PEGASYSTEMS INC.

(Exact name of Registrant as specified in its charter)

Massachusetts  1-11859
(State or other jurisdiction of incorporation) (Commission File Number) (IRS Employer Identification No.)

One Main Street, Cambridge, MA 02142
(Address of principal executive offices, including zip code)

(617) 374-9600
(Registrant’s telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:
☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, $.01 par value per share
Trading symbol(s)
PEGA
Name of each exchange on which registered
NASDAQ Global Select Market

Indicate by check mark whether the Registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
ITEM 7.01 REGULATION FD DISCLOSURE

On June 12, 2023, Pegasystems Inc. (the “Company”) will present to investors. A copy of the financial information to be presented is attached as Exhibit 99.1.

The information in this Form 8-K and the Exhibit attached hereto are furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

<table>
<thead>
<tr>
<th>Exhibit No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.1</td>
<td>Investor Presentation dated June 12, 2023</td>
</tr>
<tr>
<td>104</td>
<td>Cover Page Interactive Data File (formatted as Inline XBRL)</td>
</tr>
</tbody>
</table>
Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Pegasystems Inc.

Dated: June 12, 2023

By: /s/ KENNETH STILLWELL

Kenneth Stillwell
Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)
Investor Session 2023

June 12, 2023

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**Safe Harbor Statement**

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 2023 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 2023 earnings, its Annual Report on Form 10-K for the year ended December 31, 2022, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 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. The forward-looking statements in this presentation represent our views as of June 12, 2023.

The information in this presentation is not an offer or commitment by Pegasystems and does not create any legal obligation for Pegasystems, including to deliver any material, code, or functionality. The timing of the development and release of any features or functionality described about our products remains at our sole discretion.

**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 Q1 2023 financial results available on our investor relations website at http://www.pegas.com/about/investors and the reconciliations included in the appendix to this presentation.
Financial Update

Ken Stillwell | COO & CFO

June 12, 2023
Financial Outlook

- Massive Market Opportunity
- Transition to Subscription Wrapping up in 2023
- High Growth, Recurring Model
- Margin Expansion Opportunities
Pursuing a Massive Market Opportunity in Platform & CRM

FY 23
$78 B+

FY 26
$119 B+

Data Source: IDC Worldwide ICT Spending Guide (Feb. 2023)
Transition to Subscription Wrapping up in Mid 2023

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

**To...**
- Recurring
- More Predictable
- Rule of 40 Driven
Subscription Increased from 56% to 81%

1. Other includes consulting and perpetual license revenue. In 2017, perpetual license revenue represented 34% of other revenue. By 2022, perpetual license revenue represented only 8% of other revenue.
Transition to Subscription: Key Growth Metrics as we Finish the Transition

1. Annual Contract Value (ACV)\(^1\) Growth

2. Free Cash Flow\(^2\)

---

1. Annual Contract Value (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, we changed our ACV calculation methodology for maintenance and all contracts less than 12 months to align with other contract types. Previously disclosed ACV amounts have been updated to allow for comparability.

2. Free Cash Flow (FCF) is calculated as cash provided by operating activities adjusted for the net impact of (a) investment in property and equipment, (b) interest expense, and (c) other items outside the ordinary operations of the business.
High Growth, Subscription Model
ACV growth is the best indicator of growth during the subscription transition

Q1 2023 vs Q1 2022 Growth
- ACV Reported: 13%
- ACV Constant Currency: 15%

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Total ACV - Reported</th>
<th>Impact of changes in foreign exchange rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 22</td>
<td>$1,037M</td>
<td>$23</td>
</tr>
<tr>
<td>Q2 22</td>
<td>$1,049M</td>
<td>$23</td>
</tr>
<tr>
<td>Q3 22</td>
<td>$1,088M</td>
<td>$48</td>
</tr>
<tr>
<td>Q4 22</td>
<td>$1,150M</td>
<td>$24</td>
</tr>
<tr>
<td>Q1 23</td>
<td>$1,195M</td>
<td>$21</td>
</tr>
</tbody>
</table>
ACV Growth Drivers

INNOVATE

GenAI
Process mining
Process AI
Pega Launchpad
Voice AI

EXECUTE

Cloud Choice
Consumption-based contracts
Target org model
Transition to Subscription: Key Growth Metrics as we Finish the Transition

1. Annual Contract Value (ACV)$^1$ Growth

2. Free Cash Flow$^2$

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Free Cash Flow Trajectory During Subscription Transition

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$146M</td>
</tr>
<tr>
<td>2018</td>
<td>$92M</td>
</tr>
<tr>
<td>2019</td>
<td>-$53M</td>
</tr>
<tr>
<td>2020</td>
<td>-$19M</td>
</tr>
<tr>
<td>2021</td>
<td>$27M</td>
</tr>
<tr>
<td>2022</td>
<td>$40M</td>
</tr>
<tr>
<td>Initial 2023 Guidance</td>
<td>$150M</td>
</tr>
</tbody>
</table>

SUBSCRIPTION TRANSITION TIMELINE

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Free Cash Flow Trajectory During Subscription Transition

Raising 2023 Free Cash Flow guidance to $180M; Free Cash Flow typically strongest in Q1s & Q4s

Updated 2023 Guidance

$180M
$150M
$30M

SUBSCRIPTION TRANSITION TIMELINE
## Long-Term Financial Model
Driving to $500M+ in Free Cash Flow

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2022 Actual</th>
<th>3-5 Year Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACV Growth</td>
<td>16%</td>
<td>13% – 14%</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$40M</td>
<td>$500M+</td>
</tr>
</tbody>
</table>
## Long-Term Financial Model

Driving to $500M+ in Free Cash Flow

<table>
<thead>
<tr>
<th>From...</th>
<th>% of revenue(^1)</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>74%</td>
<td>Gross Margin</td>
<td>80%</td>
</tr>
<tr>
<td>43%</td>
<td>Sales &amp; Marketing</td>
<td>30%</td>
</tr>
<tr>
<td>20%</td>
<td>Research &amp; Development</td>
<td>17%</td>
</tr>
</tbody>
</table>

**LONG-TERM MODEL TIMELINE**

- **2022**
- **In 3 to 5 years**

---

\(^1\) Financial metrics (other than revenue) are presented as non-GAAP. See the Appendix for a detailed reconciliation of non-GAAP to GAAP financial metrics.
Gross Margin Expansion: Scale Pega Cloud

- Scale Pega Cloud
- Increase Automation
- Implement Kubernetes / multi-tenancy
Gross Margin Expansion: Scale Pega Cloud

On a trailing 12-month basis, Pega Cloud revenue increased from $51M to $402M.
Gross Margin Expansion: Scale Pega Cloud

Pega Cloud gross margins are the key driver of gross margin improvement.

Gross Margin (non-GAAP) 2022 3-5 years

- 74%

2019 2020 2021 2022

50% 55% 60% 65% 70% 75%

- 68%
- 72%
- 68%
- 74%
- 74%
- 70%
- 74%

Total Gross Margin
Pega Cloud Gross Margin

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S&M Productivity Improvement
Focusing majority of S&M resources on driving ACV expansion within existing clients

90%+ of our ACV growth expected to come from existing clients in a market with huge opportunity

...driven by highly-engaged, client-facing teams
- win rates higher with existing clients
- deal cycles shorter with existing clients
- focusing on existing clients helps retention rates
- sales reps are more productive when selling to existing clients

Main focus is to move existing clients up the “ACV pyramid”

Existing Clients

© Pegasystems Inc.
R&D Efficiency Improvement

Accelerate Pega Cloud Adoption

Leveraging Generative AI to Drive R&D Efficiency
What Does this All Mean?
Build a growing, subscription 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”
Capital Allocation: Strategic Rationale on Debt
Retired ~$100M year-to-date of Pega’s convertible debt due in 2025

- Excess cash available
- Bonds trading at a discount
- Increases flexibility

Strong Cash Flow
Positive Return on Investment
Strengthens Financial Position
Q&A
Ken Stillwell | COO & CFO
To Ask a Question...

- Raise your hand
- Wait for the microphone
- Please state your name and the firm you are with

- Email pegainvestorrelations@pega.com or peter.welburn@pega.com
Hours Open
Monday, June 12: 11:00 AM – 6:00 PM
Tuesday, June 13: 11:00 AM – 6:30 PM
Appendix
Free Cash Flow Reconciliation

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Q1 2023</th>
<th>2023 Guidance</th>
<th>3-5 Year Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in property and equipment</td>
<td>(14)</td>
<td>(12)</td>
<td>(11)</td>
<td>(25)</td>
<td>(10)</td>
<td>(35)</td>
<td>(40)</td>
<td>(18)</td>
<td>(18)</td>
</tr>
<tr>
<td>Legal Fees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>11</td>
<td>42</td>
<td>36</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Interest on Convertible Senior Notes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Facilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(18)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Restructuring</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>6</td>
<td>7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$146</td>
<td>$92</td>
<td>($3)</td>
<td>($19)</td>
<td>$27</td>
<td>$40</td>
<td>$97</td>
<td>$150</td>
<td>$180</td>
</tr>
</tbody>
</table>

($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>TTM*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Cash Flow</td>
<td>$27</td>
<td>$40</td>
<td>$97</td>
</tr>
<tr>
<td>Revenue</td>
<td>$1,212</td>
<td>$1,318</td>
<td>$1,267</td>
</tr>
<tr>
<td>Free Cash Flow Margin</td>
<td>2%</td>
<td>3%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Trailing Twelve Months

The above non-GAAP measures reflect the following adjustments:
- **Investment in property and equipment**: Investment in property and equipment fluctuates in amount and frequency and is significantly affected by the timing and size of investments in our facilities. We believe excluding these amounts provides a useful comparison of our operating performance in different periods.
- **Legal fees**: Includes legal and related fees arising from proceedings outside of the ordinary course of business. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the disputes giving rise to them are not representative of our core business operations and ongoing operational performance.
- **Interest on convertible senior notes**: In February 2020, we issued convertible senior notes, due March 1, 2025, in a private placement. We believe excluding the interest payments provides a useful comparison of our operational performance in different periods.
- **Facilities**: In February 2021, we agreed to accelerate our exit from our then Cambridge, Massachusetts headquarters to October 1, 2021, in exchange for a one-time payment from our landlord of $18 million, which was received in October 2021. We believe excluding the impact from our non-GAAP financial measures is useful to investors as the modified lease, including the $18 million payment, is not representative of our core business operations and ongoing operating performance.
- **Restructuring**: We have excluded restructuring from our non-GAAP financial measures. Restructuring fluctuations in amount and frequency and is significantly affected by the timing and size of our restructuring activities. We believe excluding the impact from our non-GAAP financial measures is useful to investors as these amounts are not representative of our core business operations and ongoing operational performance.
- **Other**: We have excluded capital advisory fees, fees incurred due to the cancellation of in-person sales and marketing events, and incremental expenses incurred from the integration of acquisitions. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of our core business operations and ongoing operating performance.
# GAAP to Non-GAAP Margin Reconciliation

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>3-5 Year Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Margin - GAAP</strong></td>
<td>66%</td>
<td>69%</td>
<td>72%</td>
<td>72%</td>
<td>78%</td>
</tr>
<tr>
<td>Stock-Based Compensation</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Amortization of Intangible Assets</td>
<td>&lt;1%</td>
<td>1%</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Facilities</td>
<td>0%</td>
<td>0%</td>
<td>&lt;1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Gross Margin - Non-GAAP</strong></td>
<td>68%</td>
<td>72%</td>
<td>74%</td>
<td>74%</td>
<td>80%</td>
</tr>
<tr>
<td>Pega Cloud Gross Margin - GAAP</td>
<td>51%</td>
<td>63%</td>
<td>67%</td>
<td>70%</td>
<td>80%</td>
</tr>
<tr>
<td>Stock-Based Compensation</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Pega Cloud Gross Margin - Non-GAAP</td>
<td>52%</td>
<td>64%</td>
<td>68%</td>
<td>70%</td>
<td>80%</td>
</tr>
</tbody>
</table>

The above non-GAAP measures reflect the following adjustments:

- **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.

- **Amortization of intangible assets**: We have excluded the amortization of intangible assets from our non-GAAP operating expenses and profitability measures. Amortization of intangible assets fluctuates in amount and frequency and is significantly affected by the timing and size of acquisitions. Investors should note that intangible assets contributed to our revenues recognized during the periods presented and are expected to contribute to future revenues. Amortization of intangible assets is likely to recur in future periods. We believe excluding these amounts provides a useful comparison of our operational performance in different periods.

- **Facilities**: In February 2021, we agreed to accelerate our exit from our then Cambridge, Massachusetts headquarters to October 1, 2021, in exchange for a one-time payment from our landlord of $18 million, which was received in October 2021. We believe excluding the impact from our non-GAAP financial measures is useful to investors as the modified lease, including the $18 million payment, is not representative of our core business operations and ongoing operating performance.
## GAAP to Non-GAAP Operating Expense Reconciliation

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>3-5 Year Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales &amp; Marketing % of Revenue - GAAP</strong></td>
<td>47%</td>
<td>34%</td>
</tr>
<tr>
<td>Stock-Based Compensation</td>
<td>(4%)</td>
<td>(4%)</td>
</tr>
<tr>
<td>Amortization of Intangible Assets</td>
<td>(&lt;1%)</td>
<td>(&lt;1%)</td>
</tr>
<tr>
<td>Other</td>
<td>(&lt;1%)</td>
<td>(0%)</td>
</tr>
<tr>
<td><strong>Sales &amp; Marketing % of Revenue - Non-GAAP</strong></td>
<td>45%</td>
<td>39%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>3-5 Year Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>R&amp;D % of Revenue - GAAP</strong></td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Stock-Based Compensation</td>
<td>(2%)</td>
<td>(2%)</td>
</tr>
<tr>
<td><strong>R&amp;D % of Revenue - Non-GAAP</strong></td>
<td>20%</td>
<td>17%</td>
</tr>
</tbody>
</table>

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- **Other:** We have excluded expenses incurred due to the cancellation of in-person sales and marketing events. We believe excluding these amounts from our non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of our core business operations and ongoing operating performance.