



Pegasystems Investor Presentation Q4 and FY23

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February 14, 2024



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 represent our views 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 Q4 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, 2023 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 February 14, 2024.

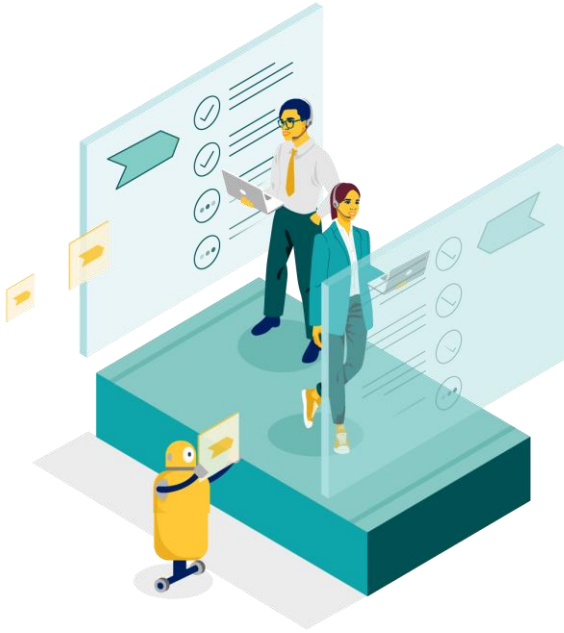
Non-GAAP Financial Measures

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, which is 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 Q4 2022 foreign exchange rates to all periods shown. Reconciliations of GAAP and non-GAAP measures are in the Company’s press release announcing its Q4 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 to unleash enterprise potential

OUR SOFTWARE

Enterprise AI decisioning and workflow automation platform

WHAT WE DO

Unlock business-transforming outcomes

What we do

UNLOCK BUSINESS-TRANSFORMING OUTCOMES

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

489% ROI < 6 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

186% - 598% ROI < 3-12 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.

Personalize
Engagement

Automate
Customer Service

Streamline
Operations

The world's leading enterprise-scale organizations
are using Pega to connect workflows and interactions across the customer lifecycle:

Communications service providers

Customer engagement
Order management
Customer service
Shared service
Service assurance
Network operations



Financial services

Customer engagement
Onboarding & KYC
Lending
Customer service
Bank operations
Payment exceptions
Financial crime



Government

Licensing
Investigative case
management
Grants & financial
management
Acquisition & supply chain
modernization
Citizen service
Enterprise modernization



Healthcare

Consumer engagement
Onboarding & enrollment
Customer service
Core operations
Care management services



Insurance

Customer engagement
Sales
Distribution
Service excellence
Underwriting
Claims



Manufacturing

Customer engagement
Onboarding
Captive lending
Aftermarket services
Enterprise operations



Driving Growth and Free Cash Flow



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

2023

11%
ACV
Growth

21%
Pega Cloud ACV
Growth

\$201M
Free Cash Flow ⁽¹⁾

(1) For the Year Ended December 31, 2023. Starting in the third quarter of 2023, the Company calculated free cash flow as cash provided by 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

- Growing enterprise software company, with a view towards a **\$89B+ 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



Unlock Business-Transforming Outcomes

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

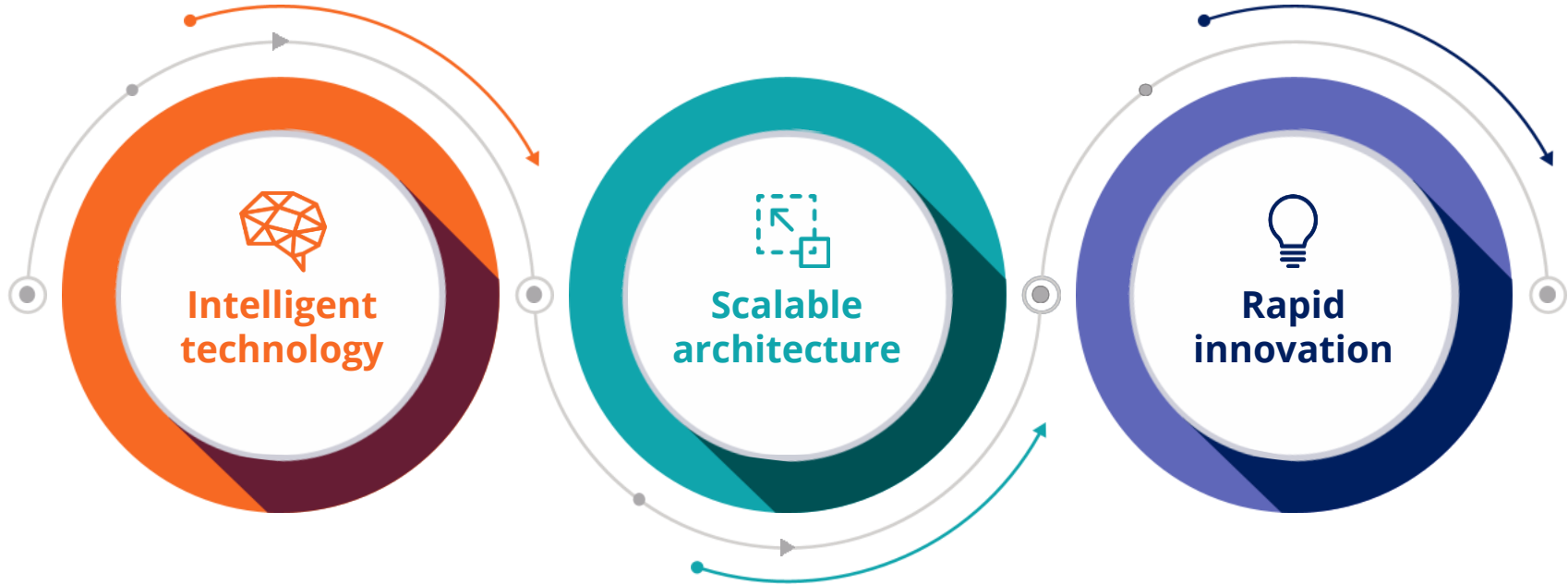
Intelligent
automation

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



Pega's Technology Difference

Architected differently to maximize revenue and efficiency at enterprise scale

Put decisions and workflow at the center

With Pega's Center-out business architecture



Automate across systems and channels to streamline the total experience

Build layers of reuse and variation

With Pega's patented Situational Layer Cake



Manage variations and adapt instantly for continuous innovation

Personalize experiences and optimize workflows

With Pega's real-time AI



Drive empathetic, customer-relevant engagement and optimize processes



Scale across enterprise needs

With Pega's enterprise-grade low-code platform, App Factory, and Process Fabric



From governed citizen development to the most mission-critical processes

Analysts recognize Pega as a leader

for our enterprise AI
decisioning and workflow
automation platform



Real-Time Interaction Management
Forrester



CRM Customer Engagement Center
Gartner



Robotic Process Automation
Forrester



Core CRM Solutions
Forrester

Customer engagement

Figure 1: Magic Quadrant for the CRM Customer Engagement Center



Gartner

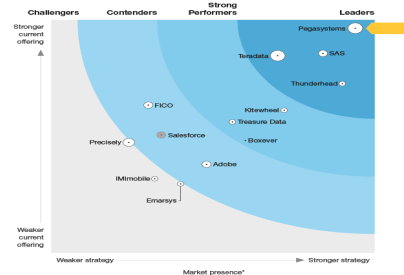
Digital process automation



FORRESTER

Real-time decisions & AI

THE FORRESTER WAVE™
Real-Time Interaction Management
Q4 2020



*A gray bubble indicates a nonparticipating vendor.

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FORRESTER

Q4 2020

End-to-end work management



Gartner

Together, we're redefining the technology industry
Unified, market-leading technology
Changing the way organizations work and engage

We've built the
#1 real-time interaction management
#1 digital decisioning
#1 digital process automation
#1 intelligent business process management

Business Overview

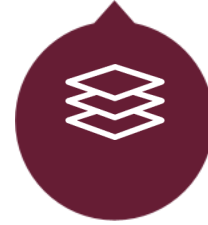
WHY PEGA WINS



**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		Retain customers	<ul style="list-style-type: none">• 50 million next best action conversations delivered across 18 channels• +12 lead in NPS over the competition <p>Read more https://www.pega.com/customers/cba-marketing</p>
Customer Service		Reduce costs & improve service	<ul style="list-style-type: none">• Served over 40 million consumers• 100 processes automated• Dropped average handling time (AHT) by 3 minutes• 11-point increase in net promoter score (NPS) <p>Read more https://www.pega.com/insights/resources/anthem-now-elevance-health-creates-next-generation-service-desktop-pega</p>
Intelligent Automation		Streamline processes & reduce costs	<ul style="list-style-type: none">• Implemented Pega in over 80 countries• 85,000 global users are using 22 Pega applications• Consolidated legacy workflows and business process management across Siemens <p>Read more https://www.pega.com/customers/siemens</p>

Financial Details

Financial Outlook



Massive Market Opportunity



Subscription Journey



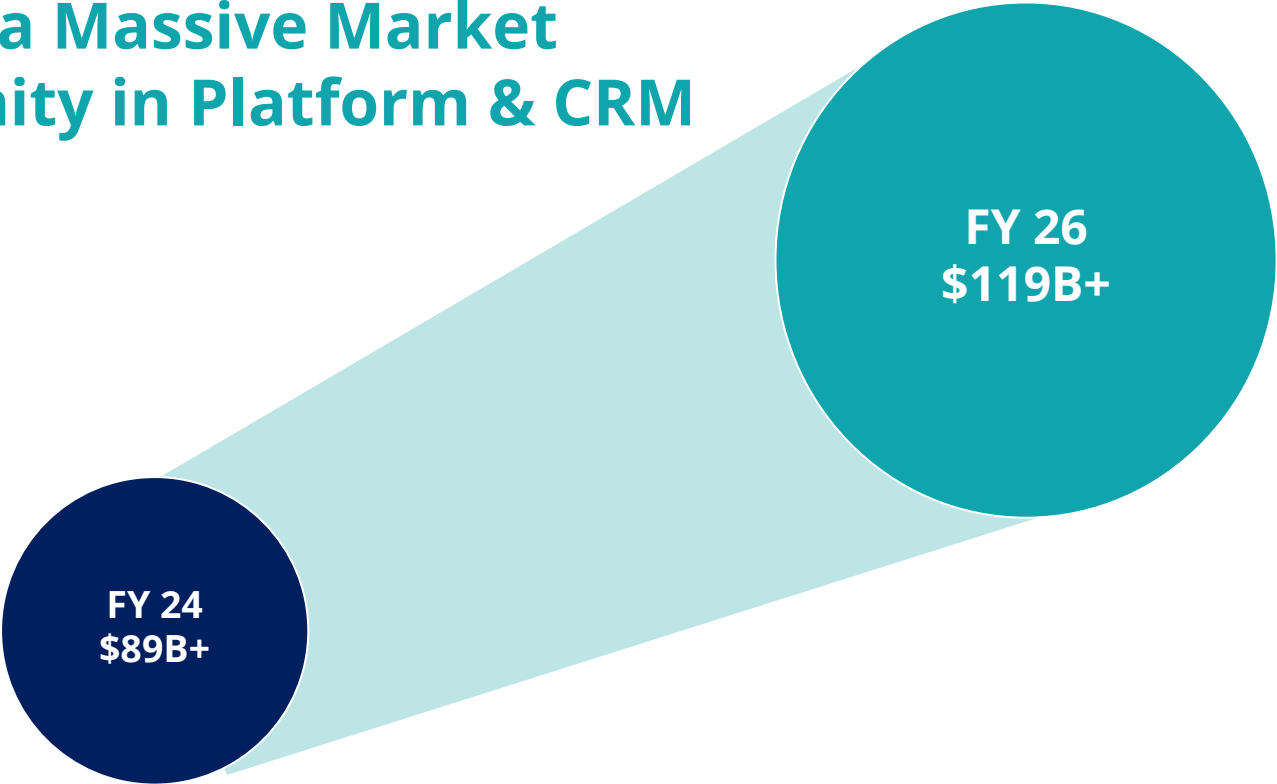
Recurring Model



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

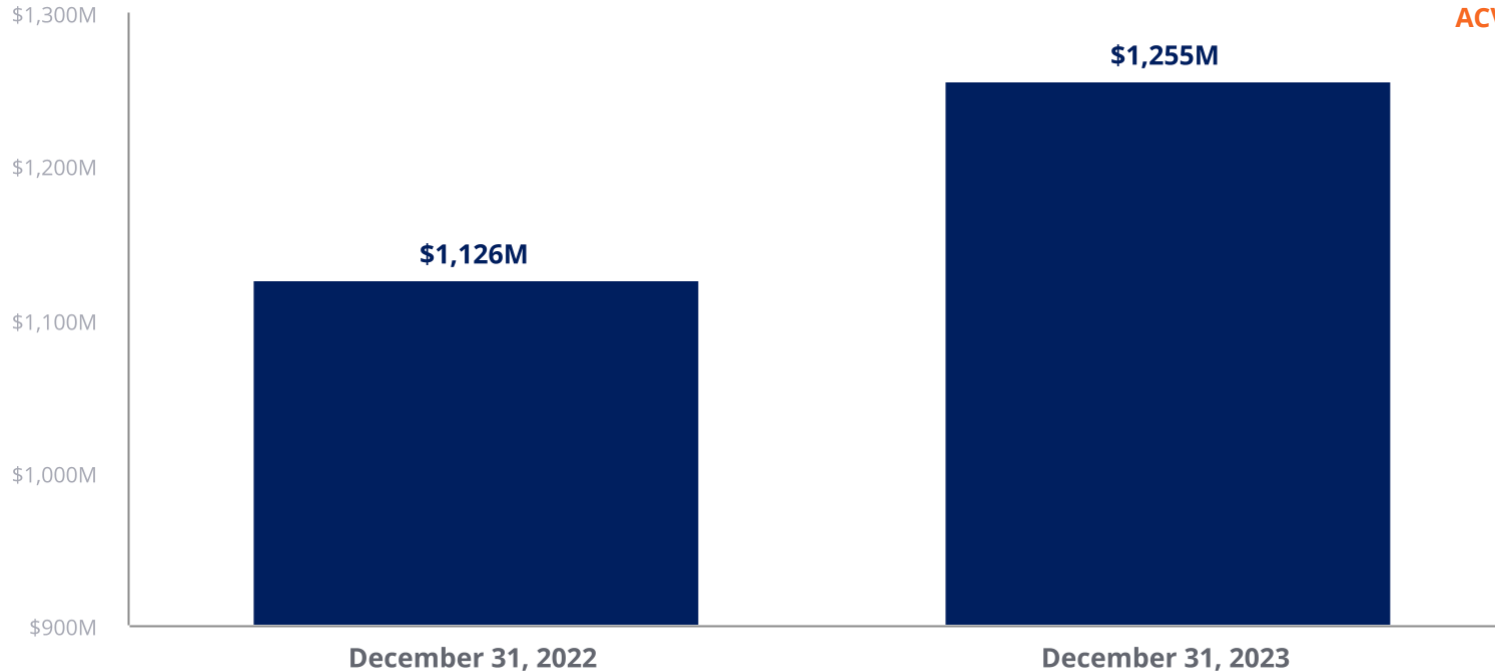
SUBSCRIPTION
TRANSITION
TIMELINE

2017

2023

Recurring Subscription Model

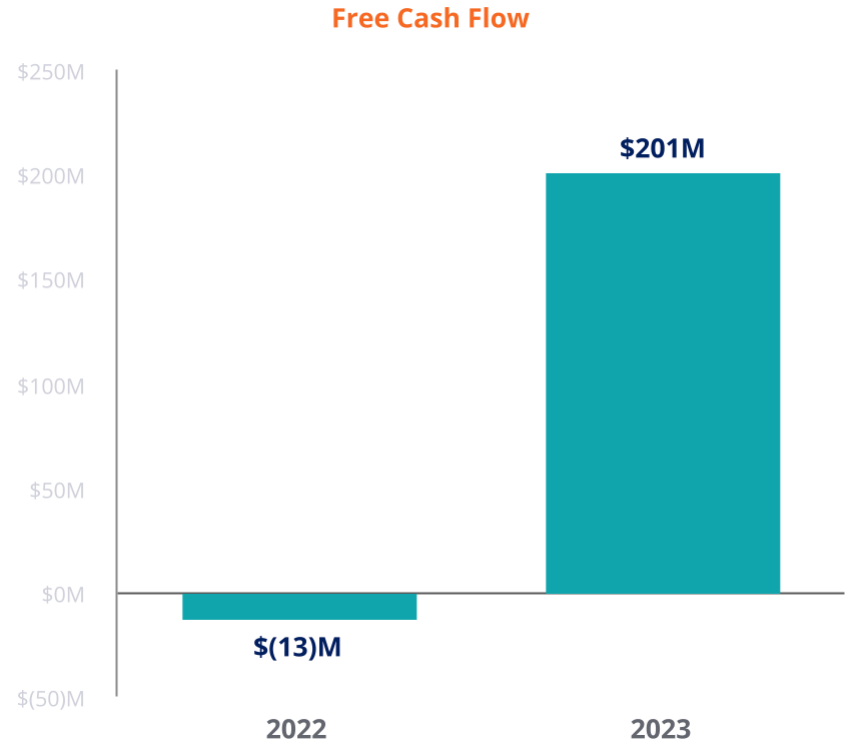
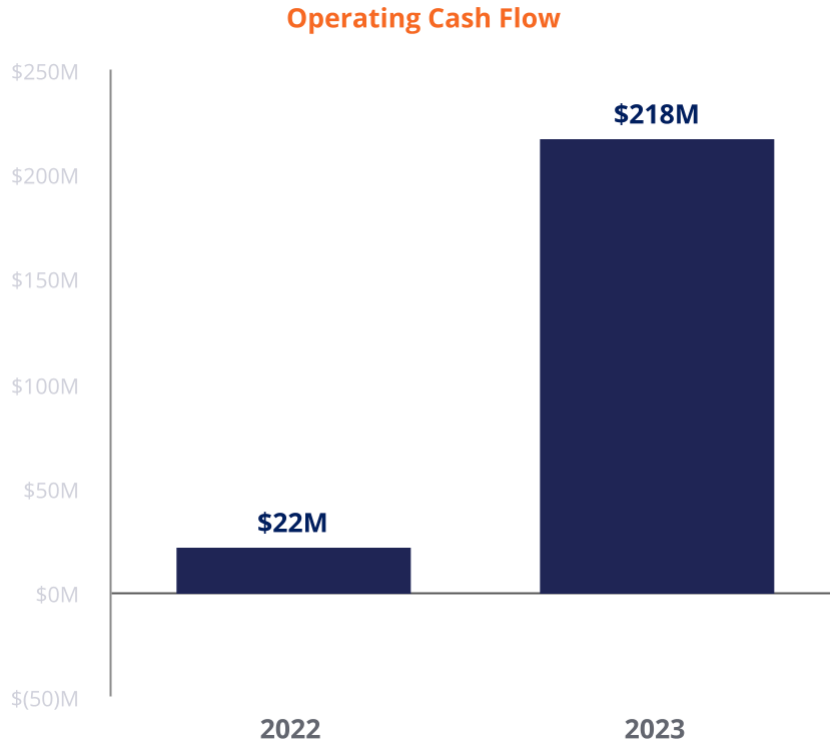
Annual Contract Value (ACV)



Growth since Q4 2022
ACV Reported: 11%
ACV Constant Currency: 11%

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 or 0.3% of Total ACV or less for all quarters in 2022. Previously disclosed ACV amounts have been updated to allow for comparability.

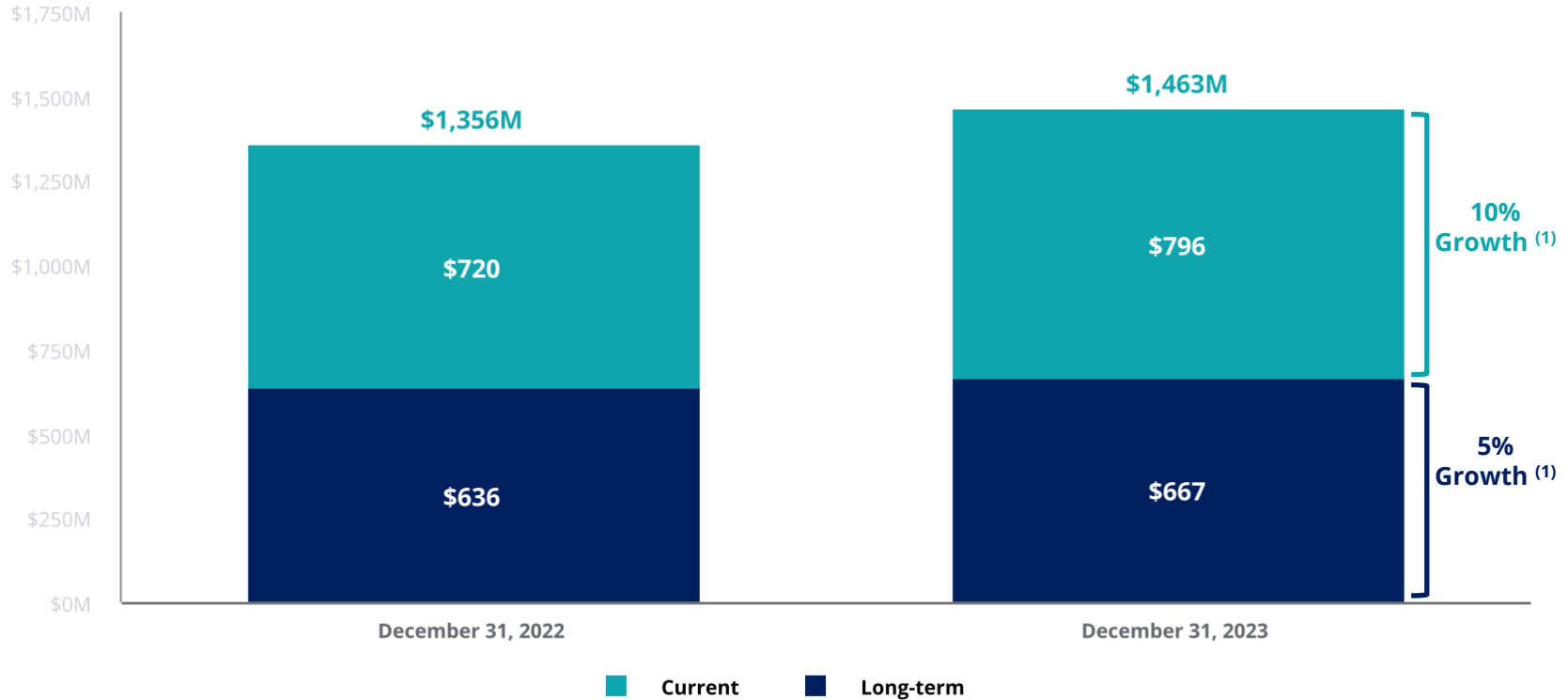
Cash Flow Growth



Note: Starting in the third quarter of 2023, the Company calculated free cash flow as cash provided by 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 [39](#)

Backlog

Total Backlog Up 8% as Reported (7% Constant Currency)



(1) Growth from December 31, 2022 to December 31, 2023

2024 Guidance

As of February 14, 2024, we are providing the following guidance:

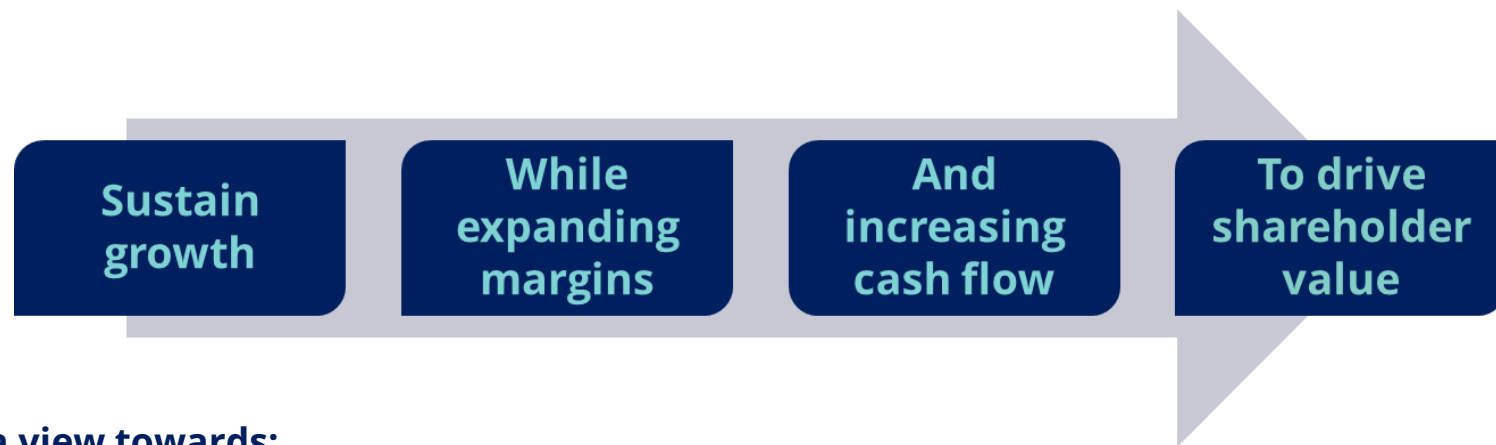
Year Ended December 31, 2024	
Annual contract value growth	11%

	Year Ended December 31, 2024	
	GAAP	Non-GAAP
Revenue	\$1.5 Billion	\$1.5 Billion
Diluted earnings per share	\$1.18	\$2.75

Year Ended December 31, 2024	
Cash provided by operating activities	\$365 Million
Free cash flow	\$350 Million

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 driven



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Reported ACV

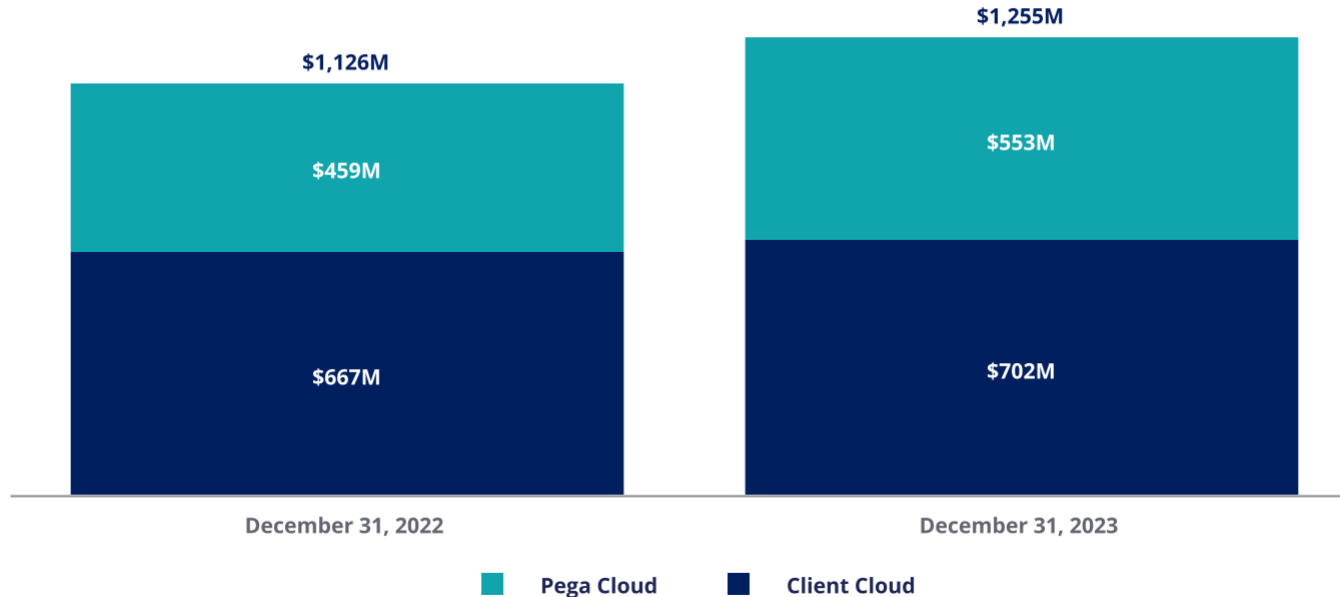
Pega Cloud and Client Cloud

Growth since Q4 2022

Total ACV: 11%

Pega Cloud ACV: 21%

Client Cloud ACV: 5%



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 or 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

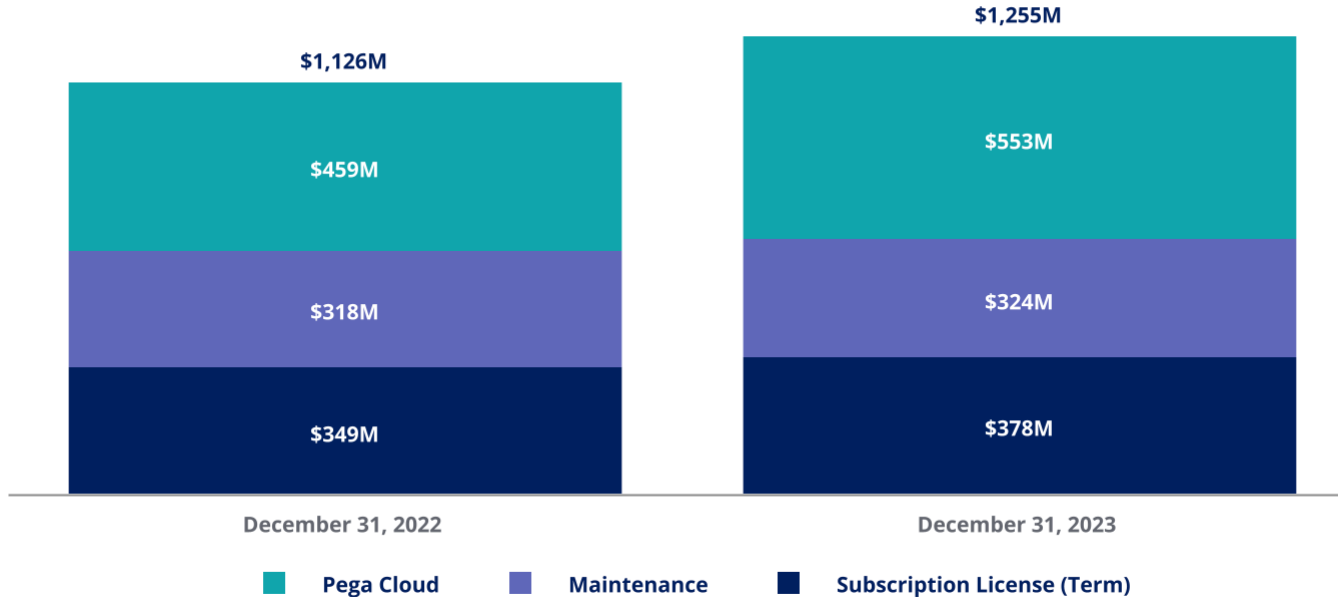
Pega Cloud, Maintenance, and Subscription License (Term)

Growth since Q4 2022

Total ACV: 11%

Pega Cloud ACV: 21%

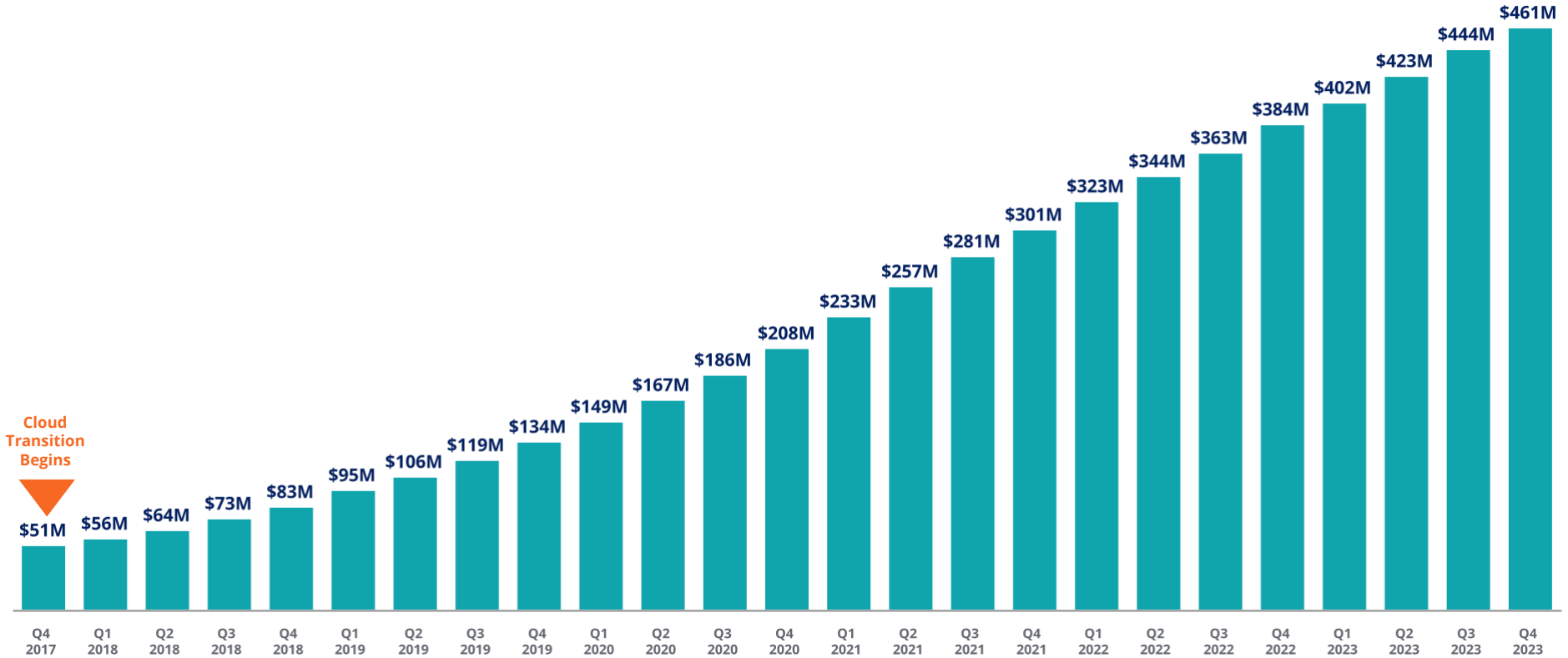
Client Cloud ACV: 5%



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 or 0.3% of Total ACV or less for all quarters in 2022. Previously disclosed ACV amounts have been updated to allow for comparability.

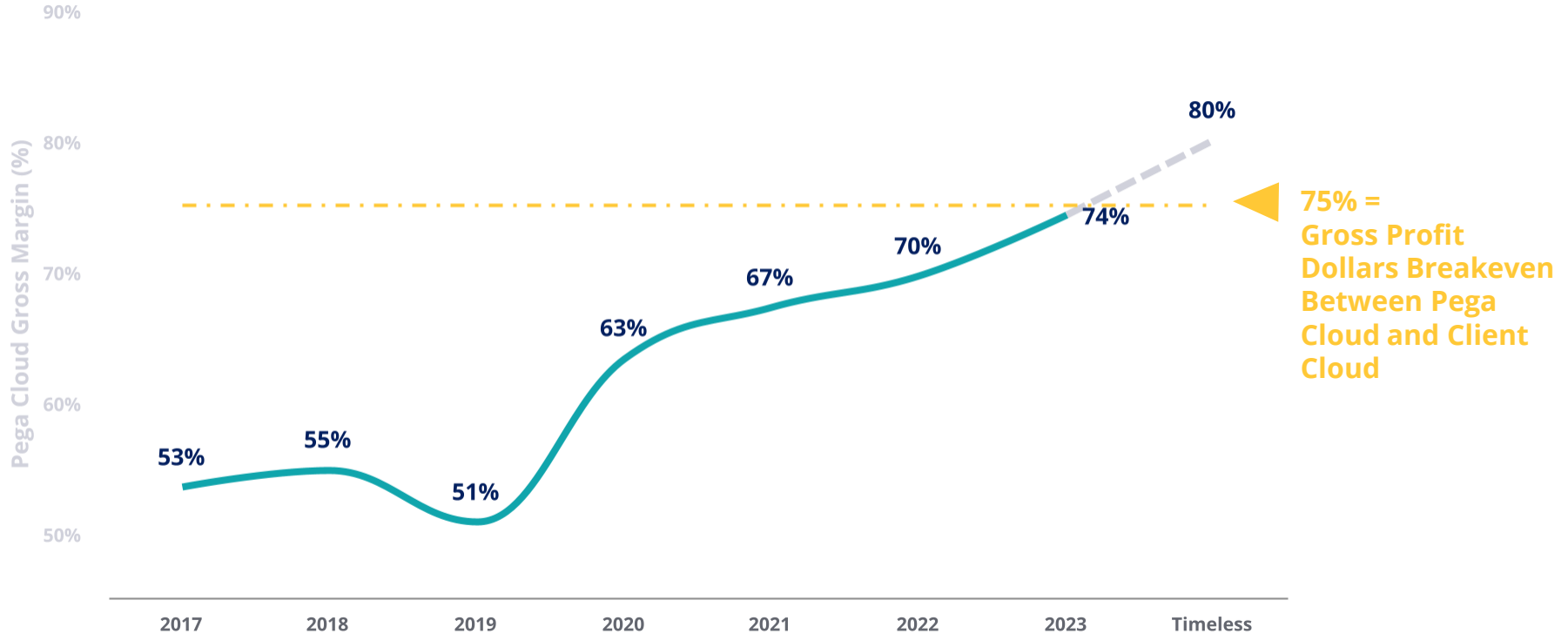
Pega Cloud Revenue

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



Net Income and EPS Guidance Reconciliation ^(A) (1 of 2)

(in millions)

	<u>2024</u>
Net Income - GAAP	\$ 107
Stock-based compensation	143
Legal fees	15
Amortization of intangible assets	3
Interest on convertible senior notes	3
Incomes taxes	(32)
Net Income - Non-GAAP	<u>\$ 239</u>
Diluted earnings per share - GAAP	\$ 1.18
Non-GAAP adjustments	1.57
Diluted earnings per share - non-GAAP	<u>\$ 2.75</u>
Diluted weighted-average number of common shares outstanding - GAAP	90.7
Non-GAAP adjustments	(3.7)
Diluted weighted-average number of common shares outstanding - non-GAAP	<u>87.0</u>

(A) See explanatory notes on slide [37](#)

Net Income and EPS Guidance Reconciliation (2 of 2)

Our non-GAAP financial 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.
- Legal fees: Legal and related fees arising from proceedings outside the ordinary course of business. 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 operational performance.
- 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.
- Interest on convertible senior notes: In February 2020, we issued convertible senior notes, due March 1, 2025, in a private placement. We believe that excluding the amortization of issuance costs provides a useful comparison of our operational performance in different periods.
- Income taxes: Our GAAP effective income tax rate is subject to significant fluctuations due to several factors, including our stock-based compensation plans, research and development tax credits, gains and losses on our capped call transactions, and the valuation allowance on our deferred tax assets in the U.S. and U.K. We determine our non-GAAP income tax rate using applicable rates in taxing jurisdictions and assessing certain factors, including historical and forecasted earnings by jurisdiction, discrete items, and ability to realize tax assets. We believe it is beneficial for our management to review our non-GAAP results consistent with our annual plan's effective income tax rate as established at the beginning of each year, given tax rate volatility.
- Diluted weighted-average number of common shares outstanding:
Capped call transactions: In periods of GAAP income, the shares that would be issued if the Company's Convertible Senior Notes were fully converted to common shares are included in the diluted weighted-average shares outstanding. The capped call transactions are expected to reduce common stock dilution and/or offset any potential cash payments the Company must make, other than for principal and interest, upon conversion of the convertible senior notes, with such reduction and/or offset subject to a cap of \$196.44. We believe that including the expected impact of the capped call transactions in our non-GAAP financial measures provides a useful comparison of our operational performance in different periods.

Gross Margin and % of Revenue Reconciliation

Trailing 12 Months

Gross Margin - GAAP

Stock-Based Compensation

Gross Margin - Non-GAAP

Pega Cloud Gross Margin - GAAP

Stock-Based Compensation

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	
December 31, 2023	December 31, 2022
74 %	72 %
2 %	2 %
76 %	74 %
74 %	70 %
1 %	— %
75 %	70 %
39 %	47 %
(4) %	(4) %
35 %	43 %
21 %	22 %
(3) %	(2) %
18 %	20 %

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.*

Operating and Free Cash Flow Reconciliation ⁽¹⁾

Guidance

(in thousands, except percentages)

	2024		2023		2022	
		Margin ⁽²⁾		Margin ⁽²⁾		Margin ⁽²⁾
Cash provided by operating activities	\$ 365,000	24 %	\$ 217,785	15 %	\$ 22,336	2 %
Investment in property and equipment	(15,000)		(16,781)		(35,379)	
Free cash flow	<u>\$ 350,000</u>	23 %	<u>\$ 201,004</u>	14 %	<u>\$ (13,043)</u>	(1) %
Supplemental information ⁽³⁾						
Restructuring	\$ 7,000		\$ 29,401		\$ —	
Legal fees	15,000		14,645		41,789	
Interest on convertible senior notes	5,000		4,134		4,500	
Other	—		601		6,805	
Income taxes	26,000		11,664		7,645	
	<u>\$ 53,000</u>		<u>\$ 60,445</u>		<u>\$ 60,739</u>	
Effect of supplemental information to Rule of 40 achievement ⁽⁴⁾		4 %		4 %		5 %

(1) Our non-GAAP free cash flow is defined as cash provided by operating activities less 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 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 calculated free cash flow as cash provided by 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 supplemental 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.

- **Restructuring:** Restructuring fluctuates in amount and frequency and is significantly affected by the timing and size of our restructuring activities.
- **Legal fees:** Legal and related fees arising from proceedings outside the ordinary course of business.
- **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.
- **Other:** Fees related to capital advisory services, canceled in-person sales and marketing events, and incremental costs incurred integrating acquisitions.
- **Income taxes:** Direct income taxes paid net of refunds received.

(4) Rule of 40: A performance metric calculated by adding the annual contract value (“ACV”) growth rate and the free cash flow margin. We also provide a table of supplemental information of other items that affect our cash flows and Rule of 40 achievement.