

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

June 25, 2020
Date of Report (Date of earliest event reported)

Progress Software Corporation

(Exact name of registrant as specified in its charter)

Delaware 0-19417 04-2746201
(State or other jurisdiction of incorporation or organization) (Commission file number) (I.R.S. Employer Identification No.)

14 Oak Park
Bedford, Massachusetts 01730
(Address of principal executive offices, including zip code)

(781) 280-4000
(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	PRGS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in 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.

Section 2 – Financial Information

Item 2.02 Results of Operations and Financial Condition

On June 25, 2020, Progress Software Corporation ("Progress") issued a press release announcing its financial results for the fiscal second quarter ended May 31, 2020. A copy of the press release is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein by reference.

This information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not deemed incorporated by reference into any other filing of the company, whether made before or after the date of this report, regardless of any general incorporation language in the filing.

Non-GAAP Financial Information - Progress provides non-GAAP supplemental information to its financial results. We use this non-GAAP information to evaluate our period-over-period operating performance because our management believes the information helps illustrate underlying trends in our business and provides us with a more comparable measure of our continuing business, as well as a greater understanding of the results from the primary operations of our business, by excluding the effects of certain items that do not reflect the ordinary earnings of our operations. Management also uses this non-GAAP financial information to establish budgets and operational goals, which are communicated internally and externally, evaluate performance, and allocate resources. In addition, compensation of our executives and non-executive employees is based in part on the performance of our business evaluated using this same non-GAAP information. We believe this non-GAAP financial information enhances investors' overall understanding of our current financial performance and our prospects for the future by providing more transparency for certain financial measures and providing a level of disclosure that helps investors understand how we plan and measure our business. We believe that providing this non-GAAP information affords investors a view of our operating results that may be more easily compared to our peer companies and enables investors to consider our operating results on both a GAAP and non-GAAP basis during and following the integration period of our acquisitions.

However, this non-GAAP information is not in accordance with, or an alternative to, generally accepted accounting principles in the United States ("GAAP") and should be considered in conjunction with our GAAP results as the items excluded from the non-GAAP information often have a material impact on Progress' financial results. A reconciliation of non-GAAP adjustments to Progress' GAAP financial results is included in the tables in the press release and is available on the Progress website at www.progress.com within the investor relations section.

As described in more detail below, non-GAAP revenue, non-GAAP costs of sales and operating expenses, non-GAAP income from operations and operating margin, non-GAAP net income, and non-GAAP diluted earnings per share exclude the effect of purchase accounting on the fair value of acquired deferred revenue, amortization of acquired intangible assets, stock-based compensation expense, restructuring charges, acquisition-related and transition expenses, and the related tax effects of the preceding items. We also provide guidance on adjusted free cash flow, which is equal to cash flows from operating activities less purchases of property and equipment, plus restructuring payments.

In the noted fiscal periods, we adjusted for the following items from our GAAP financial results to arrive at our non-GAAP financial measures:

- *Acquisition-related revenue* - In all periods presented, we include acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. The acquisition-related revenue relates to Ipswitch, which we acquired on April 30, 2019. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. We believe these adjustments are useful to management and investors as a measure of the ongoing performance of the business because, although we cannot be certain that customers will renew their contracts, we have historically experienced high renewal rates on maintenance and support agreements and other customer contracts. Additionally, although acquisition-related revenue adjustments are non-recurring with respect to past acquisitions, we expect to incur these adjustments in connection with any future acquisitions.
- *Amortization of acquired intangibles* - In all periods presented, we exclude amortization of acquired intangibles because those expenses are unrelated to our core operating performance and the intangible assets acquired vary significantly based on the timing and magnitude of our acquisition transactions and the maturities of the businesses acquired.
- *Stock-based compensation* - In all periods presented, we exclude stock-based compensation to be consistent with the way management and the financial community evaluates our performance and the methods used by analysts to calculate consensus estimates. The expense related to stock-based awards is generally not controllable in the short-

term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include these charges in operating plans. Stock-based compensation will continue in future periods.

- *Restructuring expenses* - In all periods presented, we exclude restructuring expenses incurred because those expenses distort trends and are not part of our core operating results.
- *Acquisition-related and transition expenses* - In all periods presented, we exclude acquisition-related expenses because those expenses distort trends and are not part of our core operating results. In recent years, we have completed a number of acquisitions, which result in our incurring operating expenses which would not otherwise have been incurred. By excluding certain transition, integration and other acquisition-related expense items in connection with acquisitions, this provides more meaningful comparisons of the financial results to our historical operations and forward-looking guidance and the financial results of less acquisitive peer companies. We consider these types of costs and adjustments, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, we do not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition-related costs, may not be indicative of the size, complexity and/or volume of future acquisitions.
- *Income tax adjustment* - In all periods presented, we adjust our income tax provision by excluding the tax impact of the non-GAAP adjustments discussed above.

Constant Currency - Revenue from our international operations has historically represented a substantial portion of our total revenue. As a result, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, if the local currencies of our foreign subsidiaries strengthen, our consolidated results stated in U.S. dollars are positively impacted.

As exchange rates are an important factor in understanding period to period comparisons, we present revenue growth rates on a constant currency basis, which helps improve the understanding of our revenue results and our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP.

Section 7 – Regulation FD

Item 7.01 Regulation FD Disclosure

In connection with the issuance of the press release attached hereto as Exhibit 99.1, the supplemental data attached as Exhibit 99.3 to this Current Report will be available on the Progress website within the investor relations section prior to the live conference call.

Section 9 – Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Description
99.1	Press release issued by Progress Software Corporation dated June 25, 2020
99.3	Q2 2020 Supplemental Data

SIGNATURES

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 hereunto duly authorized.

Date: June 25, 2020

Progress Software Corporation

By: /s/ ANTHONY FOLGER
Anthony Folger
Chief Financial Officer

P R E S S A N N O U N C E M E N T

Progress 2020 Second Quarter Revenue Exceeds Guidance

Increases 2020 Guidance for Revenue and Earnings Per Share

BEDFORD, MA, June 25, 2020 (GlobeNewswire) — Progress (NASDAQ: PRGS), the leading provider of application development and digital experience technologies, today announced financial results for its fiscal second quarter ended May 31, 2020.

Second Quarter 2020 Highlights:

- Revenue of \$100.4 million remained flat year-over-year on an actual currency basis, and increased 2% year-over-year on a constant currency basis.
- Non-GAAP revenue of \$102.5 million decreased 1% on an actual currency basis and increased 1% year-over-year on a constant currency basis.
- Diluted earnings per share was \$0.37 compared to \$0.18 in the same quarter last year, an increase of 106%.
- Non-GAAP diluted earnings per share was \$0.63 compared to \$0.65 in the same quarter last year, a decrease of 3%.

“Q2 was a very strong quarter for us,” said Yogesh Gupta, CEO at Progress. “We had solid performances across our segments and products, and our business has proven to be extremely durable, despite the ongoing economic disruption caused by COVID-19. Our confidence in our ability to execute is reflected in our increased full year guidance for revenue and EPS.”

Additional financial highlights included:

<i>(In thousands, except percentages and per share amounts)</i>	Three Months Ended					
	GAAP			Non-GAAP		
	May 31, 2020	May 31, 2019	% Change	May 31, 2020	May 31, 2019	% Change
Revenue	\$ 100,383	\$ 99,995	— %	\$ 102,505	\$ 103,475	(1)%
Income from operations	\$ 25,309	\$ 14,741	72 %	\$ 39,590	\$ 38,888	2 %
Operating margin	25%	15%	67 %	39%	38%	3 %
Net income	\$ 16,968	\$ 8,181	107 %	\$ 28,656	\$ 29,417	(3)%
Diluted earnings per share	\$ 0.37	\$ 0.18	106 %	\$ 0.63	\$ 0.65	(3)%
Cash from operations (GAAP) /Adjusted free cash flow (Non-GAAP)	\$ 37,957	\$ 40,674	(7)%	\$ 38,399	\$ 40,438	(5)%

Other fiscal second quarter 2020 metrics and recent results included:

- Cash, cash equivalents and short-term investments were \$203.6 million at the end of the quarter;
- DSO was 47 days compared to 42 days in the fiscal second quarter of 2019 and 49 days in the fiscal first quarter of 2020; and
- On June 23, 2020, our Board of Directors declared a quarterly dividend of \$0.165 per share of common stock that will be paid on September 15, 2020 to shareholders of record as of the close of business on September 1, 2020.

Anthony Folger, CFO, said: “We are confident in the stability of our business model and our ability to deliver solid results even in this uncertain environment, and will utilize our strong balance sheet to execute aggressively on our strategy to drive long-term value through accretive M&A.”

2020 Business Outlook

Progress provides the following updated guidance for the fiscal year ending November 30, 2020 and the fiscal third quarter ending August 31, 2020:

	Prior FY 2020 Guidance (March 26, 2020)		Updated FY 2020 Guidance (June 25, 2020)	
	FY 2020 GAAP	FY 2020 Non-GAAP	FY 2020 GAAP	FY 2020 Non-GAAP
<i>(In millions, except percentages and per share amounts)</i>				
Revenue	\$420 - \$430	\$428 - \$438	\$425 - \$435	\$433 - \$443
Diluted earnings per share	\$1.73 - \$1.80	\$2.73 - \$2.80	\$1.81 - \$1.85	\$2.82 - \$2.86
Operating margin	27%	39%	27%	40%
Cash from operations (GAAP) / Adjusted free cash flow (Non-GAAP)	\$128 - \$138	\$125 - \$135	\$129 - \$139	\$125 - \$135
Effective tax rate	22%	21%	22%	21%

	Q3 2020 Guidance	
	Q3 2020 GAAP	Q3 2020 Non-GAAP
<i>(In millions, except per share amounts)</i>		
Revenue	\$103 - \$108	\$104 - \$109
Diluted earnings per share	\$0.47 - \$0.49	\$0.69 - \$0.71

The expected economic impact of the COVID-19 crisis on our current 2020 business outlook is a reduction of approximately \$10 to \$13 million on GAAP and non-GAAP revenue, and approximately \$0.06 to \$0.08 on GAAP and non-GAAP earnings per share.

Based on current exchange rates, the expected negative currency translation impact on Progress' fiscal year 2020 business outlook compared to 2019 exchange rates is approximately \$2.2 million on GAAP and non-GAAP revenue, and approximately \$0.02 on GAAP and non-GAAP diluted earnings per share. The expected negative currency translation impact on Progress' fiscal Q3 2020 business outlook compared to 2019 exchange rates on GAAP and non-GAAP revenue and earnings per share is not meaningful. To the extent that there are changes in exchange rates versus the current environment, this may have an impact on Progress' business outlook.

Conference Call

Progress will hold a conference call to review its financial results for the fiscal second quarter of 2020 at 5:00 p.m. ET on Thursday, June 25, 2020. The call can be accessed on the investor relations section of the company's website, located at www.progress.com. Additionally, you can listen to the call by telephone by dialing 1-800-458-4121, pass code 5687996. The conference call will include comments followed by questions and answers. An archived version of the conference call and supporting materials will be available on the Progress website within the investor relations section after the live conference call.

Legal Notice Regarding Non-GAAP Financial Information

Progress provides non-GAAP financial information as additional information for investors. These non-GAAP measures are not in accordance with, or an alternative to, generally accepted accounting principles in the United States ("GAAP"). Progress believes that the non-GAAP results described in this release are useful for an understanding of its ongoing operations and provide additional detail and an alternative method of assessing its operating results. A reconciliation of non-GAAP adjustments to the company's GAAP financial results is included in the tables below and is available on the Progress website at www.progress.com within the investor relations section. Additional information regarding the company's non-GAAP financial information is contained in the company's Current Report on Form 8-K furnished to the Securities and Exchange Commission in connection with this press release, which is also available on the Progress website within the investor relations section.

Note Regarding Forward-Looking Statements

This press release 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 press release include, but are not limited to, statements regarding Progress’ business outlook and financial guidance. 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:

(1) 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. (2) 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. (3) 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. (4) 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. (5) We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners. (6) 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. (7) 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. (8) We have made acquisitions, including our recent acquisition of Ipswitch, and may make acquisitions in the future, and those acquisitions may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations. (9) 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 Progress’ business, please refer to Progress’ filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended November 30, 2019. Progress undertakes no obligation to update any forward-looking statements, which speak only as of the date of this press release.

About Progress

[Progress](#) (NASDAQ: PRGS) offers the leading platform for developing and deploying strategic business applications. We enable customers and partners to deliver modern, high-impact digital experiences with a fraction of the effort, time and cost. Progress offers powerful tools for easily building adaptive user experiences across any type of device or touchpoint, the flexibility of a cloud-native app dev platform to deliver modern apps, leading data connectivity technology, web content management, business rules, secure file transfer, network monitoring, plus award-winning machine learning that enables cognitive capabilities to be a part of any application. Over 1,700 independent software vendors, 100,000 enterprise customers, and two million developers rely on Progress to power their applications. Learn about Progress at www.progress.com or +1-800-477-6473.

Progress and Progress Software are trademarks or registered trademarks of Progress Software Corporation and/or its subsidiaries or affiliates in the U.S. and other countries. Any other names contained herein may be trademarks of their respective owners.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	% Change	May 31, 2020	May 31, 2019	% Change
Revenue:						
Software licenses	\$ 19,663	\$ 29,728	(34)%	\$ 50,292	\$ 52,530	(4)%
Maintenance and services	80,720	70,267	15 %	159,774	137,014	17 %
Total revenue	100,383	99,995	— %	210,066	189,544	11 %
Costs of revenue:						
Cost of software licenses	810	925	(12)%	2,199	2,092	5 %
Cost of maintenance and services	11,785	10,580	11 %	23,636	20,019	18 %
Amortization of acquired intangibles	1,664	6,106	(73)%	3,310	11,539	(71)%
Total costs of revenue	14,259	17,611	(19)%	29,145	33,650	(13)%
Gross profit	86,124	82,384	5 %	180,921	155,894	16 %
Operating expenses:						
Sales and marketing	21,716	24,832	(13)%	45,914	47,155	(3)%
Product development	21,787	21,688	— %	43,441	41,578	4 %
General and administrative	12,440	12,654	(2)%	25,188	24,939	1 %
Amortization of acquired intangibles	4,177	4,585	(9)%	8,308	7,773	7 %
Restructuring expenses	695	2,777	(75)%	1,735	3,192	(46)%
Acquisition-related expenses	—	1,107	*	314	1,107	(72)%
Total operating expenses	60,815	67,643	(10)%	124,900	125,744	(1)%
Income from operations	25,309	14,741	72 %	56,021	30,150	86 %
Other expense, net	(2,847)	(2,317)	(23)%	(6,244)	(4,320)	(45)%
Income before income taxes	22,462	12,424	81 %	49,777	25,830	93 %
Provision for income taxes	5,494	4,243	29 %	11,693	8,247	42 %
Net income	\$ 16,968	\$ 8,181	107 %	\$ 38,084	\$ 17,583	117 %
Earnings per share:						
Basic	\$ 0.38	\$ 0.18	111 %	\$ 0.85	\$ 0.39	118 %
Diluted	\$ 0.37	\$ 0.18	106 %	\$ 0.84	\$ 0.39	115 %
Weighted average shares outstanding:						
Basic	44,889	44,611	1 %	44,893	44,784	— %
Diluted	45,267	45,287	— %	45,391	45,287	— %
Cash dividends declared per common share	\$ 0.165	\$ 0.155	6 %	\$ 0.330	\$ 0.310	6 %

*Not meaningful

Stock-based compensation is included in the condensed consolidated statements of operations, as follows:

Cost of revenue	\$ 338	\$ 250	35 %	\$ 657	\$ 494	33 %
Sales and marketing	1,110	1,190	(7)%	2,160	2,238	(3)%
Product development	1,899	1,936	(2)%	3,825	3,864	(1)%
General and administrative	2,276	2,740	(17)%	5,032	5,326	(6)%
Total	\$ 5,623	\$ 6,116	(8)%	\$ 11,674	\$ 11,922	(2)%

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(In thousands)</i>	May 31, 2020	November 30, 2019
Assets		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 203,645	\$ 173,685
Accounts receivable, net	54,527	72,820
Unbilled receivables and contract assets	12,540	10,880
Other current assets	20,686	27,280
Total current assets	<u>291,398</u>	<u>284,665</u>
Long-term unbilled receivables and contract assets	10,194	12,492
Property and equipment, net	27,693	29,765
Goodwill and intangible assets, net	519,643	532,216
Right-of-use lease assets	24,681	—
Other assets	21,993	22,133
Total assets	<u>\$ 895,602</u>	<u>\$ 881,271</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 50,525	\$ 72,674
Current portion of long-term debt, net	14,480	10,717
Short-term lease liability	6,618	—
Short-term deferred revenue	153,549	157,494
Total current liabilities	<u>225,172</u>	<u>240,885</u>
Long-term debt, net	276,762	284,002
Long-term lease liability	19,896	—
Long-term deferred revenue	19,741	19,752
Other long-term liabilities	14,070	6,350
Shareholders' equity:		
Common stock and additional paid-in capital	304,282	295,953
Retained earnings	35,679	34,329
Total shareholders' equity	<u>339,961</u>	<u>330,282</u>
Total liabilities and shareholders' equity	<u>\$ 895,602</u>	<u>\$ 881,271</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<i>(In thousands)</i>				
Cash flows from operating activities:				
Net income	\$ 16,968	\$ 8,181	\$ 38,084	\$ 17,583
Depreciation and amortization	7,572	12,852	15,241	23,338
Stock-based compensation	5,623	6,116	11,674	11,922
Other non-cash adjustments	2,309	(3,611)	7,656	(6,438)
Changes in operating assets and liabilities	5,485	17,136	(1,682)	18,713
Net cash flows from operating activities	37,957	40,674	70,973	65,118
Capital expenditures	(609)	(834)	(1,757)	(1,080)
Issuances of common stock, net of repurchases	3,063	2,409	(12,692)	(20,697)
Dividend payments to shareholders	(7,438)	(6,894)	(14,906)	(13,886)
Payments for acquisitions, net of cash acquired	—	(225,298)	—	(225,298)
Proceeds from the issuance of debt, net of payment of issuance costs	—	183,374	—	183,374
Proceeds from sale of property, plant and equipment, net	—	6,146	—	6,146
Payments of principal on long-term debt	(1,880)	—	(3,762)	(1,547)
Other	(4,503)	(4,482)	(7,896)	(3,090)
Net change in cash, cash equivalents and short-term investments	26,590	(4,905)	29,960	(10,960)
Cash, cash equivalents and short-term investments, beginning of period	177,055	133,458	173,685	139,513
Cash, cash equivalents and short-term investments, end of period	\$ 203,645	\$ 128,553	\$ 203,645	\$ 128,553

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - SECOND QUARTER
(Unaudited)

(In thousands, except per share data)	Three Months Ended				% Change Non-GAAP	
	May 31, 2020		May 31, 2019			
Adjusted revenue:						
GAAP revenue	\$	100,383		\$	99,995	
Acquisition-related revenue ⁽¹⁾		2,122			3,480	
Non-GAAP revenue	\$	102,505	100 %	\$	103,475	100 % (1)%
Adjusted income from operations:						
GAAP income from operations	\$	25,309	25 %	\$	14,741	15 %
Amortization of acquired intangibles		5,841	6 %		10,691	10 %
Restructuring expenses and other		695	1 %		2,753	3 %
Stock-based compensation		5,623	5 %		6,116	6 %
Acquisition-related revenue ⁽¹⁾ and expenses		2,122	2 %		4,587	4 %
Non-GAAP income from operations	\$	39,590	39 %	\$	38,888	38 % 2 %
Adjusted net income:						
GAAP net income	\$	16,968	17 %	\$	8,181	8 %
Amortization of acquired intangibles		5,841	6 %		10,691	10 %
Restructuring expenses and other		695	1 %		2,753	2 %
Stock-based compensation		5,623	5 %		6,116	6 %
Acquisition-related revenue ⁽¹⁾ and expenses		2,122	2 %		4,587	5 %
Provision for income taxes		(2,593)	(3)%		(2,911)	(3)%
Non-GAAP net income	\$	28,656	28 %	\$	29,417	28 % (3)%
Adjusted diluted earnings per share:						
GAAP diluted earnings per share	\$	0.37		\$	0.18	
Amortization of acquired intangibles		0.13			0.24	
Restructuring expenses and other		0.02			0.06	
Stock-based compensation		0.12			0.13	
Acquisition-related revenue ⁽¹⁾ and expenses		0.05			0.10	
Provision for income taxes		(0.06)			(0.06)	
Non-GAAP diluted earnings per share	\$	0.63		\$	0.65	(3)%
Non-GAAP weighted avg shares outstanding - diluted		45,267			45,287	— %

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - YEAR TO DATE
(Unaudited)

	Six Months Ended				% Change Non-GAAP
	May 31, 2020		May 31, 2019		
<i>(In thousands, except per share data)</i>					
Adjusted revenue:					
GAAP revenue	\$	210,066		\$	189,544
Acquisition-related revenue ⁽¹⁾		6,201			3,480
Non-GAAP revenue	\$	216,267	100 %	\$	193,024
					100 %
					12%
Adjusted income from operations:					
GAAP income from operations	\$	56,021	27 %	\$	30,150
Amortization of acquired intangibles		11,618	5 %		19,312
Restructuring expenses and other		1,735	— %		3,168
Stock-based compensation		11,674	5 %		11,922
Acquisition-related revenue ⁽¹⁾ and expenses		6,515	3 %		4,587
Non-GAAP income from operations	\$	87,563	40 %	\$	69,139
					36 %
					27%
Adjusted net income:					
GAAP net income	\$	38,084	18 %	\$	17,583
Amortization of acquired intangibles		11,618	6 %		19,312
Restructuring expenses and other		1,735	1 %		3,168
Stock-based compensation		11,674	5 %		11,922
Acquisition-related revenue ⁽¹⁾ and expenses		6,515	2 %		4,587
Provision for income taxes		(6,267)	(3)%		(4,395)
Non-GAAP net income	\$	63,359	29 %	\$	52,177
					27 %
					21%
Adjusted diluted earnings per share:					
GAAP diluted earnings per share	\$	0.84		\$	0.39
Amortization of acquired intangibles		0.26			0.43
Restructuring expenses and other		0.04			0.07
Stock-based compensation		0.26			0.26
Acquisition-related revenue ⁽¹⁾ and expenses		0.14			0.10
Provision for income taxes		(0.14)			(0.10)
Non-GAAP diluted earnings per share	\$	1.40		\$	1.15
					22%
Non-GAAP weighted avg shares outstanding - diluted					
		45,391			45,287
					—%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

OTHER NON-GAAP FINANCIAL MEASURES
(Unaudited)

Quarter to Date Adjusted Free Cash Flow

<i>(In thousands)</i>	Q2 2020	Q2 2019	% Change
Cash flows from operations	\$ 37,957	\$ 40,674	(7)%
Purchases of property and equipment	(609)	(834)	(27)%
Free cash flow	37,348	39,840	(6)%
Add back: restructuring payments	1,051	598	76 %
Adjusted free cash flow	<u>\$ 38,399</u>	<u>\$ 40,438</u>	<u>(5)%</u>

Year to Date Adjusted Free Cash Flow

<i>(In thousands)</i>	YTD 2020	YTD Q2 2019	% Change
Cash flows from operations	\$ 70,973	\$ 65,118	9%
Purchases of property and equipment	(1,757)	(1,080)	63%
Free cash flow	69,216	64,038	8%
Add back: restructuring payments	2,480	757	228%
Adjusted free cash flow	<u>\$ 71,696</u>	<u>\$ 64,795</u>	<u>11%</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2020 GUIDANCE
(Unaudited)

Fiscal Year 2020 Updated Revenue Guidance

	Fiscal Year Ended		Fiscal Year Ending				
	November 30, 2019		November 30, 2020				
(In millions)			Low	% Change	High	% Change	
GAAP revenue	\$	413.3	\$	424.7	\$	434.7	5 %
Acquisition-related adjustments - revenue ⁽¹⁾		18.7		8.3		8.3	(56)%
Non-GAAP revenue	\$	432.0	\$	433.0	\$	443.0	3 %

⁽¹⁾Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswich.

Fiscal Year 2020 Updated Non-GAAP Operating Margin Guidance

	Fiscal Year Ending November 30, 2020			
	Low		High	
GAAP income from operations	\$	116.6	\$	118.8
GAAP operating margins		27%		27%
Acquisition-related revenue		8.3		8.3
Acquisition-related expense		0.3		0.3
Restructuring expense		1.7		1.7
Stock-based compensation		22.9		22.9
Amortization of acquired intangibles		23.2		23.2
Total adjustments		56.4		56.4
Non-GAAP income from operations	\$	173.0	\$	175.2
Non-GAAP operating margin		40%		40%

Fiscal Year 2020 Updated Non-GAAP Earnings per Share and Effective Tax Rate Guidance

	Fiscal Year Ending November 30, 2020			
	Low		High	
GAAP net income	\$	82.1	\$	83.9
Adjustments (from previous table)		56.4		56.4
Income tax adjustment ⁽²⁾		(10.8)		(10.8)
Non-GAAP net income	\$	127.7	\$	129.5
GAAP diluted earnings per share	\$	1.81	\$	1.85
Non-GAAP diluted earnings per share	\$	2.82	\$	2.86
Diluted weighted average shares outstanding		45.3		45.3

⁽²⁾Tax adjustment is based on a non-GAAP effective tax rate of approximately 21% for Low and High, calculated as follows:

Non-GAAP income from operations	\$	173.0	\$	175.2
Other (expense) income		(11.3)		(11.3)
Non-GAAP income from continuing operations before income taxes		161.7		163.9
Non-GAAP net income		127.7		129.5
Tax provision	\$	34.0	\$	34.4
Non-GAAP tax rate		21%		21%

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2020 GUIDANCE
(Unaudited)

Fiscal Year 2020 Adjusted Free Cash Flow Guidance

<i>(In millions)</i>	Fiscal Year Ending November 30, 2020	
	Low	High
Cash flows from operations (GAAP)	\$ 129	\$ 139
Purchases of property and equipment	(7)	(7)
Add back: restructuring payments	3	3
Adjusted free cash flow (non-GAAP)	\$ 125	\$ 135

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q3 2020 GUIDANCE
(Unaudited)

Q3 2020 Revenue Guidance

	Three Months Ended		Three Months Ending					
	August 31, 2019		August 31, 2020					
			Low	% Change	High	% Change		
<i>(In millions)</i>								
GAAP revenue	\$	106.7	\$	102.8	(4)%	\$	107.8	1 %
Acquisition-related adjustments - revenue ⁽¹⁾		8.8		1.2	(86)%		1.2	(86)%
Non-GAAP revenue	\$	115.5	\$	104.0	(10)%	\$	109.0	(6)%

⁽¹⁾Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

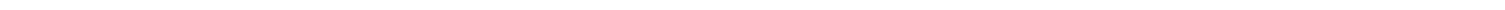
Q3 2020 Non-GAAP Earnings per Share Guidance

	Three Months Ending August 31, 2020			
	Low		High	
GAAP diluted earnings per share	\$	0.47	\$	0.49
Acquisition-related revenue		0.03		0.03
Stock-based compensation		0.12		0.12
Amortization of acquired intangibles		0.13		0.13
Total adjustments		0.28		0.28
Income tax adjustment		(0.06)		(0.06)
Non-GAAP diluted earnings per share	\$	0.69	\$	0.71



Progress Financial Results

Q2 2020 Supplemental Data



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.
- We have made acquisitions, including our recent acquisition of Ipswitch, and may make acquisitions in the future, and those acquisitions 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 August 31, 2020 and fiscal year ended November 30, 2020, which speak only as of June 25, 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 May 31, 2020 and is available in the Investor Relations section of our Web site.



Conference Call Details

What:	Progress Q2 2020 Financial Results Conference Call
When:	Thursday, June 25 th , 2020
Time:	5:00 p.m. ET
Live Call:	1-800-458-4121, pass code 5687996
Live / Recorded Webcast:	http://investors.progress.com



Summary Highlights

- Delivered strong financial results
 - Revenue above high end of guidance, EPS near high-end and strong cash flows
 - Increased full year guidance for revenue and EPS
- Successfully navigating economic challenges resulting from COVID-19
 - Entire global work force working from home for over 3 months without missing a beat
 - Recurring revenue and customer retention not materially impacted
 - Velocity of product releases uninterrupted; OpenEdge 12.2, MOVEit 2020 and DevTools prod
 - Actively growing M&A pipeline despite uncertainty
- Hired Jeremy Segal as SVP of Corporate Development
- Committed to donating to causes that fight racial inequality

M&A Framework

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

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 margin
 - ROIC above our weighted average cost of capital

Progress Investment Highlights



Durable, predictable financial model



High quality revenue base and highly recurring revenue model



Accretive M&A and operational efficiencies driving margin improvement



Track record of successful acquisition integration and synergy achievement



Delivering meaningful earnings per share and free cash flow growth



Disciplined capital allocation strategy

Summary Q2 2020 Financial Results

	Q2 2020 Outlook (3/26/2020)	Q2 2020 Results
GAAP Revenue	\$93 M - \$99 M	\$100.4 M (+0% YoY)
Non-GAAP Revenue	\$95 M - \$101 M	\$102.5 M (-1% YoY)
GAAP earnings per share (Diluted)	\$0.36 - \$0.40	\$0.37 (+106%)
Non-GAAP earnings per share (Diluted)	\$0.60 - \$0.64	\$0.63 (-3%)
GAAP Operating Margin	Not guided	25% (+1,000 Bps YoY)
Non-GAAP Operating Margin	Not guided	39% (+100 Bps YoY)
Adjusted Free Cash Flow	Not guided	\$38 M (-5% YoY)



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Recurring Revenue Contributing to Stability



Mission critical nature of the application power

+

Net revenue retention rate on maintenance well over 90%

=

High percentage of recurring revenue durability during uncertain times

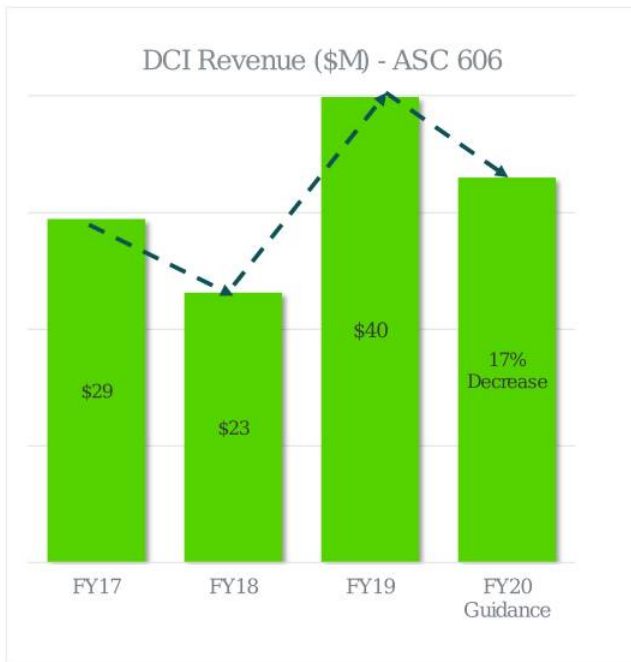
Recurring Revenue includes: Maintenance Revenue, Revenue derived from hosted/SaaS solutions and subscription revenue derived from subscription or term license arrangements

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



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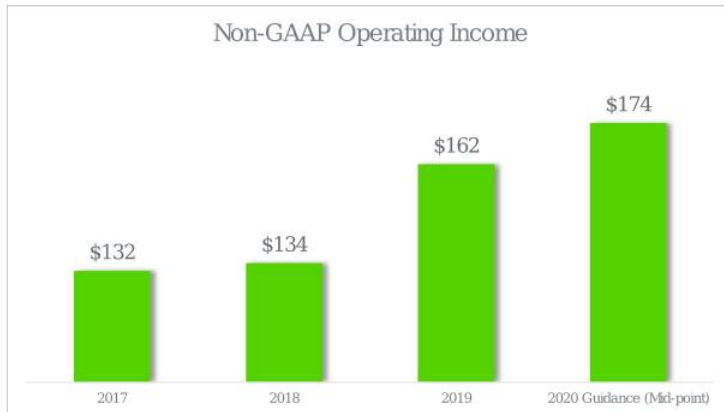
DCI Revenue vs. ACV the impact of ASC 606



- Variability in revenue caused by year term li contracts
- Annual Contract Value show consistent performanc

Driving Operating Leverage

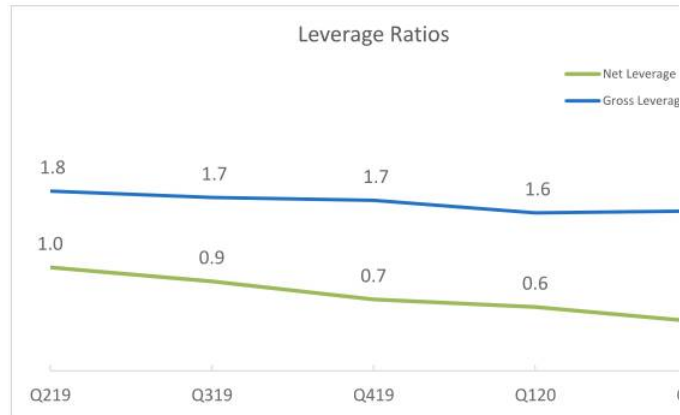
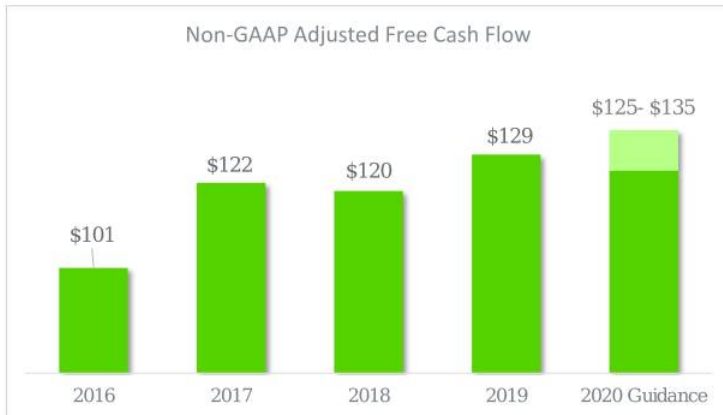
(% of non-GAAP revenue)



Focus on cost management and running a lean, profitable business

Integrating acquisitions into our operating model drives more scale in operating margin (Ipswitch in May 2019)

Strong Liquidity/Debt Capacity



Strong free cash flow and low leverage ratios allow for greater financing flexibility

Capital Allocation



- Continue to return capital to shareholders in the form of dividends

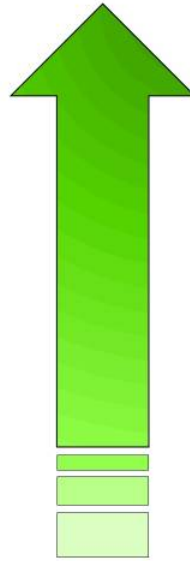


- Accretive M&A that meets our disciplined criteria

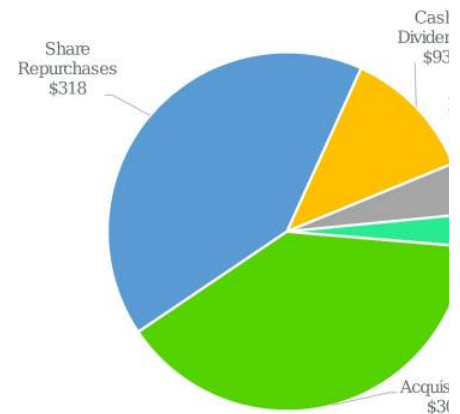


- Repurchase shares to offset dilution from our equity programs
 - Existing authorization \$250M; \$230M remaining
 - Flexibility to increase, reduce or suspend repurchases, depending on market conditions and size and timing of M&A

Primary focus



Capital Allocation 2016 – 2020



Share repurchase authorization

- Current total: \$250M
- Remaining: \$230M

Business Outlook (as of June 25, 2020)

	Q3 2020 Outlook (6/25/2020)		FY 2020 Prior Outlook (3/26/2020)	FY 2020 Current Outlook (6/25/2020)
Non-GAAP Revenue	\$104 M - \$109 M		\$428 M - \$438 M	\$433 M - \$443 M ▲
Non-GAAP EPS	\$0.69 - \$0.71		\$2.73 - \$2.80	\$2.82 - \$2.86 ▲
Non-GAAP Operating Margin	Not guided		39%	40% ▲
Non-GAAP Adjusted Free Cash Flow	Not guided		\$125 M - \$135 M	\$125 M - \$135 M
Non-GAAP Effective Tax Rate	Not guided		21%	21%



Supplemental Financial Information

Results of Operations by Segment

(Unaudited)

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	% Change	May 31, 2020	May 31, 2019	% Change
Segment revenue:						
OpenEdge	77,735	67,820	15%	154,814	133,072	16%
Data Connectivity and Intergration	3,662	12,932	(72%)	17,347	18,932	(8%)
Application Development and Deployment	18,986	19,243	(1%)	37,905	37,540	1%
Total revenue	100,383	99,995	0%	210,066	189,544	11%
Segment costs of revenue and operating expenses:						
OpenEdge	17,876	19,097	(6%)	37,626	37,412	1%
Data Connectivity and Integration	1,629	1,806	(10%)	4,309	3,306	30%
Application Development and Deployment	6,986	5,547	26%	14,274	10,974	30%
Total costs of revenue and operating expense	26,491	26,450	0%	56,209	51,692	9%
Segment contribution:						
OpenEdge	59,859	48,723	23%	117,188	95,660	23%
Data Connectivity and Intergration	2,033	11,126	(82%)	13,038	15,626	(17%)
Application Development and Deployment	12,000	13,696	(12%)	23,631	26,566	(11%)
Total contribution	73,892	73,545	0%	153,857	137,852	12%
Other unallocated expenses	48,583	58,804	(17%)	97,836	107,702	(9%)
Income from operations	25,309	14,741	72%	56,021	30,150	86%
Other (expense) income, net	(2,847)	(2,317)	(23%)	(6,244)	(4,320)	(45%)
Income before provision for income taxes	22,462	12,424	81%	49,777	25,830	93%

⁽¹⁾The following expenses are not allocated to our segments as we manage and report our business in these functional areas on a consolidated basis only: certain product development and corporate sales and marketing expenses, customer support, administration, amortization of acquired intangibles, stock-based compensation, restructuring, and acquisition-related expenses.



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Supplemental Revenue Information

(Unaudited)

(in thousands)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenue by Type						
License	22,802	29,728	30,686	39,336	30,629	19,663
Maintenance	59,999	62,528	67,611	68,868	70,056	71,686
Services	6,748	7,739	8,419	8,834	8,998	9,034
Total Revenue	<u>\$ 89,549</u>	<u>\$ 99,995</u>	<u>\$ 106,716</u>	<u>\$ 117,038</u>	<u>\$ 109,683</u>	<u>\$ 100,383</u>
Revenue by Region						
North America	46,498	57,060	60,208	70,145	65,413	56,564
EMEA	33,372	33,633	35,109	35,187	34,988	34,157
Latin America	4,461	4,108	5,470	5,626	4,000	3,346
Asia Pacific	5,218	5,194	5,929	6,080	5,282	6,316
Total Revenue	<u>\$ 89,549</u>	<u>\$ 99,995</u>	<u>\$ 106,716</u>	<u>\$ 117,038</u>	<u>\$ 109,683</u>	<u>\$ 100,383</u>
Revenue by Segment						
OpenEdge	65,252	67,820	78,607	85,250	77,079	77,735
Data Connectivity and Integration	6,000	12,932	8,754	12,217	13,685	3,662
Application Development and Deployment	18,297	19,243	19,355	19,571	18,919	18,986
Total Revenue	<u>\$ 89,549</u>	<u>\$ 99,995</u>	<u>\$ 106,716</u>	<u>\$ 117,038</u>	<u>\$ 109,683</u>	<u>\$ 100,383</u>



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Other NON-GAAP Financial Measures

(Unaudited)

(in thousands)	Q2 2020	Non-GAAP Adjustment	Non-GAAP Revenue
Revenue by Type			
License	19,663	33	19,696
Maintenance	71,686	1,960	73,646
Services	9,034	129	9,163
Total Revenue	<u>\$ 100,383</u>	<u>\$ 2,122</u>	<u>\$ 102,505</u>
Revenue by Region			
North America	56,564	1,491	58,055
EMEA	34,157	432	34,589
Latin America	3,346	32	3,378
Asia Pacific	6,316	167	6,483
Total Revenue	<u>\$ 100,383</u>	<u>\$ 2,122</u>	<u>\$ 102,505</u>
Revenue by Segment			
OpenEdge	77,735	2,122	79,857
Data Connectivity and Integration	3,662	-	3,662
Application Development and Deployment	18,986	-	18,986
Total Revenue	<u>\$ 100,383</u>	<u>\$ 2,122</u>	<u>\$ 102,505</u>



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Other NON-GAAP Financial Measures

(Unaudited)

(in thousands)	YTD GAAP Basis Q2 2020	YTD Non-GAAP Adjustment	YTD Non-GAAP Q2 2020
Revenue by Type			
License	50,292	87	50,379
Maintenance	141,742	5,783	147,525
Services	18,032	331	18,363
Total Revenue	\$ 210,066	\$ 6,201	\$ 216,267
Revenue by Region			
North America	121,977	4,493	126,470
EMEA	69,145	1,173	70,318
Latin America	7,346	98	7,444
Asia Pacific	11,598	437	12,035
Total Revenue	\$ 210,066	\$ 6,201	\$ 216,267
Revenue by Segment			
OpenEdge	154,814	6,201	161,015
Data Connectivity and Integration	17,347	-	17,347
Application Development and Deployment	37,905	-	37,905
Total Revenue	\$ 210,066	\$ 6,201	\$ 216,267



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