash Flow (FCF) Margin*

* Free Cash Flow Margin (FCF) = Cash Flow from Operations Less Investments in Property, Plant, and Equipment Divided by Total Revenue

Rule of 40
Longer-Term: Increasingly Predictable Revenue & Cash Flows

Total Revenue ($ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>Recurring Revenue</th>
<th>Non-Recurring Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$462</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>2013</td>
<td>$509</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>2014</td>
<td>$590</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2015</td>
<td>$683</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2016</td>
<td>$762</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>2017</td>
<td>$888</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2018</td>
<td>$892</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>2019</td>
<td>$911</td>
<td>67%</td>
<td>33%</td>
</tr>
</tbody>
</table>

2022 Target*

- Recurring Revenue: 75%
- Non-Recurring Revenue: 20%
- Consulting Revenue: 5%

* For illustration purposes only and does not constitute guidance.

Note: Revenue for years 2012-2015 under previous ASC 605. All other period under ASC 606.
Continuing ACV Growth – Q1 Compare

In Millions

Slide Taken From 2017 Presentation

Continuing ACV Growth – Q1 Compare In Millions *2016 Maintenance ACV is calculated using ASC 605 Maintenance Revenue ≈ $1,300 – $850 – $450 * © 2018 Pegasystems Inc.
Continuing ACV Growth: Progress Against $1.3B ACV Target in 2022

In millions (as reported)

*2016 Maintenance ACV is calculated using ASC 605 Maintenance. All other periods using ASC 606.
2017 Investor Day Presentation: 2022 Revenue Target of $1.6B

Tracking with Market movement to recurring over the Next 5 Years
Total Revenues (millions)

Slide Taken From 2017 Presentation

Revenue for years 2016-2018 are under ASC 606, all other periods are under ASC 605
*Includes $35M Renewal Recurring Revenue Non-Recurring Revenue = 1,600 Actual Estimate Revenue for years 2016-2018 are under ASC 606, all other periods are under ASC 605 © 2018 Pegasystems Inc. 57% 54% 50% 50% 46% 44% 44% 30% 43% 46% 50% 50% 54% 56% 56% 70% 462 509 590 683 762 888 950 2012 2013 2014 2015 2016 2017 2018 Guidance 2022 Target
Continuing Shift to Recurring: Approaching 2022 Mix Target

Total Revenue ($ in millions)

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<th>Year</th>
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<tr>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>$1,326 (Target)</td>
<td>~$1,600</td>
</tr>
</tbody>
</table>

Note: Revenue for years 2012-2015 under previous ASC 605. All other period under ASC 606.

- Recurring Revenue
- Non-Recurring Revenue

* $35M renewal

Grow Approximately 20%+ Per Year
Increase Sales Productivity

A key focus of our go-to-market efforts is to increase sales productivity in FY20-21

1. Sales Effectiveness
   - What do we sell?
   - How do we sell?
   - Who do we sell with?
   - Where do we sell?

2. Delivery Excellence
   - Proactive engagement
   - Expert services
   - End-to-end R&D engagement
   - Build solutions

3. Partner Focused Go-to-Market
   - Partner-first mindset
   - Aligned incentives
   - Repeatable solutions

4. Robust Go-to-Market Motion
   - Digital marketing
   - Qualified leads
   - Robust ecosystem

Hiring & Developing Diverse Talent
Still Tracking to “Rule of 40” Slide

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2022 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>16%</td>
<td>~15-17%</td>
</tr>
<tr>
<td>GAAP Operating Margin</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP Operating Margin</td>
<td>18%</td>
<td>~23-25%</td>
</tr>
<tr>
<td>Cloud Revenue Growth</td>
<td>~25%</td>
<td>~35%</td>
</tr>
<tr>
<td>Cloud Margin</td>
<td>~50%</td>
<td>~70%</td>
</tr>
</tbody>
</table>

*Rule of 40*” — Trailing Twelve Month Non-GAAP Operating Margin excluding GAAP Depreciation expense plus Trailing Twelve Month Non-GAAP Revenue Growth with a goal for the Company to meet or exceed 40.
Path to “Rule of 40”

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2022 Target</th>
<th>2022-23 Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Growth</td>
<td>16%</td>
<td>~15-17%</td>
<td>~20%-25%</td>
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<td></td>
<td>~15%</td>
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<td>Non-GAAP Operating Margin</td>
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<td>~23-25%</td>
<td>~40%-50%</td>
</tr>
<tr>
<td>Cloud Revenue Growth</td>
<td>~25%</td>
<td>~35%</td>
<td>~70-75%</td>
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<td>~50%</td>
<td>~70%</td>
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</table>

*Rule of 40*: Trailing Twelve Month Non-GAAP Operating Margin excluding GAAP Depreciation expense plus Trailing Twelve Month Non-GAAP Revenue Growth with a goal for the Company to meet or exceed 40.
What Does this All Mean?

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

- Capitalizing on high-growth markets
- Continuing our technology leadership
- Increasing sales capacity
- Driving ACV growth
- Leveraging Cloud Choice differentiation
- Balancing growth & margin
- “Rule of 40”

Sustain higher growth ➔ Through transition to recurring ➔ To drive shareholder value

With a view towards:
Appendix
Transition to Cloud Underway

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.