



# Progress Investor Overview

April 2020



# Legal Notice

This presentation contains statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Progress has identified some of these forward-looking statements with words like “believe,” “may,” “could,” “would,” “might,” “should,” “expect,” “intend,” “plan,” “target,” “anticipate” and “continue,” the negative of these words, other terms of similar meaning or the use of future dates. Forward-looking statements in this presentation include, but are not limited to, statements regarding Progress’s strategy; acquisitions; future revenue growth, operating margin and cost savings; strategic partnering and marketing initiatives; and other statements regarding the future operation, direction, prospects and success of Progress’s business.

There are a number of factors that could cause actual results or future events to differ materially from those anticipated by the forward-looking statements, including, without limitation:

- Economic, geopolitical and market conditions can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price.
- We may fail to achieve our financial forecasts due to such factors as delays or size reductions in transactions, fewer large transactions in a particular quarter, fluctuations in currency exchange rates, or a decline in our renewal rates for contracts.
- Our ability to successfully manage transitions to new business models and markets, including an increased emphasis on a cloud and subscription strategy, may not be successful.
- If we are unable to develop new or sufficiently differentiated products and services, or to enhance and improve our existing products and services in a timely manner to meet market demand, partners and customers may not purchase new software licenses or subscriptions or purchase or renew support contracts.
- We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners.
- Our international sales and operations subject us to additional risks that can adversely affect our operating results, including risks relating to foreign currency gains and losses.
- If the security measures for our software, services or other offerings are compromised or subject to a successful cyber-attack, or if such offerings contain significant coding or configuration errors, we may experience reputational harm, legal claims and financial exposure.
- Our acquisition of Ipswitch, Inc. (and any other acquisitions we may make in the future) may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations.
- The coronavirus disease (COVID-19) outbreak and the impact it could have on our employees, customers, partners, and the global financial markets could adversely affect our business, results of operations and financial condition

For further information regarding risks and uncertainties associated with our business, please refer to our filings with the Securities and Exchange Commission. Progress undertakes no obligation to update any forward-looking statements, which speak only as of the date of this presentation, except for statements relating to Progress' projected results for the quarter ended May 31, 2020 and fiscal year ended November 30, 2020, which speak only as of March 26, 2020.

Finally, during this presentation we will be referring to non-GAAP financial measures such as non-GAAP revenue, non-GAAP income from operations and operating margin, adjusted free cash flow and non-GAAP diluted earnings per share. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation between non-GAAP and the most directly comparable GAAP financial measures appears in our earnings press release for the fiscal quarter ended February 29, 2020 and is available in the Investor Relations section of our Web site.

# Progress At A Glance

**Global leader** in application development and digital experience technologies

**Our mission:** To help enterprises thrive by providing the best platform and tools for modern strategic business applications



**1,700+**  
ISV partners build their applications on Progress technologies



**6+ million**  
Business users work with applications that run on Progress technologies



**100,000+**  
Enterprises run their mission-critical business systems on Progress



**100+ million**  
Consumers use applications that run on Progress technologies



**2+ million**  
Developers build applications using Progress technologies

## Deep Domain Expertise

- 35+ years of delivering tools and technologies business application developers and IT operations need

## What We Sell

- Progress offers powerful tools for easily building, running and monitoring mission-critical business applications that have engaging user interfaces and can leverage any data source

## Who We Sell To

- Software vendors (ISVs) that build applications on Progress technologies to sell to their customers
- Enterprises for internal and customer-facing application development and IT operations

## ISV Channel is Key Strength

- Progress is the largest company where majority of revenue comes from other software vendors

# Investment Highlights

- **Stable and predictable business** with high levels of recurring revenue and even greater visibility
- **Large base** of customers and partners who continue to grow and thrive
- **Operating leverage** with **demonstrated margin improvement** (FY20 guidance is 39%, up 100 bp YoY)
- **Consistently strong free cash flow** (\$129M in 2019, guidance for 2020 is \$125 - \$135M)
- **Experienced leadership team** with proven track record
- **Shareholder-friendly** capital allocation policy (over **\$400M** returned through buybacks & dividends in the last 4+ years)
- Focused on **increasing scale and cash flows** through **accretive acquisitions**

*Refer to the investor relations section of our website for definitions and reconciliation of our non-GAAP metrics*

# Business Strategy

Our corporate strategy has three key elements:

1. Continue to operate a **lean, highly profitable business**
2. **Innovate and strengthen our market position and customer base**
3. Capitalize on our **established operating model to acquire complementary businesses** and operate them more efficiently

Goal is to double the size of the company in 5 years

# M&A Framework

Accretive M&A enables us to add scale and cash flows, and generate strong shareholder returns

- Target acquisition profile:
  - Complementary to our business (product, audience & growth profile)
  - Significant recurring revenue and excellent retention rates
  - Cost synergistic and accretive
  - Operating margins after synergies that are consistent with our overall margins
  - ROIC above our weighted average cost of capital

# Progress: Successful Customers Across Industries

## ISV



## MANUFACTURING



## HEALTHCARE



## FINANCIAL SERVICES



## RETAIL



## Three Operating Segments:

- OpenEdge
- Application Development & Deployment
- Data Connectivity & Integration



# OpenEdge Segment

 Progress® OpenEdge®

  
MOVEit®

  
WhatsUp® Gold

- Database and application platform for mission-critical systems of record
- Mission-critical data movement
- Monitor and manage mission-critical infrastructure

- 
- Acquired Ipswitch business being reported under this segment:

2019 segment revenue of \$316M, 73% margin \*

60% + of Progress OpenEdge revenue is from ISV channel

SaaS-based revenue growth in low-double-digits %

\* Note: 2019 segment revenue and margins are Non-GAAP

# Progress OpenEdge Database and App Platform

## Foundation for Mission-critical Systems of Record

- Largest Revenue/Profit Contributor
- Used by 1,500+ ISVs & 55,000+ Enterprises
- Very sticky product, at the core of customers/partners most mission-critical apps
- Unbelievably reliable: “It Just Works”
- Latest release featured 200% improvement in database performance



Prudential



sedgwick.



# ipswitch Acquisition

## Overview

- Acquired for \$225 million
  - Financed from cash and \$185M term loan
  - Tax efficient structure boosts cash returns
- Two primary product lines:
  - Network monitoring ~43% revenue
  - Secure Data File Transfer ~51% revenue
- Healthy financials
  - ~ \$75M revenue, 75% recurring
  - Operating margins > 40% after synergies
  - Accretive to non-GAAP EPS and cash flow
- ~ 24,000 active customers in 170 countries
  - Strong revenue and customer retention
- Global presence: US, Europe, Asia & CALA

## Product Summary

### WhatsUp Gold ipswitch

#### Monitor and Manage Your IT Infrastructure and Applications

- Assure performance and availability with continuous application, server and network monitoring.
- Gain visibility into cloud and virtual environments. Automate configuration and log management.

### MOVEit ipswitch

#### Securely Transfer Business Critical Information

- Secure and control the transfer of critical data between users, locations and partners
- Automate workflows, assure compliance and enable easy but secure user access.

# ipswitch® **Accretive, Increases Scale, Generates Excellent Returns**

**Complementary  
to our Business**

- ✓ Software solutions that solve **mission-critical business challenges**
- ✓ **Easy to use but powerful** products

**Bolsters Recurring  
Revenue**

- ✓ **75% recurring** revenue
- ✓ Solid **maintenance renewal** rates
- ✓ **Similar growth profile** to Progress

**Cost Synergistic  
and Accretive**

- ✓ ~ **\$15 million of annualized cost synergies completed** by 11/30/19
- ✓ **Immediately accretive** to non-GAAP EPS and cash flow

**Margins 35% +  
After Synergies**

- ✓ **Over 40% operating margins** after cost synergies

**ROIC Above WACC**

- ✓ **Projected ROIC well above our WACC**
- ✓ **Significantly higher shareholder return** than from share repurchases

# Application Development & Deployment Segment

## Frontend Tools for Web & Mobile App Development that 2+ Million Developers Love

- Gartner-recognized leader in developer tools for building mobile and web applications
- Build better, more engaging apps in less time
- Sold to the individual developer or development teams

2019 segment revenue of \$76M

2019 segment margin of 69%

 Progress® Kendo UI®

 Progress® Telerik®



SONY



TOSHIBA



FOX PHILIPS

# Data Connectivity & Integration Segment

## The Industry Standard for Data Connectivity

- Undisputed leader in premium data access market
- 10,000 enterprise customers
- 350 OEMs embed DataDirect, including most major software vendors
- Best-in-class security, scalability and support
- 9 of 10 top BI/Analytics vendors embed DataDirect

2019 segment revenue of \$40M, 80% margin

75% + revenue from OEM channel

2019 Annual Contract Value (ACV) of \$32M





# Progress Financial Performance

*Refer to the investor relations section of our website for definitions and reconciliation of our non-GAAP metrics*

# Recent Financial Highlights – under ASC 606

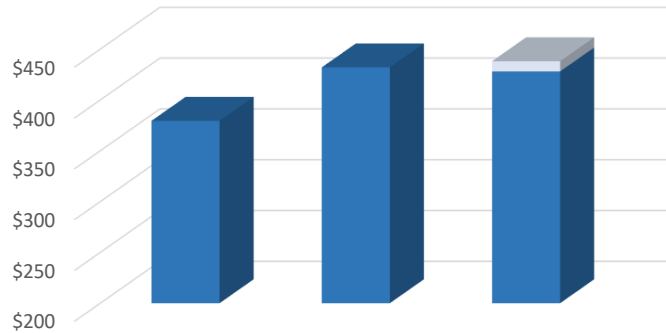
- Solid revenue performance
  - 27% growth year-over-year for Q1, and 14% for 2019, including contribution from Ipswitch
  - Maintenance renewal rates remain well over 90%
- EPS growth of 52% year-over-year for Q1, and 23% for 2019, demonstrating the significant leverage in our business
- 2019 operating margin of 38%, increase of over 200 bps year-over-year
  - Q1 2020 operating margin of 42%
- Record-high adjusted free cash flow of \$129M for 2019
- Returned \$27M to shareholders via share buybacks and dividends in Q1 2020
- Share repurchase authorization of \$250M, \$230M remaining

*Refer to the investor relations section of our website for definitions and reconciliation of our non-GAAP metrics*



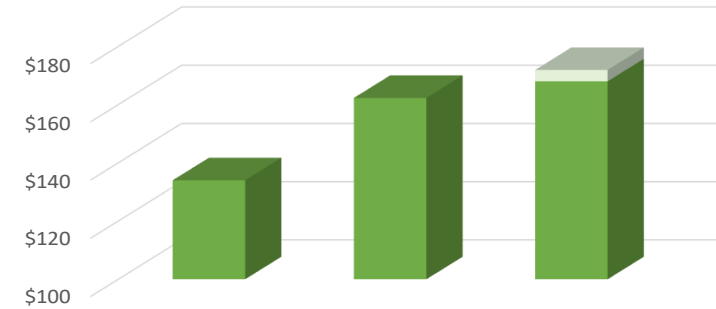
# Annual Financial Performance (Non-GAAP) – under ASC 606

Revenue (\$M)



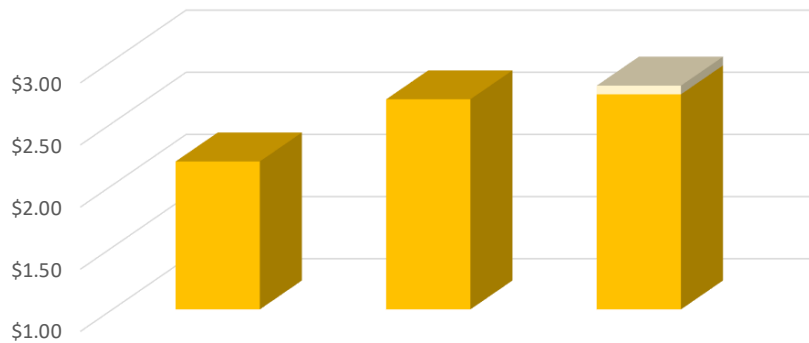
	FY18	FY19	FY20 Guidance
Revenue	\$379.4	\$432.0	\$428 to \$438
YoY Growth %	-3%	14%	-1% to +1%
@ Constant Currency	-4%	16%	1% to 3%

Operating Income (\$M)



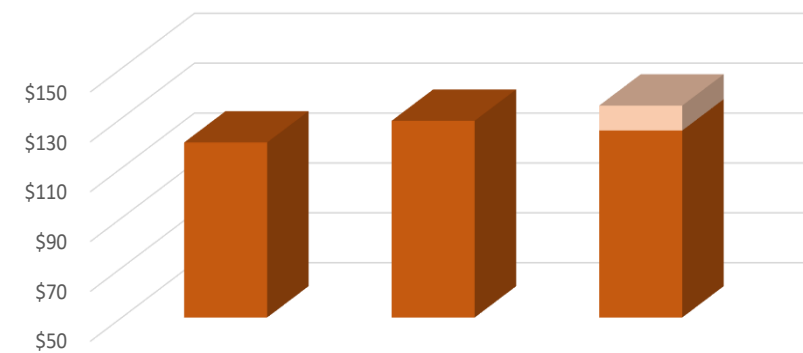
	FY18	FY19	FY20 Guidance
Operating Income	\$134.0	\$162.3	\$168 to \$172
YoY Growth %	2%	21%	4% to 6%
Operating Margin	35%	38%	39%

Diluted EPS



	FY18	FY19	FY20 Guidance
Diluted EPS	\$2.19	\$2.69	\$2.73 to \$2.80
YoY Growth %	26%	23%	1% to 4%

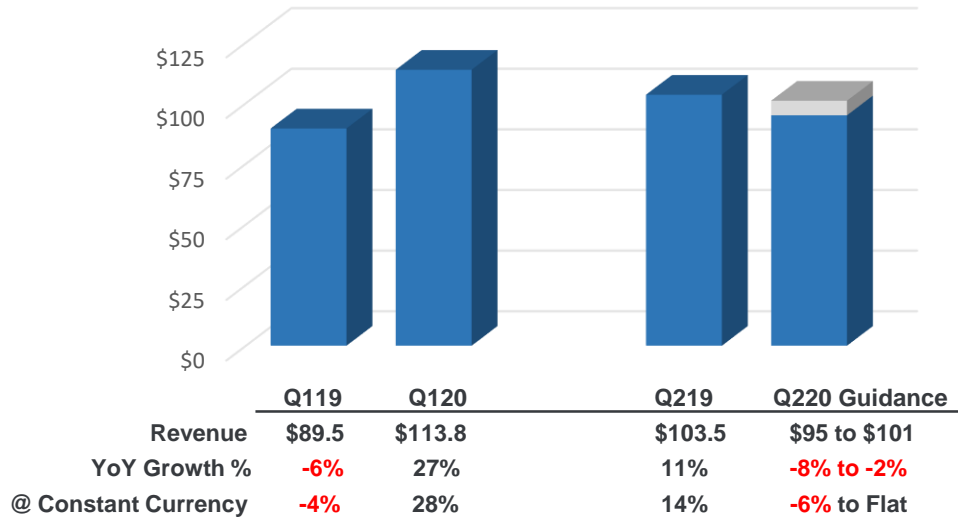
Adjusted Free Cash Flow (\$M)



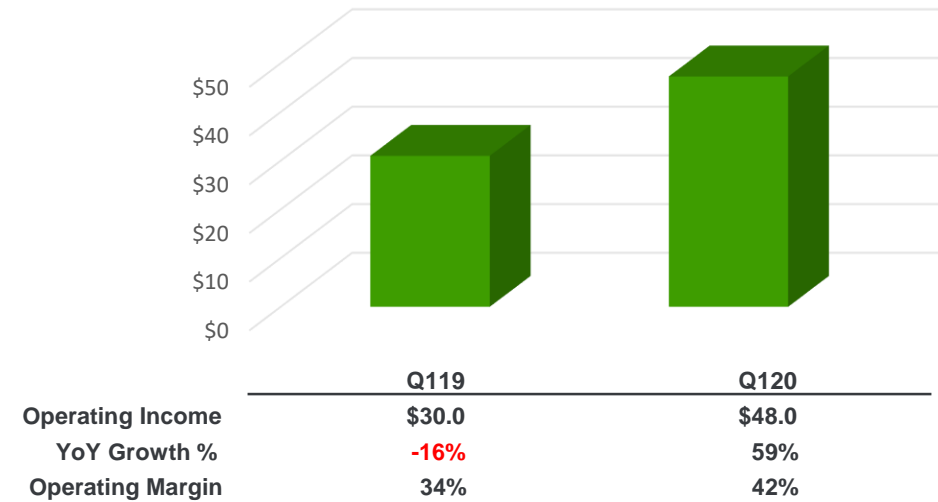
	FY18	FY19	FY20 Guidance
Adjusted Free Cash Flow	\$120.2	\$128.9	\$125 to \$135

# Quarterly Financial Performance (Non-GAAP) – under ASC 606

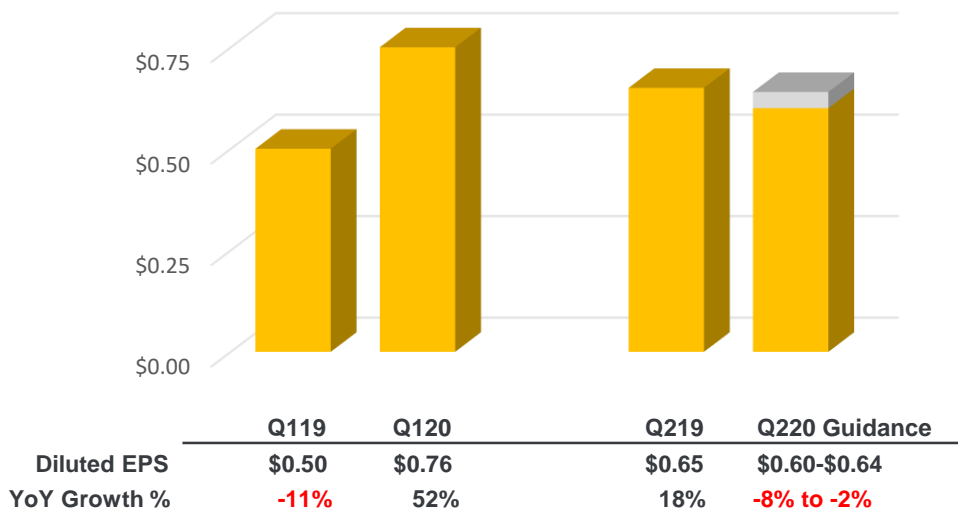
## Revenue (\$M)



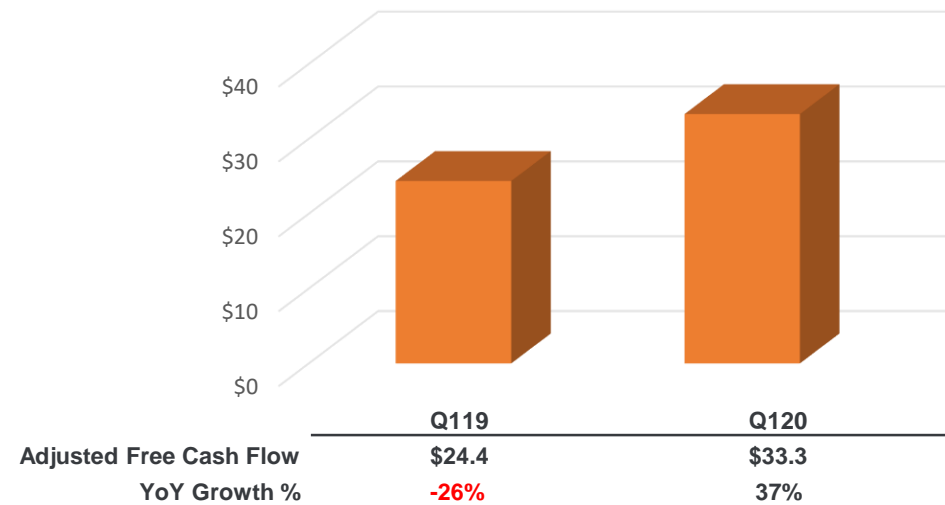
## Operating Income (\$M)



## Diluted EPS



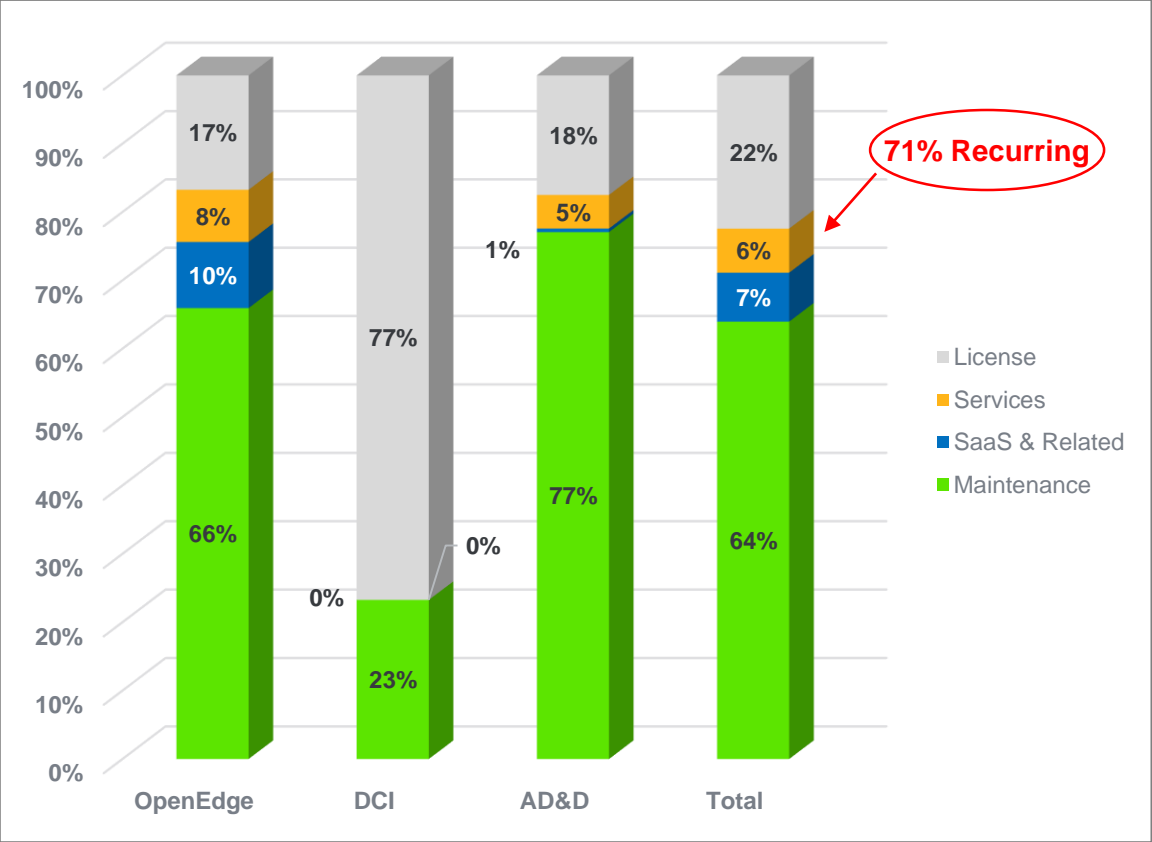
## Adjusted Free Cash Flow (\$M)



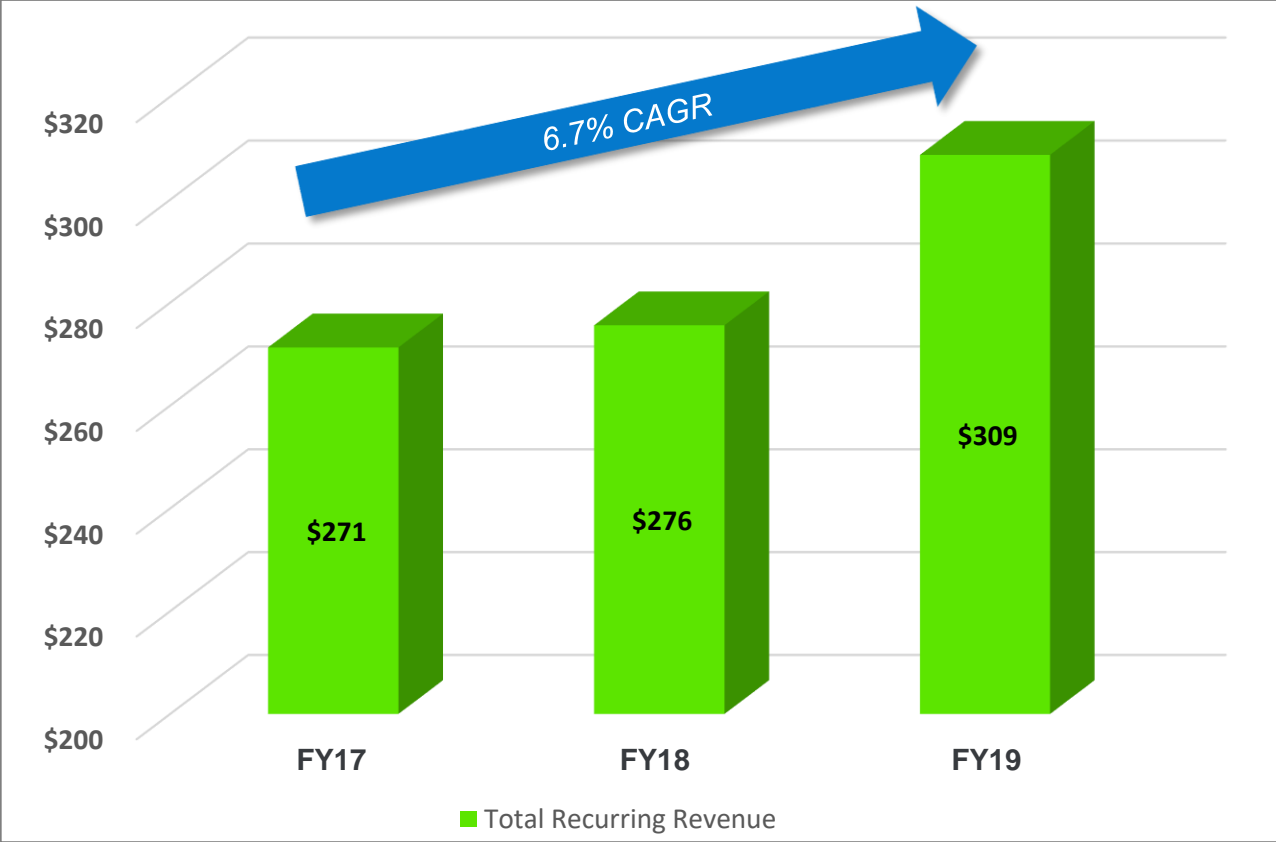
**Note:** Progress does not issue quarterly guidance for Operating Income or Adjusted Free Cash Flow

# High level of Recurring Revenue – under ASC 606

FY19 Revenue % by Type



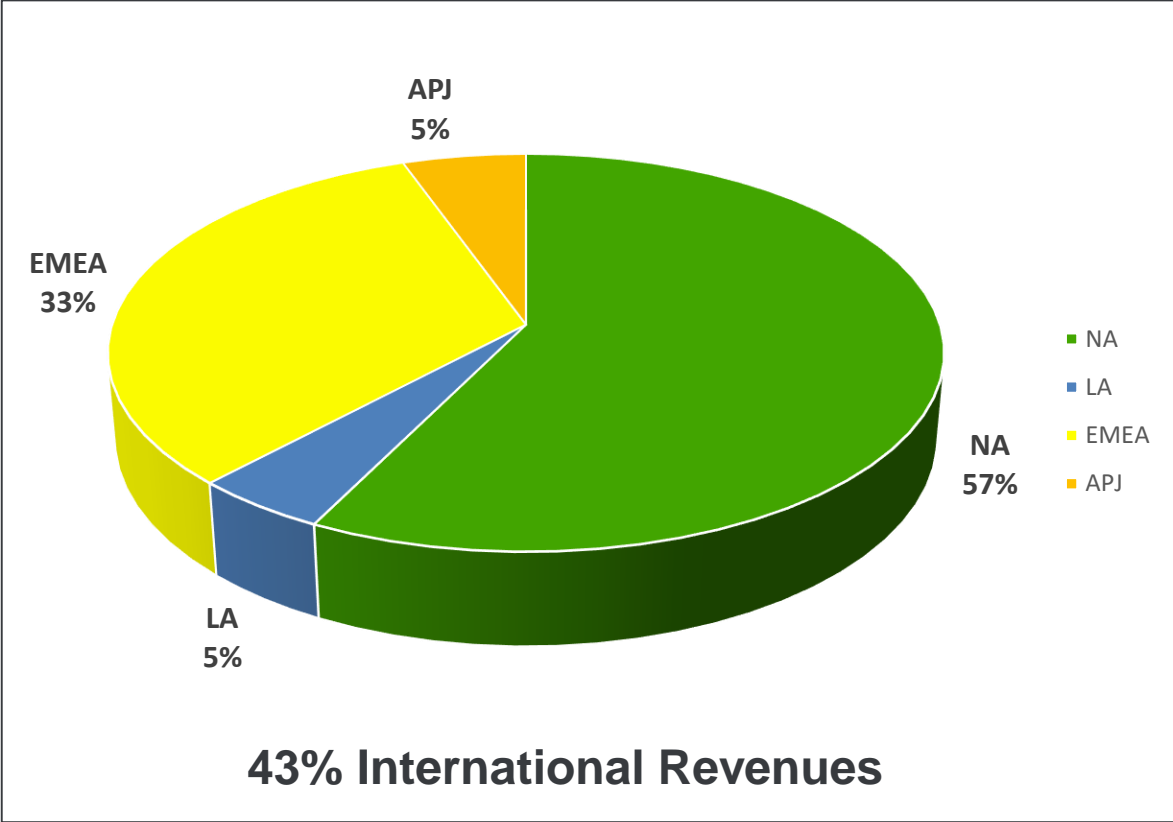
Growing Recurring Revenue



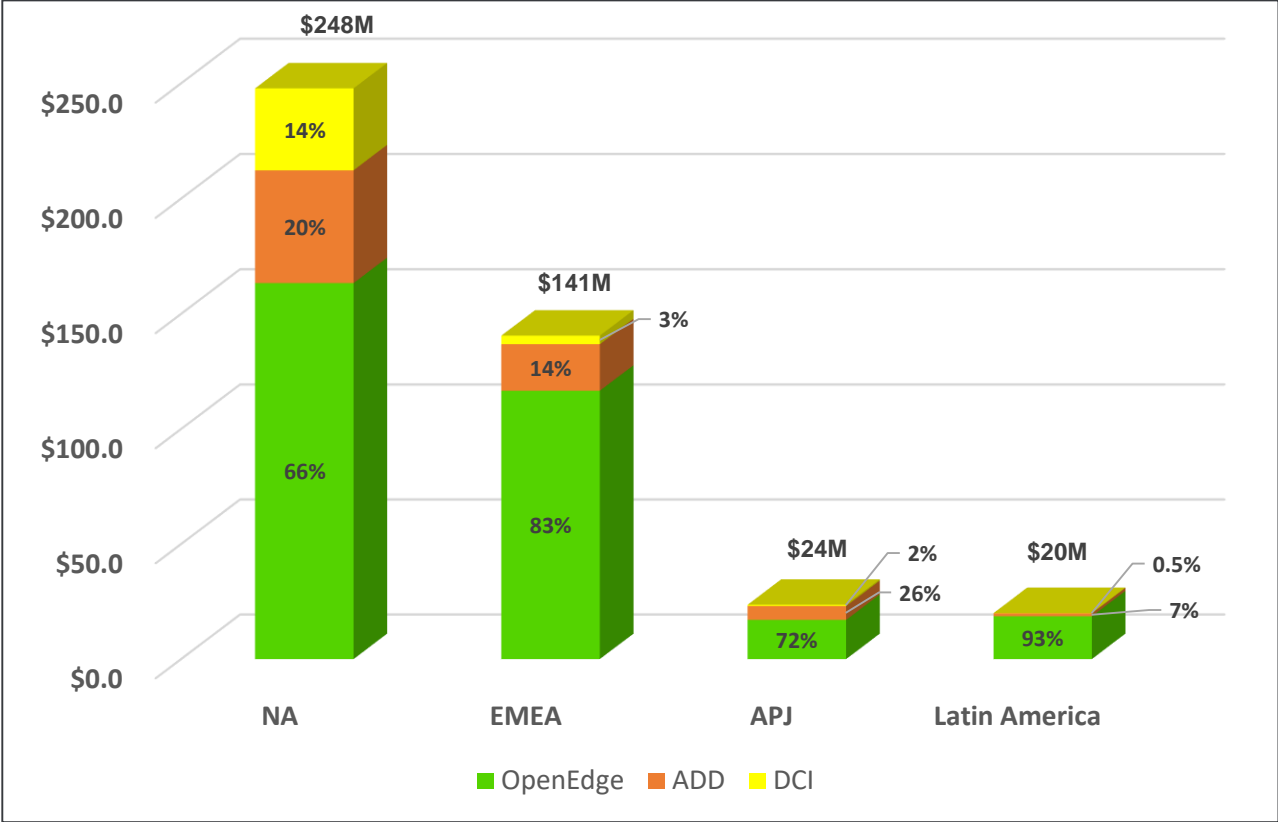
\* Excludes impact of FX by using constant exchange rates for all years.

# Revenue diversified across geographies

FY19 Revenue % by Region

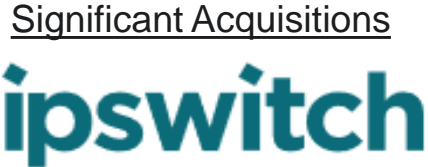
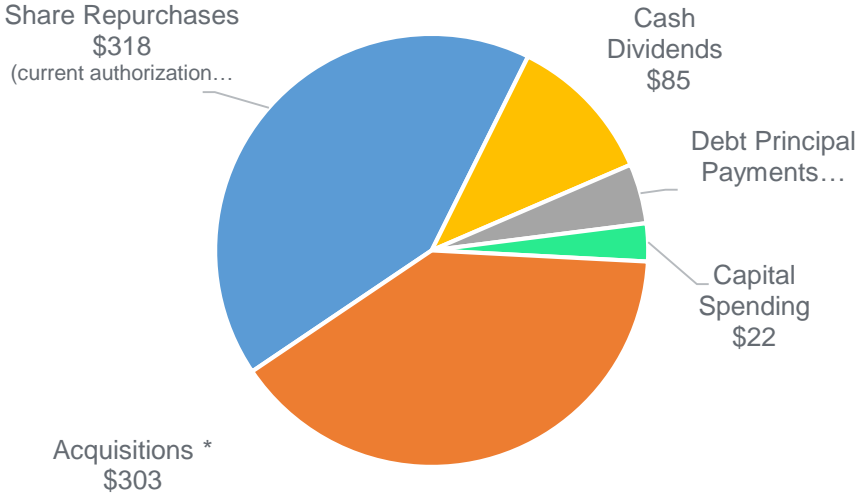


FY19 Revenue by Region by Segment



# Capital Allocation (\$M)

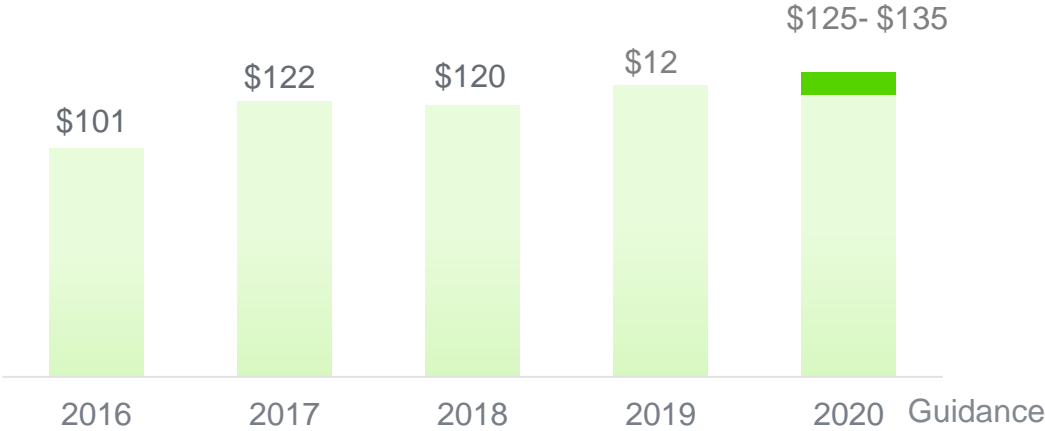
Capital Deployed 2016 – 2020



**\* Ipswitch Acquisition:**

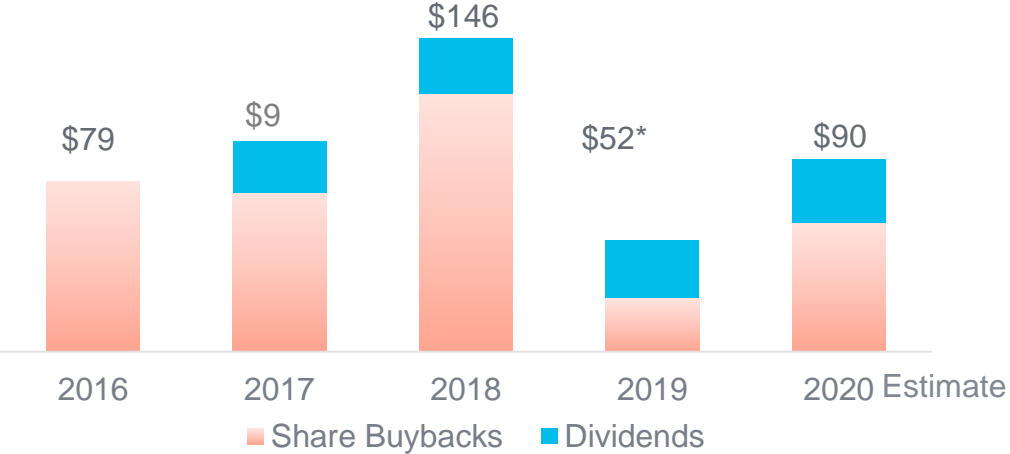
- \$225M purchase price, closed April 30, 2019.
- Funded the transaction with \$40M of existing cash and \$185M of incremental term debt.
- Since the return on the acquisition was substantially higher than on share repurchases, repurchases were suspended for remainder of 2019.

Non-GAAP Adjusted Free Cash Flow



Cash	\$250	\$184	\$140	\$174	\$207 - \$217
Debt	\$135	\$124	\$118	\$297	\$286

Return of Capital to Shareholders



# Target Capital Allocation

- Primary focus on accretive M&A that meets our disciplined criteria
  - Goal is to double the size of the company in 5 years
- Dividends
  - Return ~ 25% of annual Free Cash Flow to shareholders in the form of dividends
- Share Repurchases
  - Board of Directors increased authorization to \$250M in January 2020; \$230M remaining
  - Target repurchases at a level sufficient to offset dilution from our equity programs
  - Flexibility to increase, reduce or suspend repurchases, depending on market conditions and size and timing of M&A
- Target/potential leverage
  - Current net leverage 0.6X
  - Comfortable with net leverage of 1.5X – 2.0X (current facility capacity is 1.6X)

# FY 2020 Financial Guidance \*

	Full Year FY20	Q2 FY20
Non-GAAP Revenue	\$428 - \$438M	\$95 - \$101M
Non-GAAP EPS	\$2.73 - \$2.80	\$0.60 - \$0.64
Non-GAAP Operating Margin	39%	----
Adjusted Free Cash Flow (FCF)	\$125 - \$135M	----
Non-GAAP Effective Tax Rate	21%	----

- Negative impact of COVID-19 crisis of \$10 to \$13 million on revenue, and \$0.06 to \$0.08 cents on EPS
- Negative impact of foreign currency translation relative to strengthening USD:
  - Full Year: ~ \$7 million on revenue; ~ \$0.06 cent impact on EPS
  - Q2 20: ~ \$2.5 million on revenue; ~ \$0.02 cent impact on EPS

\* Note: As of March 26, 2020

