

PTC Inc.

1QF24: Beat and maintain – a solid, non-event quarter

Reiterate Rating: BUY | PO: 200.00 USD | Price: 180.65 USD

Beat and maintain for constant currency ARR

PTC reported 1QF24 annual recurring revenue (ARR) on constant currency (c.c.) of +23.2% y/y. This compares to BofAe +22.8% y/y and consensus of +23.1% y/y. Excluding ServiceMax, growth was 13%. ARR on c.c. \$2,016 came in above guidance for \$1,995mn-\$2,010mn. The company maintained FY24 ARR on c.c. guidance at +11-14% y/y, which compares to our +13.0% y/y estimate and consensus at 12.6% y/y. 2Q ARR c.c. guidance of \$2,050-2,065mn implies +10.8-11.6% y/y growth and compares to prior consensus of \$2,065mn. We are maintaining our FY24 ARR on c.c. estimate and raise our 2Q estimate to +11.4% y/y, towards the high end of guide. The company is not seeing a drag from weakness in China, consistent with commentary last quarter. We adjust our EPS estimates to account for below-the-line items and adjust ARR conversion to revenue in '25/'26. We reiterate our Buy rating and raise our price objective to \$200 from \$175, 11% upside to the current share price. Our new price objective is based on 24x 2025E EV/EBITDA (vs 20x prior to reflect visibility into accelerating ARR growth in '25/'26), at a premium to the peer group trading at 22x 2024E.

Confidence in free cash flow targets

PTC is confident in hitting its free cash flow targets, consistent with our management meetings in November. We raise our 2025E free cash flow to \$850mn, at the midpoint of the company's \$825-\$875mn guide (given during 4QF23 earnings). Our FY25/FY26 targets reflect the company's framework for mid-teens ARR growth.

Broad-based growth across geographies

On a constant currency, organic basis, ARR grew +12% y/y in Americas (versus 12% last quarter), 16% in Europe (versus 13% last quarter), and +10% in Asia Pac (versus 12% last quarter). CAD grew +10% on c.c. (versus 10% last quarter). Ex-ServiceMax, PLM grew +14% y/y on organic constant currency (vs. 15% last quarter). The company continues to be excited about ServiceMax and Codebeamer performance. ServiceMax cross-sell and integration is going well.

1QF24 adj. EPS is above consensus

1QF24 adj. EPS of \$1.11 was above \$0.98 BofAe and consensus. Relative to our estimates, core operations were \$0.14 above. Higher interest expense was a (\$0.02) drag. Taxes and other expense were in line with our estimate. Free cash flow came in at \$183mn, which was above consensus of \$180mn.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.58	4.34	4.86	5.76	7.04
GAAP EPS	2.65	2.05	2.85	3.24	4.48
EPS Change (YoY)	15.4%	-5.2%	12.0%	18.5%	22.2%
Consensus EPS (Bloomberg)			4.87	6.11	7.26
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	39.4x	41.6x	37.2x	31.4x	25.7x
GAAP P/E	68.2x	88.1x	63.4x	55.8x	40.3x
EV / EBITDA*	30.6x	28.3x	26.0x	22.9x	19.8x
Free Cash Flow Yield*	1.9%	2.7%	3.3%	3.9%	4.6%

* For full definitions of *IQmethod*SM measures, see page 6.

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	175.00	200.00

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Stock Data

Price	180.65 USD
Price Objective	200.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-1-9
52-Week Range	115.45 USD - 185.08 USD
Mrkt Val (mn) / Shares Out (mn)	21,576 USD / 119.4
Free Float	93.9%
Average Daily Value (mn)	138.97 USD
BofA Ticker / Exchange	PTC / NAS
Bloomberg / Reuters	PTC US / PTC.OQ
ROE (2024E)	19.7%
Net Dbt to Eqty (Sep-2023A)	52.6%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Timestamp: 01 February 2024 05:00AM EST

iQprofileSM PTC Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.2%	14.6%	14.1%	15.5%	18.7%
Return on Equity	25.0%	20.8%	19.7%	20.5%	23.0%
Operating Margin	37.9%	36.2%	37.4%	37.5%	38.5%
Free Cash Flow	416	587	718	850	988

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.2x	1.3x	1.3x	1.2x
Asset Replacement Ratio	0.2x	0.2x	0.2x	0.2x	0.3x
Tax Rate	20.4%	18.3%	20.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	47.0%	52.6%	43.2%	26.3%	9.8%
Interest Cover	14.2x	6.1x	6.4x	8.1x	12.4x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,933	2,097	2,316	2,618	2,962
% Change	7.0%	8.5%	10.4%	13.1%	13.1%
Gross Profit	1,596	1,713	1,894	2,149	2,434
% Change	7.4%	7.3%	10.6%	13.5%	13.2%
EBITDA	758	820	895	1,013	1,171
% Change	14.8%	8.2%	9.1%	13.2%	15.6%
Net Interest & Other Income	(52)	(125)	(135)	(121)	(92)
Net Income (Adjusted)	541	518	584	689	838
% Change	15.2%	-4.4%	12.8%	18.0%	21.6%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	313	245	342	388	533
Depreciation & Amortization	88	137	112	107	102
Change in Working Capital	(215)	9	68	154	145
Deferred Taxation Charge	43	0	0	0	0
Other Adjustments, Net	207	220	216	224	234
Capital Expenditure	(19)	(24)	(20)	(24)	(26)
Free Cash Flow	416	587	718	850	988
% Change	20.8%	41.2%	22.2%	18.5%	16.2%
Share / Issue Repurchase	(173)	(61)	4	(367)	(445)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(91)	330	0	(500)	(500)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	272	288	296	279	323
Trade Receivables	637	811	864	902	980
Other Current Assets	160	178	187	201	216
Property, Plant & Equipment	98	88	81	68	56
Other Non-Current Assets	3,521	4,923	5,564	5,516	5,470
Total Assets	4,687	6,289	6,993	6,967	7,044
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	792	1,662	1,797	2,013	2,258
Long-Term Debt	1,351	1,696	1,696	1,196	696
Other Non-Current Liabilities	248	254	261	272	284
Total Liabilities	2,391	3,612	3,753	3,482	3,237
Total Equity	2,296	2,677	3,239	3,485	3,807
Total Equity & Liabilities	4,687	6,289	6,993	6,967	7,044

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Information Processing

Company Description

PTC was founded in 1985 and went public in 1989 as a CAD company servicing industrial/manufacturing sectors. It later transformed into CAD/PLM company. In 2015, it launched a subscription transition program and is also transforming itself to become relevant in Industrial IoT era. Since 2011, PTC has acquired 12 companies, with five related to IoT (internet of things) and has \$150mn in IoT revenues in FY19. As of now, the company has 6,000 employees and is currently headquartered in Boston, MA.

Investment Rationale

PTC is a leader in the transition to SaaS in industrial software. We think the emerging theme of reshoring US manufacturing will benefit the company, with strong growth outlook for the PLM market. We see PTC's growth platforms and recurring software model driving double-digit revenue, earnings, and FCF growth through 2023. For these reasons, we see opportunity for multiple expansion above peers.

Stock Data

Average Daily Volume 769,263

Quarterly Earnings Estimates

	2023	2024
Q1	0.99A	1.11E
Q2	1.16A	1.21E
Q3	0.99A	1.23E
Q4	1.20A	1.31E

4Q23 review

On a constant currency, organic basis, ARR grew +12% y/y in Americas (versus 12% last quarter), 16% in Europe (versus 13% last quarter), and +10% in Asia Pac (versus 12% last quarter). CAD grew +10% on c.c. (versus 10% last quarter). Ex-ServiceMax, PLM grew +14% y/y on organic constant currency (vs. 15% last quarter).

Exhibit 1: Actual versus variance

Adj. EPS of \$1.11 comes in above BofAe \$0.98

	Actual	Reported		BofA Estimate		Variation Versus BofA Est.		
(in US\$ mn, except per share data)	1Q:23A	1Q:24A	YOY % Chg.	1Q:24E	YOY % Chg.	Dollar	Percentage	EPS
Product Sales								
Total recurrent revenues	417	506	21%	493	18%	13	3%	
Perpetual license	13	8	-36%	8	-42%	1	9%	
Total software	430	514	20%	501	16%	13	3%	
Professional services	36	36	1%	34	-5%	2	6%	
Total	466	550	18%	535	15%	15	3%	
Gross Profit (adjusted)	380	455	20%	424	12%	31	7%	\$0.20
Operating Income (adjusted)	166	199	20%	178	7%	22	12%	\$0.14
Gross Margin	81.6%	82.7%	100 bp	82.1%	40 bp	60 bp	-	
Operating Margin (adjusted)	35.6%	36.2%	60 bp	36.3%	70 bp	(10 bp)	-	
Net Sales	466	550	18%	535	15%	15	3%	
COGS	86	95	11%	111	29%	(15)	-14%	
Gross Profit	380	455	20%	424	12%	31	7%	\$0.20
Sales and marketing	106	121	14%	119	12%	2		\$(0.01)
Research and development	77	92	19%	91	18%	1		\$(0.01)
General and administrative	31	43	37%	36	16%	7	19%	\$(0.05)
Operating Income (adjusted)	166	199	20%	178	7%	22	12%	\$0.14
Interest expense / (income)	18	33	84%	30	67%	3	10%	\$(0.02)
Other Expense	-	-	NM	-	NM	-	NM	\$0.00
EBT	148	166	12%	148	0%	18	12%	\$0.12
Taxes	30	33	10%	30	-2%	4	12%	
Tax Rate	20.3%	20.0%	(30 bp)	20.0%	(30 bp)	(0)	0%	\$0.00
Net Income (Continuing Operations)	118	133	13%	118	0%	15	12%	\$0.12
FULLY DILUTED EPS	\$0.99	\$1.11	11%	\$0.98	-1%	\$0.13	12%	\$(0.02)
Diluted Shares Outstanding	119	120	1%	120	1%	(0)		\$0.00
	Actual	Reported		Reported		Variation (bp)		
Margin Analysis	1Q:23A	1Q:24A		4Q:23A		BofA Est.	1Q:23A	
COGS	18.4%	17.3%		17.9%		60 bp	(100 bp)	
Gross Margin	81.6%	82.7%		82.1%		(60 bp)	100 bp	
Sales and marketing	22.8%	22.0%		23.9%		200 bp	(80 bp)	
Research and development	16.5%	16.6%		15.1%		(150 bp)	20 bp	
General and administrative	6.7%	7.8%		6.7%		(120 bp)	110 bp	
Operating Margin	35.6%	36.2%		36.3%		10 bp	60 bp	
EBT Margin	31.8%	30.2%		31.4%		120 bp	(160 bp)	
Net Margin	25.3%	24.2%		24.9%		70 bp	(110 bp)	
Incremental Operating Margin	109.6%	39.5%		-15.4%		(5490 bp)	(7000 bp)	

Source: BofA Global Research, company files

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Valuation

Our PO of \$200 is based on 24x CY25E EV/EBITDA. This is at a premium to industrial software peers at 22x on CY24E, warranted by visibility into accelerating ARR growth in '25/'26.

Exhibit 2: PTC valuation versus comparables

Our PO of \$200 is based on 24x our 2025E EV/EBITDA

Company	Ticker	Stock Price 1/31/2024	P/E		EV/Sales		EV/EBITDA		EBITDA Margin		Revenue Growth		P/FCF	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
ANSYS	ANSS	\$327.83	34.3 x	31.2 x	11.5 x	10.6 x	25.9 x	23.8 x	44.6%	44.5%	9.9%	9.1%	37.4 x	32.2 x
Aspen Technologies	AZPN	\$191.99	26.6 x	22.7 x	10.0 x	8.8 x	18.7 x	19.6 x	52.9%	44.7%	12.7%	13.3%	31.4 x	31.5 x
Autodesk	ADSK	\$253.81	30.5 x	NM	9.3 x	8.2 x	23.6 x	20.6 x	39.1%	39.6%	12.0%	13.1%	33.6 x	25.7 x
Cadence	CDNS	\$288.46	48.6 x	42.3 x	17.1 x	15.0 x	37.5 x	32.6 x	45.4%	46.1%	12.4%	12.1%	54.3 x	46.0 x
Hexagon	HXGBF	€ 10.65	24.9 x	21.5 x	5.7 x	5.3 x	15.3 x	13.7 x	37.0%	38.5%	3.4%	7.4%	31.2 x	25.7 x
Oracle	ORCL	\$111.70	<u>18.7 x</u>	<u>42.8 x</u>	<u>6.5 x</u>	<u>6.1 x</u>	<u>12.2 x</u>	<u>11.2 x</u>	<u>54.1%</u>	<u>54.3%</u>	<u>7.4%</u>	<u>8.3%</u>	<u>25.8 x</u>	<u>22.3 x</u>
AVERAGE			30.6 x	32.1 x	10.0 x	9.0 x	22.2 x	20.2 x	45.5%	44.6%	9.6%	10.6%	35.6 x	30.6 x
PTC, Inc.	PTC	\$180.65	35.5 x	29.7 x	9.6 x	8.5 x	25.0 x	21.9 x	38.7%	38.9%	11.1%	13.1%	28.9 x	24.4 x
PTC, Inc. @ PO	PTC	\$200.00	39.4 x	32.9 x	10.6 x	9.4 x	27.5 x	24.1 x					32.0 x	27.0 x

Source: BofA Global Research, company files

BofA GLOBAL RESEARCH

Price objective basis & risk

PTC Inc. (PTC)

Our PO of \$200 is based on 24x CY25E EV/EBITDA. This is at a premium to industrial software peers at 22x on CY24E, warranted by visibility into accelerating ARR growth in '25/'26.

Downside risks to our PO: Macro worsens, sticky product and significant competition in core PLM market limits market share gains, declines in discrete manufacturing activity, IoT and Augmented Reality new bookings slow down to below market growth, elevated leverage post OnShape and Arena acquisitions, acquisition integration risks.

Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Disclosures

Important Disclosures

PTC (PTC) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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