

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2022
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission File Number: 0-20853

ANSYS, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

2600 ANSYS Drive, Canonsburg, PA
(Address of Principal Executive Offices)

04-3219960

(I.R.S. Employer Identification No.)

15317

(Zip Code)

844-462-6797

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, \$0.01 par value per share	ANSS	Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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.

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the Registrant's Common Stock, \$0.01 par value per share, outstanding as of October 28, 2022 was 87,112,235 shares.

ANSYS, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements:

ANSYS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

<i>(in thousands, except share and per share data)</i>	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 632,509	\$ 667,667
Short-term investments	194	361
Accounts receivable, less allowance for doubtful accounts of \$14,600	602,607	645,891
Other receivables and current assets	214,566	324,655
Total current assets	1,449,876	1,638,574
Long-term assets:		
Property and equipment, net	77,748	87,914
Operating lease right-of-use assets	123,511	120,881
Goodwill	3,532,459	3,409,271
Other intangible assets, net	739,202	763,119
Other long-term assets	214,648	279,676
Deferred income taxes	24,196	24,879
Total long-term assets	4,711,764	4,685,740
Total assets	\$ 6,161,640	\$ 6,324,314
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,353	\$ 10,863
Accrued bonuses and commissions	80,282	163,182
Accrued income taxes	16,461	8,410
Other accrued expenses and liabilities	160,693	204,509
Deferred revenue	334,901	391,528
Total current liabilities	609,690	778,492
Long-term liabilities:		
Deferred income taxes	48,357	105,548
Long-term operating lease liabilities	109,706	104,378
Long-term debt	753,495	753,576
Other long-term liabilities	96,707	98,272
Total long-term liabilities	1,008,265	1,061,774
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 2,000,000 shares authorized; zero shares issued or outstanding	—	—
Common stock, \$0.01 par value; 300,000,000 shares authorized; 95,267,307 shares issued	953	953
Additional paid-in capital	1,500,330	1,465,694
Retained earnings	4,524,983	4,259,220
Treasury stock, at cost: 8,178,940 and 8,188,331 shares, respectively	(1,294,098)	(1,185,707)
Accumulated other comprehensive loss	(188,483)	(56,112)
Total stockholders' equity	4,543,685	4,484,048
Total liabilities and stockholders' equity	\$ 6,161,640	\$ 6,324,314

The accompanying notes are an integral part of the condensed consolidated financial statements.

ANSYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<i>(in thousands, except per share data)</i>				
Revenue:				
Software licenses	\$ 208,906	\$ 200,394	\$ 575,332	\$ 547,820
Maintenance and service	263,605	240,774	796,106	703,228
Total revenue	472,511	441,168	1,371,438	1,251,048
Cost of sales:				
Software licenses	8,425	8,289	25,370	23,960
Amortization	17,281	15,189	51,947	45,163
Maintenance and service	36,261	39,268	111,897	119,884
Total cost of sales	61,967	62,746	189,214	189,007
Gross profit	410,544	378,422	1,182,224	1,062,041
Operating expenses:				
Selling, general and administrative	175,283	165,368	515,421	471,993
Research and development	108,056	102,023	322,271	303,381
Amortization	3,821	3,403	11,975	12,244
Total operating expenses	287,160	270,794	849,667	787,618
Operating income	123,384	107,628	332,557	274,423
Interest income	1,345	541	2,141	1,544
Interest expense	(6,092)	(2,943)	(13,668)	(9,594)
Other (expense) income, net	(656)	(1,328)	(2,126)	14,008
Income before income tax provision	117,981	103,898	318,904	280,381
Income tax provision	22,006	18,556	53,141	28,925
Net income	\$ 95,975	\$ 85,342	\$ 265,763	\$ 251,456
Earnings per share – basic:				
Earnings per share	\$ 1.10	\$ 0.98	\$ 3.05	\$ 2.89
Weighted average shares	87,063	87,239	87,062	87,072
Earnings per share – diluted:				
Earnings per share	\$ 1.10	\$ 0.97	\$ 3.04	\$ 2.86
Weighted average shares	87,418	88,169	87,496	88,069

The accompanying notes are an integral part of the condensed consolidated financial statements.

ANSYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<i>(in thousands)</i>				
Net income	\$ 95,975	\$ 85,342	\$ 265,763	\$ 251,456
Other comprehensive loss:				
Foreign currency translation adjustments	(61,636)	(16,304)	(132,371)	(31,351)
Comprehensive income	<u>\$ 34,339</u>	<u>\$ 69,038</u>	<u>\$ 133,392</u>	<u>\$ 220,105</u>

The accompanying notes are an integral part of the condensed consolidated financial statements.

ANSYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30, 2022	September 30, 2021
<i>(in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 265,763	\$ 251,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and intangible assets amortization	86,239	80,500
Operating lease right-of-use assets expense	17,356	16,896
Deferred income tax benefit	(63,560)	(22,459)
Provision for bad debts	2,476	827
Stock-based compensation expense	122,119	122,148
Gain on equity investment	—	(15,139)
Other	4,986	1,940
Changes in operating assets and liabilities:		
Accounts receivable	66,369	86,098
Other receivables and current assets	96,641	57,992
Other long-term assets	(3,121)	(2,548)
Accounts payable, accrued expenses and current liabilities	(111,039)	(58,520)
Accrued income taxes	9,751	(18,997)
Deferred revenue	(28,203)	(46,467)
Other long-term liabilities	(8,746)	(5,898)
Net cash provided by operating activities	457,031	447,829
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(242,613)	(105,141)
Capital expenditures	(15,227)	(18,133)
Other investing activities	(782)	(382)
Net cash used in investing activities	(258,622)	(123,656)
Cash flows from financing activities:		
Principal payments on long-term debt	—	(45,000)
Purchase of treasury stock	(155,571)	(35,993)
Restricted stock withholding taxes paid in lieu of issued shares	(62,035)	(92,143)
Proceeds from shares issued for stock-based compensation	20,918	26,321
Other financing activities	(1,290)	(50)
Net cash used in financing activities	(197,978)	(146,865)
Effect of exchange rate fluctuations on cash and cash equivalents	(35,589)	(9,142)
Net (decrease) increase in cash and cash equivalents	(35,158)	168,166
Cash and cash equivalents, beginning of period	667,667	912,672
Cash and cash equivalents, end of period	\$ 632,509	\$ 1,080,838
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 42,055	\$ 59,973
Interest paid	\$ 12,192	\$ 8,721
Fair value of unpaid consideration in connection with acquisitions	\$ 3,391	\$ —

The accompanying notes are an integral part of the condensed consolidated financial statements.

ANSYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

<i>(in thousands)</i>	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance, January 1, 2022	95,267	\$ 953	\$ 1,465,694	\$ 4,259,220	8,188	\$ (1,185,707)	\$ (56,112)	\$ 4,484,048
Treasury shares acquired					500	(155,571)		(155,571)
Stock-based compensation activity			(50,287)		(403)	36,865		(13,422)
Other comprehensive loss							(22,092)	(22,092)
Net income				70,988				70,988
Balance, March 31, 2022	95,267	\$ 953	\$ 1,415,407	\$ 4,330,208	8,285	\$ (1,304,413)	\$ (78,204)	\$ 4,363,951
Acquisition of Analytical Graphics, Inc.			511		(3)	300		811
Stock-based compensation activity			34,631		(33)	3,205		37,836
Other comprehensive loss							(48,643)	(48,643)
Net income				98,800				98,800
Balance, June 30, 2022	95,267	\$ 953	\$ 1,450,549	\$ 4,429,008	8,249	\$ (1,300,908)	\$ (126,847)	\$ 4,452,755
Stock-based compensation activity			49,781		(70)	6,810		56,591
Other comprehensive loss							(61,636)	(61,636)
Net income				95,975				95,975
Balance, September 30, 2022	95,267	\$ 953	\$ 1,500,330	\$ 4,524,983	8,179	\$ (1,294,098)	\$ (188,483)	\$ 4,543,685

<i>(in thousands)</i>	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance, January 1, 2021	95,266	\$ 953	\$ 1,434,203	\$ 3,804,593	8,694	\$ (1,124,102)	\$ (17,775)	\$ 4,097,872
Stock-based compensation activity			(87,602)		(565)	48,565		(39,037)
Other comprehensive loss							(19,264)	(19,264)
Net income				72,398				72,398
Balance, March 31, 2021	95,266	\$ 953	\$ 1,346,601	\$ 3,876,991	8,129	\$ (1,075,537)	\$ (37,039)	\$ 4,111,969
Acquisition of Analytical Graphics, Inc.	1		328					328
Stock-based compensation activity			34,661		(63)	5,327		39,988
Other comprehensive income							4,217	4,217
Net income				93,716				93,716
Balance, June 30, 2021	95,267	\$ 953	\$ 1,381,590	\$ 3,970,707	8,066	\$ (1,070,210)	\$ (32,822)	\$ 4,250,218
Acquisition of Analytical Graphics, Inc.			454		(2)	152		606
Treasury shares acquired					97	(35,993)		(35,993)
Stock-based compensation activity			46,375		(106)	9,000		55,375
Other comprehensive loss							(16,304)	(16,304)
Net income				85,342				85,342
Balance, September 30, 2021	95,267	\$ 953	\$ 1,428,419	\$ 4,056,049	8,055	\$ (1,097,051)	\$ (49,126)	\$ 4,339,244

The accompanying notes are an integral part of the condensed consolidated financial statements.

ANSYS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

1. Organization

ANSYS, Inc. (Ansys, we, us, our) develops and globally markets engineering simulation software and services widely used by engineers, designers, researchers and students across a broad spectrum of industries and academia, including high-tech, aerospace and defense, automotive, energy, industrial equipment, materials and chemicals, consumer products, healthcare, and construction.

As defined by the accounting guidance for segment reporting, we operate as one segment.

Given the integrated approach to the multi-discipline problem-solving needs of our customers, a single sale of software may contain components from multiple product areas and include combined technologies. We also have a multi-year product and integration strategy that will result in new, combined products or changes to the historical product offerings. As a result, it is impracticable for us to provide accurate historical or current reporting among our various product lines.

2. Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information for commercial and industrial companies, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the accompanying unaudited condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) included in our Annual Report on Form 10-K for the year ended December 31, 2021 (2021 Form 10-K). The condensed consolidated December 31, 2021 balance sheet presented is derived from the audited December 31, 2021 balance sheet included in the 2021 Form 10-K. In our opinion, all adjustments considered necessary for a fair presentation of the financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for any future period.

Recently Adopted Accounting Guidance

Business combinations: In October 2021, the Financial Accounting Standards Board issued ASU No. 2021-08, *Business Combinations* (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (ASU 2021-08). ASU 2021-08 requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, as if the acquirer had originated the contracts. We adopted the standard effective January 1, 2022. Under the prior guidance, such assets and liabilities were recognized by the acquirer at fair value on the acquisition date. The standard does not impact acquired contract assets or liabilities from business combinations that occurred prior to the effective date of adoption, and the impact in current and future periods will depend on the contract assets and contract liabilities acquired in business combinations after the effective date of adoption.

Accounting Guidance Issued and Not Yet Adopted

It is not expected that the future adoption of any recently issued accounting pronouncements will have a material impact on our financial position, results of operations or cash flows.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of highly liquid investments such as deposits held at major banks and money market funds. Cash equivalents are carried at cost, which approximates fair value. Our cash and cash equivalents balances comprise the following:

<i>(in thousands, except percentages)</i>	September 30, 2022		December 31, 2021	
	Amount	% of Total	Amount	% of Total
Cash accounts	\$ 399,971	63.2	\$ 580,047	86.9
Money market funds	232,538	36.8	87,620	13.1
Total	<u>\$ 632,509</u>		<u>\$ 667,667</u>	

Our money market fund balances are held in various funds of two issuers.

3. Revenue from Contracts with Customers

Disaggregation of Revenue

The following table summarizes revenue:

<i>(in thousands, except percentages)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue:				
Subscription lease licenses	\$ 136,489	\$ 120,516	\$ 362,977	\$ 315,387
Perpetual licenses	72,417	79,878	212,355	232,433
Software licenses	208,906	200,394	575,332	547,820
Maintenance	247,678	223,872	742,554	655,843
Service	15,927	16,902	53,552	47,385
Maintenance and service	263,605	240,774	796,106	703,228
Total revenue	<u>\$ 472,511</u>	<u>\$ 441,168</u>	<u>\$ 1,371,438</u>	<u>\$ 1,251,048</u>
Direct revenue, as a percentage of total revenue	74.8 %	74.4 %	73.7 %	74.0 %
Indirect revenue, as a percentage of total revenue	25.2 %	25.6 %	26.3 %	26.0 %

Our software license revenue is recognized up front, while maintenance and service revenue is generally recognized over the term of the contract.

Deferred Revenue

Deferred revenue consists of billings made or payments received in advance of revenue recognition from customer agreements. The timing of revenue recognition may differ from the timing of billings to customers. Payment terms vary by the type and location of customer and the products or services offered. The time between invoicing and when payment is due is not significant.

The changes in deferred revenue, inclusive of both current and long-term deferred revenue, during the nine months ended September 30, 2022 and 2021 were as follows:

<i>(in thousands)</i>	2022	2021
Beginning balance – January 1	\$ 412,781	\$ 388,810
Acquired deferred revenue	1,032	746
Deferral of revenue	1,343,122	1,202,547
Recognition of revenue	(1,371,438)	(1,251,048)
Currency translation	(30,779)	(8,591)
Ending balance – September 30	<u>\$ 354,718</u>	<u>\$ 332,464</u>

Total revenue allocated to remaining performance obligations as of September 30, 2022 will be recognized as revenue as follows:

<i>(in thousands)</i>	
Next 12 months	\$ 674,142
Months 13-24	270,106
Months 25-36	121,553
Thereafter	43,087
Total revenue allocated to remaining performance obligations	<u>\$ 1,108,888</u>

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes both deferred revenue and backlog. Our backlog represents installment billings for periods beyond the current quarterly billing cycle. Revenue recognized during the nine months ended September 30, 2022 and 2021 included amounts in deferred revenue and backlog at the beginning of the period of \$608.7 million and \$507.0 million, respectively.

4. Acquisitions

During the nine months ended September 30, 2022, we completed various strategic acquisitions to expand our solution offerings and enhance our customers' experience. The effects of the acquisitions were not material to our condensed consolidated results of operations individually or in the aggregate. The combined purchase price of the acquisitions completed during the nine months ended September 30, 2022 was approximately \$251.5 million, or \$246.0 million net of cash acquired.

During the three and nine months ended September 30, 2022, we incurred acquisition-related expenses of \$1.2 million and \$5.4 million, respectively. Acquisition-related expenses are recognized as selling, general and administrative and research and development expenses on the condensed consolidated statements of income.

The assets acquired and liabilities assumed in connection with the acquisitions have been recorded based upon management's estimates of their fair market values as of each respective date of acquisition. The following tables summarize the fair value of consideration transferred and the fair values of identified assets acquired and liabilities assumed for the combined 2022 acquisitions at each respective date of acquisition:

Fair Value of Consideration:
(in thousands)

Cash	\$	248,102
Consideration not yet paid		3,391
Total consideration	\$	251,493

Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:
(in thousands)

Cash	\$	5,540
Accounts receivable and other tangible assets		2,873
Developed software and core technologies		60,030
Customer lists		126
Trade names		1,304
Accounts payable and other liabilities		(5,195)
Deferred revenue		(1,032)
Net deferred tax liabilities		(10,720)
Total identifiable net assets	\$	52,926
Goodwill	\$	198,567

The goodwill, which is not tax-deductible, is attributed to intangible assets that do not qualify for separate recognition, including the assembled workforces of the acquired businesses and the synergies expected to arise as a result of the acquisitions.

The fair values of the assets acquired and liabilities assumed are based on preliminary calculations. The estimates and assumptions for these items are subject to change as additional information about what was known and knowable at each respective acquisition date is obtained during the measurement period (up to one year from the acquisition date).

We determined the fair value of our intangible assets using various valuation techniques, including the relief-from-royalty method and the multi-period excess earnings method. These models utilize certain unobservable inputs classified as Level 3 measurements as defined by ASC 820, *Fair Value Measurements and Disclosures*. The determination of fair value requires considerable judgment and is sensitive to changes in underlying assumptions, estimates and market factors. Estimating fair value requires us to make assumptions and estimates regarding our future plans, as well as industry and economic conditions. These assumptions and estimates include, but are not limited to: selection of a valuation methodology, royalty rate, discount rate and attrition rate.

The weighted-average useful life, valuation method and assumptions used to determine the fair value of the intangible assets acquired in 2022 are as follows:

Intangible Asset	Weighted-Average Useful Life	Valuation Method	Assumptions
Developed software and core technologies	8 years	Multi-period excess earnings	Discount rate: 9.5% - 10.0%
Trade names	9 years	Relief-from-royalty	Royalty rate: 1.0% Discount rate: 10.0% - 10.5%
Customer lists	7 years	Multi-period excess earnings	Attrition rate: 10.0% Discount rate: 9.5%

On October 1, 2021, we acquired 100% of the shares of Zemax, a leader in high-performance optical imaging system simulation, for a purchase price of \$411.5 million, paid in cash, or \$399.1 million net of cash acquired from Zemax. The acquisition expanded the scope of our optical and photonics simulation portfolio by giving users comprehensive solutions that can drive innovation in healthcare, autonomy, consumer electronics and the industrial internet of things (IIoT).

Additionally, during the year ended December 31, 2021, we completed several other acquisitions to expand our solution offerings and enhance our customers' experience. These acquisitions were not individually significant. The combined purchase price of these acquisitions during the year ended December 31, 2021 was \$110.7 million, which was paid in cash.

The operating results of each acquisition have been included in our condensed consolidated financial statements since each respective date of acquisition.

See Note 16, Subsequent Event, for information on our recent acquisition completed subsequent to the end of the period covered by this report.

5. Other Receivables and Current Assets and Other Accrued Expenses and Liabilities

Our other receivables and current assets and other accrued expenses and liabilities comprise the following balances:

<i>(in thousands)</i>	September 30, 2022	December 31, 2021
Receivables related to unrecognized revenue	\$ 129,721	\$ 200,888
Income taxes receivable, including overpayments and refunds	31,411	71,332
Prepaid expenses and other current assets	53,434	52,435
Total other receivables and current assets	<u>\$ 214,566</u>	<u>\$ 324,655</u>
Accrued vacation	38,084	35,879
Consumption, VAT and sales tax liabilities	25,741	52,630
Accrued expenses and other current liabilities	96,868	116,000
Total other accrued expenses and liabilities	<u>\$ 160,693</u>	<u>\$ 204,509</u>

Receivables related to unrecognized revenue represent the current portion of billings made for customer contracts that have not yet been recognized as revenue.

6. Earnings Per Share

Basic earnings per share (EPS) amounts are computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. To the extent stock awards are anti-dilutive, they are excluded from the calculation of diluted EPS.

The details of basic and diluted EPS are as follows:

<i>(in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income	\$ 95,975	\$ 85,342	\$ 265,763	\$ 251,456
Weighted average shares outstanding – basic	87,063	87,239	87,062	87,072
Dilutive effect of stock plans	355	930	434	997
Weighted average shares outstanding – diluted	87,418	88,169	87,496	88,069
Basic earnings per share	\$ 1.10	\$ 0.98	\$ 3.05	\$ 2.89
Diluted earnings per share	\$ 1.10	\$ 0.97	\$ 3.04	\$ 2.86
Anti-dilutive shares	54	32	366	30

7. Goodwill and Intangible Assets

Intangible assets are classified as follows:

	September 30, 2022		December 31, 2021	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:				
Developed software and core technologies	\$ 1,028,973	\$ (464,227)	\$ 985,685	\$ (422,797)
Customer lists	191,742	(65,705)	203,072	(57,175)
Trade names	180,876	(132,814)	182,554	(128,577)
Total	<u>\$ 1,401,591</u>	<u>\$ (662,746)</u>	<u>\$ 1,371,311</u>	<u>\$ (608,549)</u>
Indefinite-lived intangible asset:				
Trade name	<u>\$ 357</u>		<u>\$ 357</u>	

Finite-lived intangible assets are amortized over their estimated useful lives of two years to seventeen years.

As of September 30, 2022, estimated future amortization expense for the intangible assets reflected above was as follows:

(in thousands)	
Remainder of 2022	\$ 20,702
2023	89,581
2024	91,442
2025	90,950
2026	91,270
2027	93,004
Thereafter	261,896
Total intangible assets subject to amortization	738,845
Indefinite-lived trade name	357
Other intangible assets, net	<u>\$ 739,202</u>

The changes in goodwill during the nine months ended September 30, 2022 and 2021 were as follows:

(in thousands)	2022	2021
Beginning balance – January 1	\$ 3,409,271	\$ 3,038,306
Acquisitions and adjustments ⁽¹⁾	197,173	79,905
Currency translation	(73,985)	(16,588)
Ending balance – September 30	<u>\$ 3,532,459</u>	<u>\$ 3,101,623</u>

⁽¹⁾ In accordance with the accounting for business combinations, we recorded adjustments to goodwill for the effect of changes in the provisional fair values of the assets acquired and liabilities assumed during the measurement period (up to one year from the acquisition date) as we obtained new information about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date.

During the first quarter of 2022, we completed the annual impairment test for goodwill and the indefinite-lived intangible asset and determined that these assets had not been impaired as of the test date, January 1, 2022. Given the adverse economic and market conditions in the third quarter, we considered a variety of qualitative factors to determine if an additional quantitative impairment test was required subsequent to our annual impairment test. Based on a variety of factors, including the excess of the fair value over the carrying amount in the most recent impairment test, we determined it was not more likely than not that an impairment existed as of September 30, 2022. No other events or circumstances changed during the nine months ended September 30, 2022 that would indicate that the fair values of our reporting unit and indefinite-lived intangible asset are below their carrying amounts.

8. Fair Value Measurement

The valuation hierarchy for disclosure of assets and liabilities reported at fair value prioritizes the inputs for such valuations into three broad levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; or
- Level 3: unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Our debt is classified within Level 2 of the fair value hierarchy because these borrowings are not actively traded and have a variable interest rate structure based upon market rates. The carrying amount of our debt approximates the estimated fair value. See Note 10, "Debt", for additional information on our borrowings.

The following tables provide the assets carried at fair value and measured on a recurring basis:

		Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)	September 30, 2022			
Assets				
Cash equivalents	\$ 232,538	\$ 232,538	\$ —	\$ —
Short-term investments	\$ 194	\$ —	\$ 194	\$ —
Deferred compensation plan investments	\$ 1,599	\$ 1,599	\$ —	\$ —
Equity securities	\$ 1,309	\$ 1,309	\$ —	\$ —

		Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)	December 31, 2021			
Assets				
Cash equivalents	\$ 87,620	\$ 87,620	\$ —	\$ —
Short-term investments	\$ 361	\$ —	\$ 361	\$ —
Deferred compensation plan investments	\$ 1,602	\$ 1,602	\$ —	\$ —
Equity securities	\$ 2,500	\$ 2,500	\$ —	\$ —

The cash equivalents in the preceding tables represent money market funds, valued at net asset value, with carrying values which approximate their fair values because of their short-term nature.

The short-term investments in the preceding tables represent deposits held by certain foreign subsidiaries. The deposits have fixed interest rates with original maturities ranging from three months to one year.

The deferred compensation plan investments in the preceding tables represent trading securities held in a rabbi trust for the benefit of non-employee directors. These securities consist of mutual funds traded in an active market with quoted prices. As a result, the plan assets are classified as Level 1 in the fair value hierarchy. The plan assets are recorded within other long-term assets on our condensed consolidated balance sheets.

The equity securities represent our investment in a publicly traded company. These securities are traded in an active market with quoted prices. As a result, the securities are classified as Level 1 in the fair value hierarchy. The securities are recorded within other long-term assets on our condensed consolidated balance sheets.

9. Leases

Our right-of-use assets and lease liabilities primarily include operating leases for office space. Our executive offices and those related to certain domestic product development, marketing, production and administration are located in a 186,000 square foot office facility in Canonsburg, Pennsylvania. The term of the lease is 183 months, which began on October 1, 2014 and expires on December 31, 2029. The lease agreement includes options to renew the contract through August 2044, an option to lease additional space in January 2025 and an option to terminate the lease in December 2025. No options are included in the lease liability as renewal is not reasonably certain. In addition, we are reasonably certain we will not terminate the lease agreement. Absent the exercise of options in the lease, our remaining base rent (inclusive of property taxes and certain operating costs) is \$4.5 million per annum through 2024 and \$4.7 million per annum for 2025 - 2029.

The components of our global lease cost reflected in the condensed consolidated statements of income are as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Lease liability cost	\$ 6,960	\$ 7,139	\$ 20,886	\$ 21,278
Variable lease cost not included in the lease liability ⁽¹⁾	1,015	1,017	3,202	3,203
Total lease cost	<u>\$ 7,975</u>	<u>\$ 8,156</u>	<u>\$ 24,088</u>	<u>\$ 24,481</u>

⁽¹⁾ Variable lease cost includes common area maintenance, property taxes, utilities and fluctuations in rent due to a change in an index or rate.

Other information related to operating leases is as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Cash paid for amounts included in the measurement of the lease liability:				
Operating cash flows from operating leases	\$ (6,720)	\$ (7,217)	\$ (20,309)	\$ (21,183)
Right-of-use assets obtained in exchange for new operating lease liabilities	8,131	1,301	28,806	6,895

	As of September 30,	
	2022	2021
Weighted-average remaining lease term of operating leases	7.3 years	6.7 years
Weighted-average discount rate of operating leases	3.2 %	3.0 %

The maturity schedule of the operating lease liabilities as of September 30, 2022 is as follows:

(in thousands)	
Remainder of 2022	\$ 6,241
2023	23,009
2024	20,857
2025	18,907
2026	17,436
Thereafter	59,040
Total future lease payments	145,490
Less: Present value adjustment	(15,928)
Present value of future lease payments ⁽¹⁾	<u>\$ 129,562</u>

⁽¹⁾ Includes the current portion of operating lease liabilities of \$19.9 million, which is reflected in other accrued expenses and liabilities in the condensed consolidated balance sheets.

There were no material leases that have been signed but not yet commenced as of September 30, 2022.

10. Debt

On June 30, 2022, we entered into a credit agreement (2022 Credit Agreement) with PNC Bank, National Association as administrative agent, swing line lender, and an L/C issuer, the lenders party thereto, and the other L/C issuers party thereto. The 2022 Credit Agreement refinanced our previous credit agreements in their entirety. Terms used in this description of the 2022 Credit Agreement with initial capital letters that are not otherwise defined herein are as defined in the 2022 Credit Agreement.

The term loan facility was advanced by the lenders thereunder to refinance and replace our (i) Credit Agreement, dated as of February 22, 2019, as amended, among us, as borrower, Bank of America, N.A., as administrative agent, swing line lender and an L/C issuer, the lenders party thereto, and the other L/C issuers party thereto and (ii) Credit Agreement, dated as of November 9, 2020, among us, as borrower, Bank of America, N.A., as administrative agent, and the lenders party thereto (together, the "Prior Credit Agreements").

The 2022 Credit Agreement provides for a \$755.0 million unsecured term loan facility and a \$500.0 million unsecured revolving loan facility, which includes a \$50.0 million sublimit for the issuance of letters of credit. The revolving loan facility is available for working capital and general corporate purposes. Each of the term loan facility and the revolving loan facility matures on June 30, 2027.

Borrowings under the term loan and revolving loan facilities accrue interest at a rate that is based on the TermSOFR plus an applicable margin or at the base rate plus an applicable margin, at our election. The base rate is the highest of (i) the Overnight Bank Funding Rate, plus 0.500%, (ii) the PNC Bank, National Association prime rate, and (iii) Daily Simple SOFR plus an adjustment for SOFR plus 1.00%. The applicable margin for the borrowings is a percentage per annum based on the lower of (1) a pricing level determined by our then-current consolidated leverage ratio and (2) a pricing level determined by our public debt rating (if available).

The 2022 Credit Agreement also provides for the option to add certain foreign subsidiaries as borrowers and to borrow in Euros, Sterling, Yen and Swiss Francs under the revolving loan facility, up to a sublimit of \$150.0 million. Borrowings under the revolving loan facility denominated in these currencies will accrue interest at a rate that is based on (a) for Euros, €STR, (b) for Sterling, SONIA, (c) for Yen, TONAR and (d) for Swiss Francs, SARON, plus an applicable margin calculated as described above.

Under the 2022 Credit Agreement the weighted average interest rate in effect during the three months ended September 30, 2022 was 3.05%. Under the 2022 Credit Agreement and Prior Credit Agreements, the weighted average interest rate in effect during nine months ended September 30, 2022 was 2.11%. Under the Prior Credit Agreements, the weighted average interest rate in effect during the three and nine months ended September 30, 2021 was 1.33% and 1.41%, respectively. The rate in effect for the fourth quarter under the 2022 Credit Agreement is 4.53%.

The 2022 Credit Agreement contains customary representations and warranties, affirmative and negative covenants and events of default. The 2022 Credit Agreement also contains a financial covenant requiring us and our subsidiaries to maintain a consolidated leverage ratio not in excess of 3.50 to 1.00 as of the end of any fiscal quarter (for the four-quarter period ending on such date) with an opportunity for a temporary increase in such consolidated leverage ratio to 4.00 to 1.00 upon the consummation of certain qualified acquisitions for which the aggregate consideration is at least \$250.0 million.

As of September 30, 2022, we had \$755.0 million of borrowings outstanding under the term loan, with a carrying value of \$753.5 million, which is net of \$1.5 million of unamortized debt discounts and issuance costs. The total amount was included in long-term debt. As of September 30, 2022, no borrowings were outstanding under the revolving loan facility.

As of December 31, 2021, we had \$755.0 million of borrowings outstanding under the Prior Credit Agreements, with a carrying value of \$753.6 million, which is net of \$1.4 million of unamortized debt discounts and issuance costs. The total amount was included in long-term debt. As of December 31, 2021, no borrowings were outstanding under the revolving loan facility.

We were in compliance with all covenants under the 2022 Credit Agreement and the Prior Credit Agreements as of September 30, 2022 and December 31, 2021, respectively.

11. Income Taxes

Our income before income tax provision, income tax provision and effective tax rates were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<i>(in thousands, except percentages)</i>				
Income before income tax provision	\$ 117,981	\$ 103,898	\$ 318,904	\$ 280,381
Income tax provision	22,006	18,556	53,141	28,925
Effective tax rate	18.7 %	17.9 %	16.7 %	10.3 %

The increase in the effective tax rate from the prior year was primarily due to decreased benefits related to stock-based compensation.

Tax expense for the nine months ended September 30, 2022 and 2021 benefited from deductions related to stock-based compensation, many of which were recognized discretely. These benefits were partially offset by non-deductible compensation.

12. Stock Repurchase Program

Under our stock repurchase program, we repurchased shares as follows:

	Nine Months Ended	
	September 30, 2022	September 30, 2021
<i>(in thousands, except per share data)</i>		
Number of shares repurchased	500	97
Average price paid per share	\$ 311.14	\$ 371.83
Total cost	\$ 155,571	\$ 35,993

All of the shares repurchased during the nine months ended September 30, 2022 were repurchased during the first quarter. As of September 30, 2022, 2.0 million shares remained available for repurchase under the program.

13. Stock-Based Compensation

On May 12, 2022, our stockholders approved the ANSYS, Inc. 2022 Employee Stock Purchase Plan (2022 ESPP) and the reservation by our board of directors of 750,000 shares of common stock for issuance under the 2022 ESPP. The 2022 ESPP allows our employees and employees of our designated subsidiaries to purchase shares of our common stock at a discount to fair market value of 10% in accordance with the terms and conditions of the 2022 ESPP.

Total stock-based compensation expense and its net impact on basic and diluted earnings per share are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<i>(in thousands, except per share data)</i>				
Cost of sales:				
Maintenance and service	\$ 2,621	\$ 2,753	\$ 7,448	\$ 9,834
Operating expenses:				
Selling, general and administrative	27,077	25,420	67,117	66,158
Research and development	17,272	15,971	47,554	46,156
Stock-based compensation expense before taxes	46,970	44,144	122,119	122,148
Related income tax benefits	(9,984)	(10,743)	(42,037)	(62,151)
Stock-based compensation expense, net of taxes	\$ 36,986	\$ 33,401	\$ 80,082	\$ 59,997
Net impact on earnings per share:				
Basic earnings per share	\$ (0.42)	\$ (0.38)	\$ (0.92)	\$ (0.69)
Diluted earnings per share	\$ (0.42)	\$ (0.38)	\$ (0.92)	\$ (0.68)

14. Geographic Information

Revenue to external customers is attributed to individual countries based upon the location of the customer. Revenue by geographic area is as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
United States	\$ 201,263	\$ 208,998	\$ 586,063	\$ 570,101
Japan	38,586	45,298	133,562	147,511
Germany	48,115	27,826	111,888	89,781
South Korea	49,581	22,364	104,950	67,853
China	26,474	26,677	76,412	62,934
Other Europe, Middle East and Africa (EMEA)	72,058	73,806	236,250	220,083
Other international	36,434	36,199	122,313	92,785
Total revenue	<u>\$ 472,511</u>	<u>\$ 441,168</u>	<u>\$ 1,371,438</u>	<u>\$ 1,251,048</u>

Property and equipment by geographic area is as follows:

(in thousands)	September 30, 2022	December 31, 2021
United States	\$ 58,734	\$ 62,880
India	5,219	6,144
Germany	2,564	4,434
Other EMEA	7,031	9,215
Other international	4,200	5,241
Total property and equipment, net	<u>\$ 77,748</u>	<u>\$ 87,914</u>

15. Contingencies and Commitments

We are subject to various claims, investigations, and legal and regulatory proceedings that arise in the ordinary course of business, including, but not limited to, commercial disputes, labor and employment matters, tax audits, alleged infringement of third parties' intellectual property rights and other matters. In our opinion, the resolution of pending matters is not expected to have a material adverse effect on our consolidated results of operations, cash flows or financial position. However, each of these matters is subject to various uncertainties and it is possible that an unfavorable resolution of one or more of these proceedings could materially affect our consolidated results of operations, cash flows or financial position.

Our Indian subsidiary has several service tax audits pending that have resulted in formal inquiries being received on transactions through mid-2012. We could incur tax charges and related liabilities of \$7.0 million. As such charges are not probable at this time, a reserve has not been recorded on the condensed consolidated balance sheet as of September 30, 2022. The service tax issues raised in our notices and inquiries are very similar to the case, M/s Microsoft Corporation (I) (P) Ltd. Vs. Commissioner of Service Tax, New Delhi, wherein the Delhi Customs, Excise and Service Tax Appellate Tribunal (CESTAT) issued a favorable ruling to Microsoft. The Microsoft ruling was subsequently challenged in the Supreme Court by the Indian tax authority and a decision is still pending. We can provide no assurances on the impact that the present Microsoft case's decision will have on our cases, however, an unfavorable ruling in the Microsoft case may impact our assessment of probability and result in the recording of a \$7.0 million reserve. We are uncertain as to when these service tax matters will be concluded.

We sell software licenses and services to our customers under contractual agreements. Such agreements generally include certain provisions indemnifying the customer against claims, by third parties, of infringement or misappropriation of their intellectual property rights arising from such customer's usage of our products or services. To date, payments related to these indemnification provisions have been immaterial. For several reasons, including the lack of prior material indemnification claims, we cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

16. Subsequent Event

In November 2022, we had a \$70.0 million cash outflow (net of cash acquired) associated with a strategic acquisition. The acquisition was funded with our existing cash balance. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete. As a result, we are unable to provide the amount recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed. The preliminary allocation of purchase price will be included in our Annual Report on Form 10-K for the year ended December 31, 2022. We do not expect the operation to contribute meaningfully to our financial results.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto for the nine months ended September 30, 2022, and with our audited consolidated financial statements and notes thereto for the year ended December 31, 2021 included in the 2021 Form 10-K filed with the Securities and Exchange Commission (SEC). The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP).

Business:

Ansys, a corporation formed in 1994, develops and globally markets engineering simulation software and services widely used by engineers, designers, researchers and students across a broad spectrum of industries and academia, including high-tech, aerospace and defense, automotive, energy, industrial equipment, materials and chemicals, consumer products, healthcare, and construction. Headquartered south of Pittsburgh, Pennsylvania, we employed 5,500 people as of September 30, 2022. We focus on the development of open and flexible solutions that enable users to analyze designs directly on the desktop and/or via the cloud, providing a common platform for fast, efficient and cost-conscious product development, from design concept to final-stage testing and validation. We distribute our suite of simulation technologies through direct sales offices in strategic, global locations and a global network of independent resellers and distributors (collectively, channel partners). It is our intention to continue to maintain this hybrid sales and distribution model.

Our strategy of Pervasive Insights seeks to deepen the use of simulation in our core market, to inject simulation throughout the product lifecycle and to extend the accessibility to a broader set of users and use cases. Our business has three vectors of growth:

- More products. Our broad and deep portfolio enables us to grow with customers' increasing adoption of simulation across broad sets of product development disciplines.
- More users. Investments in simulation education and user experience simplification has made simulation more accessible to broader classes of simulation users.
- More computation. As customers' problems become more complex, simulations increase in complexity which drives more computation.

We develop easy-to-use solutions that are intuitive for more than just engineers, allowing us to reach more users upstream and downstream. Our multiphysics solutions enable our customers to address increasingly complex R&D challenges from the component through the system and mission level of analysis. Our products seamlessly enable access to high performance compute capacity, on premise or in the cloud, which means our customers' R&D teams are unencumbered by compute capacity limitations that can hinder R&D cycle times.

The engineering software simulation market is strong and growing. The market growth is driven by customers' need for rapid, quality innovation in a cost efficient manner, enabling faster time to market of new products and lower warranty costs. Product complexity is driving sustained demand for simulations. Key industry trends fueling customers' increasing needs for simulation include:

- Electrification, including electric vehicles;
- Autonomy, including self-driving vehicles;
- Connectivity;
- Industrial Internet of Things; and
- Sustainability, including minimizing waste and physical prototyping, and improving circularity and development time.

We have been investing and will be continuing to invest in our portfolio to broaden the range of physics and enable customers to analyze the interactions among physics at the component, system and mission level. Our strategy of Pervasive Insights is aligned with near-term market growth opportunities and is laying the foundation for a future where simulation can be further democratized to ever broader classes of end-use cases.

To further support our strategy of Pervasive Insights, we will continue to pursue a highly selective and strategic acquisition strategy to grow our business. We will also partner with industry leaders to broaden pervasive simulation into other ecosystems, and customer R&D workflows. Importantly, we will continue to win in the right way, built on a culture of high ethical standards and commitment to diversity, equity, inclusion and belonging.

We license our technology to businesses, educational institutions and governmental agencies. We believe that the features, functionality and integrated multiphysics capabilities of our software products are as strong as they have ever been. However, the software business is generally characterized by long sales cycles. These long sales cycles increase the difficulty of predicting sales for any particular quarter. We make many operational and strategic decisions based upon short- and long-term sales forecasts that are impacted not only by these long sales cycles, but also by current global economic conditions. As a result, we believe that our overall performance is best measured by fiscal year results rather than by quarterly results.

Management addresses the competition and price pressure that it faces in the short- and long-term by focusing on expanding the breadth, depth, ease of use and quality of the technologies, features, functionality and integrated multiphysics capabilities of our software products as compared to our competitors; investing in research and development to develop new and innovative products and increasing the capabilities of our existing products; focusing on customer needs, training, consulting and support; and enhancing our distribution channels. We also evaluate and execute strategic acquisitions to supplement our global engineering talent, product offerings and distribution channels.

Overview:

Overall GAAP and Non-GAAP Results

This section includes a discussion of GAAP and non-GAAP results. For reconciliations of non-GAAP results to GAAP results, see the section titled "Non-GAAP Results" herein.

The non-GAAP results exclude the income statement effects of the acquisition accounting adjustments to deferred revenue from business combinations closed prior to 2022, stock-based compensation, excess payroll taxes related to stock-based compensation, amortization of acquired intangible assets, expenses related to business combinations and adjustments for the income tax effect of the excluded items.

This section also includes a discussion of constant currency results, which we use for financial and operational decision-making and as a means to evaluate period-to-period comparisons by excluding the effects of foreign currency fluctuations on the reported results. All constant currency results presented in this Item 2 exclude the effects of foreign currency fluctuations on the reported results. To present this information, the 2022 results for entities whose functional currency is a currency other than the U.S. Dollar were converted to U.S. Dollars at rates that were in effect for the 2021 comparable period, rather than the actual exchange rates in effect for 2022. Constant currency growth rates are calculated by adjusting the 2022 reported revenue and operating income amounts by the 2022 currency fluctuation impacts and comparing to the 2021 comparable period reported revenue and operating income amounts.

Our GAAP and non-GAAP results for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021 reflected the following variances:

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	GAAP	Non-GAAP	GAAP	Non-GAAP
Revenue	7.1 %	6.3 %	9.6 %	8.5 %
Operating income	14.6 %	9.7 %	21.2 %	9.4 %
Diluted earnings per share	13.4 %	11.3 %	6.3 %	7.5 %

Our results reflect an increase in revenue during the three and nine months ended September 30, 2022 due to growth in subscription lease licenses and maintenance revenue, partially offset by a reduction in perpetual license revenue. We also experienced increased operating expenses during the three and nine months ended September 30, 2022, primarily due to increased personnel costs. The actual U.S. Dollar reported results were significantly impacted by a stronger U.S. Dollar.

Impact of Foreign Currency

Our comparative financial results were impacted by fluctuations in the U.S. Dollar during the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021. The impacts on our GAAP and non-GAAP revenue and operating income as a result of the fluctuations of the U.S. Dollar when measured against our foreign currencies based on 2021 exchange rates are reflected in the table below. Amounts in brackets indicate an adverse impact from currency fluctuations.

(in thousands)	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	GAAP	Non-GAAP	GAAP	Non-GAAP
Revenue	\$ (38,237)	\$ (38,293)	\$ (78,347)	\$ (78,560)
Operating income	\$ (23,146)	\$ (24,003)	\$ (44,986)	\$ (47,151)

In constant currency, our growth was as follows:

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	GAAP	Non-GAAP	GAAP	Non-GAAP
Revenue	15.8 %	14.9 %	15.9 %	14.7 %
Operating income	36.1 %	23.2 %	37.6 %	19.0 %

Other Key Business Metric

Annual Contract Value (ACV) is one of our key performance metrics and is useful to investors in assessing the strength and trajectory of our business. Given that revenue is more volatile due to the upfront revenue recognition of perpetual licenses and multi-year subscription lease license sales, we provide ACV as a supplemental metric to help evaluate the annual performance of the business. Summed over the long term, ACV and revenue are equal. However, there will be years in which ACV growth lags revenue growth and other years in which ACV growth leads revenue growth. It is used by management in financial and operational decision-making and in setting sales targets used for compensation. ACV should be viewed independently of revenue and deferred revenue as ACV is a performance metric and is not intended to be combined with any of these items. There is no GAAP measure comparable to ACV. ACV is composed of the following:

- the annualized value of maintenance and subscription lease contracts with start dates or anniversary dates during the period, plus
- the value of perpetual license contracts with start dates during the period, plus
- the annualized value of fixed-term services contracts with start dates or anniversary dates during the period, plus
- the value of work performed during the period on fixed-deliverable services contracts.

Our ACV was as follows:

(in thousands, except percentages)	Three Months Ended September 30,			Change			
	2022		2021				
	Actual	Constant Currency	Actual	Actual		Constant Currency	
	Amount			Amount	%	Amount	%
ACV	\$ 409,317	\$ 439,341	\$ 365,444	\$ 43,873	12.0	\$ 73,897	20.2

(in thousands, except percentages)	Nine Months Ended September 30,			Change			
	2022		2021				
	Actual	Constant Currency	Actual	Actual		Constant Currency	
	Amount			Amount	%	Amount	%
ACV	\$ 1,213,735	\$ 1,280,355	\$ 1,115,365	\$ 98,370	8.8	\$ 164,990	14.8

Our trailing twelve-month recurring ACV, converted from the functional currency to U.S. Dollars at the 2021 monthly average exchange rates, was as follows:

(in thousands, except percentages)	Twelve Months Ended September 30,		Change	
	2022	2021	Amount	%
Recurring ACV at 2021 monthly average exchange rates	\$ 1,642,325	\$ 1,420,800	\$ 221,525	15.6

Recurring ACV includes both subscription lease license and maintenance ACV, and excludes perpetual license and service ACV.

Industry Commentary:

High-tech, aerospace & defense, and automotive remained strong as digital transformation efforts increased the use cases and users of simulation, driving demand for solutions across our portfolio. The predictive accuracy of our multiphysics solutions has been key to our growth in high-tech as our customers seek to understand the interaction of thermal, mechanical and electronic stresses exacerbated by increasing product complexity. Customer focus on digital transformation and model-based engineering initiatives remains a driver of our growth in aerospace & defense. Automotive companies continue to reorient themselves around virtual product development and electrification, supporting our growth in the industry. The healthcare industry also had strong growth as we continue to see companies mature digital engineering efforts as they expand engineering staff and Digital Twin/Digital Engineering initiatives in areas such as surgery and implantable devices.

Geographic Trends:

The following tables present our GAAP and non-GAAP geographic revenue variances using actual and constant currency rates during the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021:

	GAAP			
	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Actual	Constant Currency	Actual	Constant Currency
Americas	(4.9)%	(4.7) %	2.4 %	2.5 %
EMEA	18.2 %	36.2 %	12.4 %	24.2 %
Asia-Pacific	19.7 %	36.1 %	19.7 %	31.5 %
Total	7.1 %	15.8 %	9.6 %	15.9 %

	Non-GAAP			
	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Actual	Constant Currency	Actual	Constant Currency
Americas	(6.0)%	(5.8) %	0.2 %	0.3 %
EMEA	18.1 %	36.0 %	12.5 %	24.3 %
Asia-Pacific	19.4 %	35.7 %	19.6 %	31.4 %
Total	6.3 %	14.9 %	8.5 %	14.7 %

The value and duration of multi-year subscription lease contracts executed during the period significantly impact the recognition of revenue. As a result, revenue may fluctuate significantly, particularly on a quarterly basis, due to the timing of such contracts, relative differences in duration of long-term contracts from quarter to quarter and changes in the mix of license types sold compared to the prior year. Large swings in revenue growth rates are not necessarily indicative of customers' software usage changes or cash flows during the periods presented.

To drive growth, we continue to focus on a number of sales improvement activities across our geographic regions, including pipeline building, customer engagement activities, productivity initiatives and sales hiring.

During the nine months ended September 30, 2022, trade restrictions limited our ability to deliver products and services to customers in Russia and Belarus and certain entities in China. For context, the combined 2021 revenue for all customers in Russia and Belarus was \$15.1 million, less than 1% of our total 2021 revenue.

On October 7, 2022, the U.S. Department of Commerce, Bureau of Industry and Security announced new restrictions targeting the sales of semiconductor products into China. We expect the impact of those restrictions to be immaterial on our business. As a reference, our semiconductor business in China over the last twelve months represented less than 1% of our consolidated revenue and China's total contribution to revenue for the same period was 4.7%.

Additional restrictions or a further deterioration in the global trade environment could have a material adverse impact on our business, results of operations or financial condition. Refer to additional details in Part II, Item 1A herein, Part I, "Item 1A. Risk Factors" in our 2021 Form 10-K and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 for a discussion of additional business risks, including those associated with the conflict between Russia and Ukraine.

Use of Estimates:

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to contract revenue, standalone selling prices of our products and services, allowance for doubtful accounts receivable, valuation of goodwill and other intangible assets, useful lives for depreciation and amortization, acquired deferred revenue, operating lease assets and liabilities, fair values of stock awards, deferred compensation, income taxes, uncertain tax positions, tax valuation reserves, and contingencies and litigation. We base our estimates on historical experience, market experience, estimated future cash flows and various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Forward-Looking Information:

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that provide current expectations or forecasts of future events based on certain assumptions. Forward-looking statements are subject to risks, uncertainties, and factors relating to our business which could cause our actual results to differ materially from the expectations expressed in or implied by such forward-looking statements.

Forward-looking statements use words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "outlook," "plan," "predict," "project," "should," "target," or other words of similar meaning. Forward-looking statements include those about market opportunity, including our total addressable market. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise.

The risks associated with the following, among others, could cause actual results to differ materially from those described in any forward-looking statements:

- adverse conditions in the macroeconomic environment, including high inflation, recessionary conditions and volatility in equity and foreign exchange markets; political, economic and regulatory uncertainties in the countries and regions in which we operate (including as a result of the conflict between Russia and Ukraine);
- our ability to timely recruit and retain key personnel in a highly competitive labor market for skilled personnel, including potential financial impacts of wage inflation;
- impacts from tariffs, trade sanctions, export controls or other trade barriers including export control restrictions and licensing requirements for exports to China, and impacts from changes to diplomatic relations and trade policy between the United States and Russia or the United States and other countries that may support Russia or take similar actions due to the conflict between Russia and Ukraine;
- constrained credit and liquidity due to disruptions in the global economy and financial markets, which may limit or delay availability of credit under our existing or new credit facilities, or which may limit our ability to obtain credit or financing on acceptable terms or at all;
- current and potential future impacts of a global health crisis, natural disaster or catastrophe, including the COVID-19 pandemic and actions taken to address the pandemic by our customers, suppliers, regulatory authorities, and our business, on the global economy and our business and consolidated financial statements, and other public health and safety risks; and government actions or mandates surrounding the COVID-19 pandemic;
- declines in our customers' businesses resulting in adverse changes in procurement patterns; disruptions in accounts receivable and cash flow due to customers' liquidity challenges and commercial deterioration; uncertainties regarding

demand for our products and services in the future and our customers' acceptance of new products; delays or declines in anticipated sales due to reduced or altered sales and marketing interactions with customers; and potential variations in our sales forecast compared to actual sales;

- increased volatility in our revenue due to the timing, duration and value of multi-year subscription lease contracts; and our reliance on high renewal rates for annual subscription lease and maintenance contracts;
- our ability to protect our proprietary technology; cybersecurity threats or other security breaches, including in relation to breaches occurring through our products and an increased level of our activity that is occurring from remote global off-site locations; and disclosure and misuse of employee or customer data whether as a result of a cybersecurity incident or otherwise;
- the quality of our products, including the strength of features, functionality and integrated multiphysics capabilities; our ability to develop and market new products to address the industry's rapidly changing technology; failures or errors in our products and services; and increased pricing pressure as a result of the competitive environment in which we operate;
- investments in complementary companies, products, services and technologies; our ability to complete and successfully integrate our acquisitions and realize the financial and business benefits of the transactions; and the impact indebtedness incurred in connection with any acquisition could have on our operations;
- investments in global sales and marketing organizations and global business infrastructure; and dependence on our channel partners for the distribution of our products;
- operational disruptions generally or specifically in connection with transitions to and from remote work environments; and the failure of our technological infrastructure or those of the service providers upon whom we rely including for infrastructure and cloud services;
- our ability and our channel partners' ability to comply with laws and regulations in relevant jurisdictions; and the outcome of contingencies, including legal proceedings, government or regulatory investigations and service tax audit cases;
- our intention to repatriate previously taxed earnings in excess of working capital needs and to reinvest all other earnings of our non-U.S. subsidiaries;
- plans for future capital spending; the extent of corporate benefits from such spending including with respect to customer relationship management; and higher than anticipated costs for research and development or slowdown in our research and development activities;
- uncertainty regarding income tax estimates in the jurisdictions in which we operate; and the effect of changes in tax laws and regulations in the jurisdictions in which we operate;
- our ability to execute on our strategies related to environmental, social, and governance matters, and achieve related expectations, including as a result of evolving regulatory and other standards, processes, and assumptions, the pace of scientific and technological developments, increased costs and the availability of requisite financing, and changes in carbon markets; and
- other risks and uncertainties described in our reports filed from time to time with the SEC.

Results of Operations

The results of operations discussed below are on a GAAP basis unless otherwise stated.

Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

Revenue:

(in thousands, except percentages)	Three Months Ended September 30,		2021		Change			
	2022		2021		GAAP		Constant Currency	
	GAAP	Constant Currency	GAAP	Constant Currency	Amount	%	Amount	%
	Amount		Amount		Amount		Amount	
Revenue:								
Subscription lease licenses	\$ 136,489	\$ 151,322	\$ 120,516	\$ 15,973	13.3	\$ 30,806	25.6	
Perpetual licenses	72,417	76,560	79,878	(7,461)	(9.3)	(3,318)	(4.2)	
Software licenses	208,906	227,882	200,394	8,512	4.2	27,488	13.7	
Maintenance	247,678	266,167	223,872	23,806	10.6	42,295	18.9	
Service	15,927	16,699	16,902	(975)	(5.8)	(203)	(1.2)	
Maintenance and service	263,605	282,866	240,774	22,831	9.5	42,092	17.5	
Total revenue	\$ 472,511	\$ 510,748	\$ 441,168	\$ 31,343	7.1	\$ 69,580	15.8	

Revenue for the quarter ended September 30, 2022 increased 7.1% compared to the quarter ended September 30, 2021, or 15.8% in constant currency. Our revenue was favorably impacted by our continued investment in our global sales, support and marketing organizations, and the timing and duration of our multi-year subscription lease contracts. Annual maintenance contracts that were sold with new perpetual licenses, maintenance contracts for new perpetual licenses sold in previous quarters, maintenance renewals and the maintenance portion of subscription lease license contracts collectively contributed to maintenance revenue growth of 10.6%, or 18.9% in constant currency. Subscription lease license revenue increased 13.3%, or 25.6% in constant currency, as compared to the prior-year quarter. Perpetual license revenue, which is derived from new sales during the quarter, decreased 9.3%, or 4.2% in constant currency, as compared to the prior-year quarter primarily due to customers' preference shifting to subscription lease licenses. Service revenue decreased 5.8%, or 1.2% in constant currency, as compared to the prior-year quarter.

We continue to experience increased demand from our customers for contracts that often include longer-term, subscription lease licenses involving a larger number of our software products. These arrangements typically involve a higher overall transaction price. The upfront recognition of license revenue related to these larger transactions can result in significant subscription lease license revenue volatility. Software products, across a large variety of applications and industries, are increasingly distributed in software-as-a-service, cloud and other subscription environments in which the licensing approach is time-based rather than perpetual. This preference could result in a shift from perpetual licenses to time-based licenses, such as subscription leases, over the long term.

With respect to revenue, on average for the quarter ended September 30, 2022, the U.S. Dollar was 15.3% stronger, when measured against our foreign currencies, than for the quarter ended September 30, 2021. The table below presents the net impacts of currency fluctuations on revenue for the quarter ended September 30, 2022. Amounts in brackets indicate an adverse impact from currency fluctuations.

(in thousands)	Three Months Ended September 30, 2022
Euro	\$ (15,924)
Japanese Yen	(9,724)
South Korean Won	(8,633)
British Pound	(2,320)
Taiwan Dollar	(546)
Indian Rupee	(661)
Other	(429)
Total	\$ (38,237)

As a percentage of revenue, our international and domestic revenues, and our direct and indirect revenues, were as follows:

	Three Months Ended September 30,	
	2022	2021
International	57.4 %	52.6 %
Domestic	42.6 %	47.4 %
Direct	74.8 %	74.4 %
Indirect	25.2 %	25.6 %

In valuing deferred revenue on the balance sheets of our acquisitions that closed prior to 2022, we applied the fair value provisions applicable to the accounting for business combinations, resulting in a reduction of deferred revenue as compared to the historical carrying amount. As a result, our post-acquisition revenue will be less than the sum of what would have otherwise been reported by us and each acquiree absent the acquisitions. The impacts on reported revenue were \$1.2 million and \$4.3 million for the quarters ended September 30, 2022 and 2021, respectively. The expected impacts on reported revenue are \$0.5 million and \$7.3 million for the quarter and the year ending December 31, 2022, respectively.

Deferred Revenue and Backlog:

Deferred revenue consists of billings made or payments received in advance of revenue recognition from customer agreements. The deferred revenue on our condensed consolidated balance sheet does not represent the total value of annual or multi-year, noncancellable agreements. Our backlog represents installment billings for periods beyond the current quarterly billing cycle. Our deferred revenue and backlog as of September 30, 2022 and December 31, 2021 consisted of the following:

(in thousands)	Balance at September 30, 2022		
	Total	Current	Long-Term
Deferred revenue	\$ 354,718	\$ 334,901	\$ 19,817
Backlog	754,170	339,241	414,929
Total	\$ 1,108,888	\$ 674,142	\$ 434,746

(in thousands)	Balance at December 31, 2021		
	Total	Current	Long-Term
Deferred revenue	\$ 412,781	\$ 391,528	\$ 21,253
Backlog	845,079	373,334	471,745
Total	\$ 1,257,860	\$ 764,862	\$ 492,998

Revenue associated with deferred revenue and backlog that will be recognized in the subsequent twelve months is classified as current in the tables above.

Cost of Sales and Operating Expenses:

The tables below reflect our operating results on both a GAAP and constant currency basis. Amounts included in the discussions that follow each table are provided in constant currency and are inclusive of costs related to our acquisitions. The impact of foreign exchange translation is discussed separately, where material.

(in thousands, except percentages)	Three Months Ended September 30,									
	2022				2021		Change			
	GAAP		Constant Currency		GAAP		GAAP		Constant Currency	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	%	Amount	%
Cost of sales:										
Software licenses	\$ 8,425	1.8	8,540	1.7	\$ 8,289	1.9	\$ 136	1.6	\$ 251	3.0
Amortization	17,281	3.7	17,762	3.5	15,189	3.4	2,092	13.8	2,573	16.9
Maintenance and service	36,261	7.7	38,547	7.5	39,268	8.9	(3,007)	(7.7)	(721)	(1.8)
Total cost of sales	61,967	13.1	64,849	12.7	62,746	14.2	(779)	(1.2)	2,103	3.4
Gross profit	\$ 410,544	86.9	445,899	87.3	\$ 378,422	85.8	\$ 32,122	8.5	\$ 67,477	17.8

Amortization: The increase in amortization expense was primarily due to the amortization of newly acquired intangible assets.

Maintenance and Service: The decrease in maintenance and service costs was primarily due to the following:

- Decreased costs related to foreign exchange translation of \$2.3 million due to a stronger U.S. Dollar.
- Decreased salaries and incentive compensation of \$1.1 million.

The improvement in gross profit was a result of the increase in revenue and the decrease in the cost of sales.

(in thousands, except percentages)	Three Months Ended September 30,									
	2022				2021		Change			
	GAAP		Constant Currency		GAAP		GAAP		Constant Currency	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	%	Amount	%
Operating expenses:										
Selling, general and administrative	\$ 175,283	37.1	\$ 183,682	36.0	\$ 165,368	37.5	\$ 9,915	6.0	\$ 18,314	11.1
Research and development	108,056	22.9	111,575	21.8	102,023	23.1	6,033	5.9	9,552	9.4
Amortization	3,821	0.8	4,112	0.8	3,403	0.8	418	12.3	709	20.8
Total operating expenses	287,160	60.8	299,369	58.6	270,794	61.4	16,366	6.0	28,575	10.6
Operating income	\$ 123,384	26.1	\$ 146,530	28.7	\$ 107,628	24.4	\$ 15,756	14.6	\$ 38,902	36.1

Selling, General and Administrative: The net increase in selling, general and administrative costs was primarily due to the following:

- Increased salaries, incentive compensation and other headcount-related costs of \$9.3 million.
- Increased business travel of \$3.8 million as in-person meetings and live attendance at trade events have continued to expand.
- Increased stock-based compensation of \$1.7 million.
- Increased consulting and professional fees of \$1.3 million.
- Decreased costs related to foreign exchange translation of \$8.4 million due to a stronger U.S. Dollar.

We anticipate that we will continue to make targeted investments in our global sales and marketing organizations and our global business infrastructure to enhance and support our revenue-generating activities.

Research and Development: The net increase in research and development costs was primarily due to the following:

- Increased salaries, incentive compensation and other headcount-related costs of \$5.6 million.
- Increased stock-based compensation of \$1.3 million.
- Increased business travel of \$0.9 million as in-person meetings and live attendance at trade events have continued to expand.
- Decreased costs related to foreign exchange translation of \$3.5 million due to a stronger U.S. Dollar.

We have traditionally invested significant resources in research and development activities and expect to continue to make investments in expanding the ease of use and capabilities of our broad portfolio of simulation software products.

The impacts from currency fluctuations resulted in decreased operating income of \$23.1 million for the quarter ended September 30, 2022 as compared to the quarter ended September 30, 2021.

Interest Income: Interest income for the three months ended September 30, 2022 was \$1.3 million as compared to \$0.5 million for the three months ended September 30, 2021. The higher interest rate environment and the related increase in the average rate of return on invested cash balances was partially offset by the lower invested cash balance, as a result of investments in acquisitions and share repurchases.

Interest Expense: Interest expense for the quarter ended September 30, 2022 was \$6.1 million as compared to \$2.9 million for the quarter ended September 30, 2021 due to a higher interest rate environment.

Other Expense, net: Other expense for the quarter ended September 30, 2022 was \$0.7 million as compared to other expense of \$1.3 million for the quarter ended September 30, 2021. Other expense consisted primarily of losses on equity investments and foreign currency losses during the third quarter of 2022 and 2021, respectively.

Income Tax Provision: Our income before income tax provision, income tax provision and effective tax rates were as follows:

<i>(in thousands, except percentages)</i>	Three Months Ended September 30,	
	2022	2021
Income before income tax provision	\$ 117,981	\$ 103,898
Income tax provision	\$ 22,006	\$ 18,556
Effective tax rate	18.7 %	17.9 %

The increase in the effective tax rate from the third quarter of 2021 was primarily due to a decrease in benefits related to tax planning in a foreign jurisdiction, offset by change in the net reserve for uncertain tax positions.

When compared to the federal and state combined statutory rate for each respective period, the effective tax rates for the quarters ended September 30, 2022 and 2021 were favorably impacted by tax benefits from the foreign-derived intangible income (FDII) deduction and research and development credits.

Net Income: Our net income, diluted earnings per share and weighted average shares used in computing diluted earnings per share were as follows:

<i>(in thousands, except per share data)</i>	Three Months Ended September 30,	
	2022	2021
Net income	\$ 95,975	\$ 85,342
Diluted earnings per share	\$ 1.10	\$ 0.97
Weighted average shares outstanding - diluted	87,418	88,169

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

Revenue:

(in thousands, except percentages)	Nine Months Ended September 30,				Change			
	2022		2021					
	GAAP	Constant Currency	GAAP		GAAP		Constant Currency	
	Amount		Amount		Amount	%	Amount	%
Revenue:								
Subscription lease licenses	\$ 362,977	\$ 390,455	\$ 315,387	\$ 47,590	15.1	\$ 75,068	23.8	
Perpetual licenses	212,355	221,273	232,433	(20,078)	(8.6)	(11,160)	(4.8)	
Software licenses	575,332	611,728	547,820	27,512	5.0	63,908	11.7	
Maintenance	742,554	782,457	655,843	86,711	13.2	126,614	19.3	
Service	53,552	55,600	47,385	6,167	13.0	8,215	17.3	
Maintenance and service	796,106	838,057	703,228	92,878	13.2	134,829	19.2	
Total revenue	\$ 1,371,438	\$ 1,449,785	\$ 1,251,048	\$ 120,390	9.6	\$ 198,737	15.9	

Revenue for the nine months ended September 30, 2022 increased 9.6% compared to the nine months ended September 30, 2021, or 15.9% in constant currency. Our revenue was favorably impacted by our continued investment in our global sales, support and marketing organizations and the timing and duration of our multi-year lease contracts. Annual maintenance contracts that were sold with new perpetual licenses, maintenance contracts for new perpetual licenses sold in previous quarters, maintenance renewals and the maintenance portion of subscription lease license contracts collectively contributed to maintenance revenue growth of 13.2%, or 19.3% in constant currency. Subscription lease license revenue increased 15.1%, or 23.8% in constant currency, as compared to the nine months ended September 30, 2021. Service revenue increased 13.0%, or 17.3% in constant currency, as compared to the nine months ended September 30, 2021. Perpetual license revenue, which is derived from new sales during the nine months ended September 30, 2022, decreased 8.6%, or 4.8% in constant currency, as compared to the nine months ended September 30, 2021 primarily due to customers' preference shifting to subscription lease licenses.

With respect to revenue, on average for the nine months ended September 30, 2022, the U.S. Dollar was 11.8% stronger, when measured against our foreign currencies, than for the nine months ended September 30, 2021. The table below presents the net impacts of currency fluctuations on revenue for the nine months ended September 30, 2022. Amounts in brackets indicate an adverse impact from currency fluctuations.

(in thousands)	Nine Months Ended September 30, 2022
Euro	\$ (32,897)
Japanese Yen	(23,618)
South Korean Won	(14,463)
British Pound	(3,993)
Taiwan Dollar	(1,395)
Indian Rupee	(1,322)
Other	(659)
Total	\$ (78,347)

As a percentage of revenue, our international and domestic revenues, and our direct and indirect revenues, were as follows:

	Nine Months Ended September 30,	
	2022	2021
International	57.3 %	54.4 %
Domestic	42.7 %	45.6 %
Direct	73.7 %	74.0 %
Indirect	26.3 %	26.0 %

In valuing deferred revenue on the balance sheets of our acquisitions that closed prior to 2022, we applied the fair value provisions applicable to the accounting for business combinations, resulting in a reduction of deferred revenue as compared to the historical carrying amount. As a result, our post-acquisition revenue will be less than the sum of what would have otherwise been reported by us and each acquiree absent the acquisitions. The impacts on reported revenue were \$6.8 million and \$19.1 million for the nine months ended September 30, 2022 and 2021, respectively.

Cost of Sales and Operating Expenses:

The tables below reflect our operating results on both a GAAP and constant currency basis. Amounts included in the discussions that follow each table are provided in constant currency and are inclusive of costs related to our acquisitions. The impact of foreign exchange translation is discussed separately, where material.

(in thousands, except percentages)	Nine Months Ended September 30,										
	2022					2021		Change			
	GAAP		Constant Currency		GAAP		GAAP		Constant Currency		
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	%	Amount	%	
Cost of sales:											
Software licenses	\$ 25,370	1.8	\$ 25,609	1.8	\$ 23,960	1.9	\$ 1,410	5.9	\$ 1,649	6.9	
Amortization	51,947	3.8	53,004	3.7	45,163	3.6	6,784	15.0	7,841	17.4	
Maintenance and service	111,897	8.2	117,141	8.1	119,884	9.6	(7,987)	(6.7)	(2,743)	(2.3)	
Total cost of sales	189,214	13.8	195,754	13.5	189,007	15.1	207	0.1	6,747	3.6	
Gross profit	\$ 1,182,224	86.2	\$ 1,254,031	86.5	\$ 1,062,041	84.9	\$ 120,183	11.3	\$ 191,990	18.1	

Software Licenses: The increase in the cost of software licenses was primarily due to increased third-party royalties of \$1.4 million.

Amortization: The increase in amortization expense was primarily due to the amortization of intangible assets acquired within the last year.

Maintenance and Service: The decrease in maintenance and service costs was primarily due to the following:

- Decreased costs related to foreign exchange translation of \$5.2 million due to a stronger U.S. Dollar.
- Decreased stock-based compensation of \$2.4 million.

The improvement in gross profit was a result of the increase in revenue, partially offset by the increase in the cost of sales.

(in thousands, except percentages)	Nine Months Ended September 30,										
	2022					2021		Change			
	GAAP		Constant Currency		GAAP		GAAP		Constant Currency		
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	%	Amount	%	
Operating expenses:											
Selling, general and administrative	\$ 515,421	37.6	\$ 533,378	36.8	\$ 471,993	37.7	\$ 43,428	9.2	\$ 61,385	13.0	
Research and development	322,271	23.5	330,495	22.8	303,381	24.3	18,890	6.2	27,114	8.9	
Amortization	11,975	0.9	12,615	0.9	12,244	1.0	(269)	(2.2)	371	3.0	
Total operating expenses	849,667	62.0	876,488	60.5	787,618	63.0	62,049	7.9	88,870	11.3	
Operating income	\$ 332,557	24.2	\$ 377,543	26.0	\$ 274,423	21.9	\$ 58,134	21.2	\$ 103,120	37.6	

Selling, General and Administrative: The net increase in selling, general and administrative costs was primarily due to the following:

- Increased salaries, incentive compensation and other headcount-related costs of \$33.4 million.
- Increased business travel of \$8.5 million as in-person meetings and live attendance at trade events have continued to expand.
- Increased consulting and professional fees of \$5.0 million.
- Increased marketing expenses of \$4.5 million.
- Increased IT maintenance and software hosting costs of \$3.5 million.
- Increased bad debt expense of \$1.7 million due to the write-off of receivables due from Russian customers as a result of sanctions imposed related to Russia's invasion of Ukraine.
- Decreased costs related to foreign exchange translation of \$18.0 million due to a stronger U.S. Dollar.

Research and Development: The net increase in research and development costs was primarily due to the following:

- Increased salaries, incentive compensation and other headcount-related costs of \$17.2 million.
- Increased IT maintenance and software hosting costs of \$2.6 million.
- Increased business travel of \$2.3 million as in-person meetings and live attendance at trade events have continued to expand.
- Increased stock-based compensation of \$1.4 million.
- Decreased costs related to foreign exchange translation of \$8.2 million due to a stronger U.S. Dollar.

The impacts from currency fluctuations resulted in decreased operating income of \$45.0 million for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Interest Income: Interest income for the nine months ended September 30, 2022 was \$2.1 million as compared to \$1.5 million for the nine months ended September 30, 2021. The higher interest rate environment and the related increase in the average rate of return on invested cash balances was partially offset by the lower invested cash balance, as a result of investments in acquisitions and share repurchases.

Interest Expense: Interest expense for the nine months ended September 30, 2022 was \$13.7 million as compared to \$9.6 million for the nine months ended September 30, 2021. Interest expense increased as a result of a higher interest rate environment, partially offset by lower principal balances on our outstanding debt.

Other (Expense) Income, net: Other expense for the nine months ended September 30, 2022 was \$2.1 million as compared to other income of \$14.0 million for the nine months ended September 30, 2021. Other (expense) income consisted primarily of losses on equity investments and net foreign currency losses during the nine months ended September 30, 2022 and gains on equity investments during the nine months ended September 30, 2021.

Income Tax Provision: Our income before income tax provision, income tax provision and effective tax rates were as follows:

<i>(in thousands, except percentages)</i>	Nine Months Ended September 30,	
	2022	2021
Income before income tax provision	\$ 318,904	\$ 280,381
Income tax provision	\$ 53,141	\$ 28,925
Effective tax rate	16.7 %	10.3 %

The increase in the effective tax rate from the prior year was primarily due to decreased benefits related to stock-based compensation.

When compared to the federal and state combined statutory rate for each respective period, the effective tax rates for the nine months ended September 30, 2022 and 2021 were favorably impacted by tax benefits from stock-based compensation, the FDII deduction and research and development credits, partially offset by the impact of non-deductible compensation.

Net Income: Our net income, diluted earnings per share and weighted average shares used in computing diluted earnings per share were as follows:

<i>(in thousands, except per share data)</i>	Nine Months Ended September 30,	
	2022	2021
Net income	\$ 265,763	\$ 251,456
Diluted earnings per share	\$ 3.04	\$ 2.86
Weighted average shares outstanding - diluted	87,496	88,069

Non-GAAP Results

We provide non-GAAP revenue, non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share as supplemental measures to GAAP regarding our operational performance. These financial measures exclude the impact of certain items and, therefore, have not been calculated in accordance with GAAP. A detailed explanation and a reconciliation of each non-GAAP financial measure to its most comparable GAAP financial measure are included below.

ANSYS, INC. AND SUBSIDIARIES Reconciliations of GAAP to Non-GAAP Measures (Unaudited)

Three Months Ended
September 30, 2022

<i>(in thousands, except percentages and per share data)</i>	Revenue	Gross Profit	%	Operating Income	%	Net Income	EPS - Diluted ¹
Total GAAP	\$ 472,511	\$ 410,544	86.9 %	\$ 123,384	26.1 %	\$ 95,975	\$ 1.10
Acquisition accounting for deferred revenue	1,162	1,162	— %	1,162	0.2 %	1,162	0.01
Stock-based compensation expense	—	2,621	0.5 %	46,970	9.9 %	46,970	0.55
Excess payroll taxes related to stock-based awards	—	37	— %	260	0.1 %	260	—
Amortization of intangible assets from acquisitions	—	17,281	3.7 %	21,102	4.4 %	21,102	0.24
Expenses related to business combinations	—	—	— %	1,210	0.3 %	1,210	0.01
Adjustment for income tax effect	—	—	— %	—	— %	(11,958)	(0.14)
Total non-GAAP	\$ 473,673	\$ 431,645	91.1 %	\$ 194,088	41.0 %	\$ 154,721	\$ 1.77

¹ Diluted weighted average shares were 87,418.

Three Months Ended
September 30, 2021

<i>(in thousands, except percentages and per share data)</i>	Revenue	Gross Profit	%	Operating Income	%	Net Income	EPS - Diluted ¹
Total GAAP	\$ 441,168	\$ 378,422	85.8 %	\$ 107,628	24.4 %	\$ 85,342	\$ 0.97
Acquisition accounting for deferred revenue	4,256	4,256	0.1 %	4,256	0.7 %	4,256	0.05
Stock-based compensation expense	—	2,753	0.6 %	44,144	9.9 %	44,144	0.49
Excess payroll taxes related to stock-based awards	—	38	— %	626	0.1 %	626	0.01
Amortization of intangible assets from acquisitions	—	15,189	3.4 %	18,592	4.2 %	18,592	0.21
Expenses related to business combinations	—	—	— %	1,716	0.4 %	1,716	0.02
Adjustment for income tax effect	—	—	— %	—	— %	(14,358)	(0.16)
Total non-GAAP	\$ 445,424	\$ 400,658	89.9 %	\$ 176,962	39.7 %	\$ 140,318	\$ 1.59

¹ Diluted weighted average shares were 88,169.

ANSYS, INC. AND SUBSIDIARIES
Reconciliations of GAAP to Non-GAAP Measures
(Unaudited)

**Nine Months Ended
September 30, 2022**

<i>(in thousands, except percentages and per share data)</i>	Revenue	Gross Profit	%	Operating Income	%	Net Income	EPS - Diluted¹
Total GAAP	\$ 1,371,438	\$ 1,182,224	86.2 %	\$ 332,557	24.2 %	\$ 265,763	\$ 3.04
Acquisition accounting for deferred revenue	6,758	6,758	0.1 %	6,758	0.3 %	6,758	0.08
Stock-based compensation expense	—	7,448	0.5 %	122,119	8.9 %	122,119	1.40
Excess payroll taxes related to stock-based awards	—	481	— %	5,530	0.5 %	5,530	0.06
Amortization of intangible assets from acquisitions	—	51,947	3.8 %	63,922	4.6 %	63,922	0.73
Expenses related to business combinations	—	—	— %	5,376	0.4 %	5,376	0.06
Adjustment for income tax effect	—	—	— %	—	— %	(40,929)	(0.47)
Total non-GAAP	\$ 1,378,196	\$ 1,248,858	90.6 %	\$ 536,262	38.9 %	\$ 428,539	\$ 4.90

¹ Diluted weighted average shares were 87,496.

**Nine Months Ended
September 30, 2021**

<i>(in thousands, except percentages and per share data)</i>	Revenue	Gross Profit	%	Operating Income	%	Net Income	EPS - Diluted¹
Total GAAP	\$ 1,251,048	\$ 1,062,041	84.9 %	\$ 274,423	21.9 %	\$ 251,456	\$ 2.86
Acquisition accounting for deferred revenue	19,075	19,075	0.2 %	19,075	1.1 %	19,075	0.22
Stock-based compensation expense	—	9,834	0.8 %	122,148	9.7 %	122,148	1.38
Excess payroll taxes related to stock-based awards	—	1,085	0.1 %	12,080	1.0 %	12,080	0.14
Amortization of intangible assets from acquisitions	—	45,163	3.5 %	57,407	4.5 %	57,407	0.65
Expenses related to business combinations	—	—	— %	5,007	0.4 %	5,007	0.06
Adjustment for income tax effect	—	—	— %	—	— %	(65,334)	(0.75)
Total non-GAAP	\$ 1,270,123	\$ 1,137,198	89.5 %	\$ 490,140	38.6 %	\$ 401,839	\$ 4.56

¹ Diluted weighted average shares were 88,069.

We use non-GAAP financial measures (a) to evaluate our historical and prospective financial performance as well as our performance relative to our competitors, (b) to set internal sales targets and spending budgets, (c) to allocate resources, (d) to measure operational profitability and the accuracy of forecasting, (e) to assess financial discipline over operational expenditures and (f) as an important factor in determining variable compensation for management and employees. In addition, many financial analysts that follow us focus on and publish both historical results and future projections based on non-GAAP financial measures. We believe that it is in the best interest of our investors to provide this information to analysts so that they accurately report the non-GAAP financial information. Moreover, investors have historically requested, and we have historically reported, these non-GAAP financial measures as a means of providing consistent and comparable information with past reports of financial results.

While we believe that these non-GAAP financial measures provide useful supplemental information to investors, there are limitations associated with the use of these non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with GAAP, are not reported by all our competitors and may not be directly comparable to similarly titled measures of our competitors due to potential differences in the exact method of calculation. We compensate for these limitations by using these non-GAAP financial measures as supplements to GAAP financial measures and by reviewing the reconciliations of the non-GAAP financial measures to their most comparable GAAP financial measures.

The adjustments to these non-GAAP financial measures, and the basis for such adjustments, are outlined below:

Acquisition accounting for deferred revenue. Historically, we have consummated acquisitions in order to support our strategic and other business objectives. Under prior accounting guidance, a fair value provision resulted in acquired deferred revenue that was often recorded on the opening balance sheet at an amount that was lower than the historical carrying value. Although this fair value provision has no impact on our business or cash flow, it adversely impacts our reported GAAP revenue in the reporting periods following an acquisition. In 2022, we adopted accounting guidance which eliminates the fair value provision that resulted in the deferred revenue adjustment on a prospective basis. In order to provide investors with financial information that facilitates comparison of both historical and future results, we provide non-GAAP financial measures which exclude the impact of the acquisition accounting adjustment for acquisitions prior to the adoption of the new guidance in 2022. We believe that this non-GAAP financial adjustment is useful to investors because it allows investors to (a) evaluate the effectiveness of the methodology and information used by us in our financial and operational decision-making, and (b) compare our past and future reports of financial results as the revenue reduction related to acquired deferred revenue will not recur when related subscription lease licenses and software maintenance contracts are renewed in future periods.

Amortization of intangible assets from acquisitions. We incur amortization of intangible assets, included in our GAAP presentation of amortization expense, related to various acquisitions we have made. We exclude these expenses for the purpose of calculating non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share when we evaluate our continuing operational performance because these costs are fixed at the time of an acquisition, are then amortized over a period of several years after the acquisition and generally cannot be changed or influenced by us after the acquisition. Accordingly, we do not consider these expenses for purposes of evaluating our performance during the applicable time period after the acquisition, and we exclude such expenses when making decisions to allocate resources. We believe that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate the effectiveness of the methodology and information used by us in our financial and operational decision-making, and (b) compare our past reports of financial results as we have historically reported these non-GAAP financial measures.

Stock-based compensation expense. We incur expense related to stock-based compensation included in our GAAP presentation of cost of maintenance and service; research and development expense; and selling, general and administrative expense. This non-GAAP adjustment also includes excess payroll tax expense related to stock-based compensation. Although stock-based compensation is an expense and viewed as a form of compensation, we exclude these expenses for the purpose of calculating non-GAAP gross profit, non-GAAP gross profit margin, non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share when we evaluate our continuing operational performance. Specifically, we exclude stock-based compensation during our annual budgeting process and our quarterly and annual assessments of our performance. The annual budgeting process is the primary mechanism whereby we allocate resources to various initiatives and operational requirements. Additionally, the annual review by our board of directors during which it compares our historical business model and profitability to the planned business model and profitability for the forthcoming year excludes the impact of stock-based compensation. In evaluating the performance of our senior management and department managers, charges related to stock-based compensation are excluded from expenditure and profitability results. In fact, we record stock-based compensation expense into a stand-alone cost center for which no single operational manager is responsible or accountable. In this way, we can review, on a period-to-period basis, each manager's performance and assess financial discipline over operational expenditures without the effect of stock-based compensation. We believe that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate our operating results and the

effectiveness of the methodology used by us to review our operating results, and (b) review historical comparability in our financial reporting as well as comparability with competitors' operating results.

Expenses related to business combinations. We incur expenses for professional services rendered in connection with business combinations, which are included in our GAAP presentation of selling, general and administrative expense. Beginning in the second quarter of 2022, we have updated this non-GAAP measure to include, in addition to professional services rendered in connection with business combinations, other expenses directly related to business combinations, including compensation expenses and concurrent restructuring activities, such as employee severances and other exit costs. These costs are included in our GAAP presentation of selling, general and administrative and research and development expenses. The additional expenses were not material in the current or comparable period. We exclude these acquisition-related expenses for the purpose of calculating non-GAAP operating income, non-GAAP operating profit margin, non-GAAP net income and non-GAAP diluted earnings per share when we evaluate our continuing operational performance, as we generally would not have otherwise incurred these expenses in the periods presented as a part of our operations. We believe that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate our operating results and the effectiveness of the methodology used by us to review our operating results, and (b) review historical comparability in our financial reporting as well as comparability with competitors' operating results.

Non-GAAP tax provision. We utilize a normalized non-GAAP annual effective tax rate (AETR) to calculate non-GAAP measures. This methodology provides better consistency across interim reporting periods by eliminating the effects of non-recurring items and aligning the non-GAAP tax rate with our expected geographic earnings mix. To project this rate, we analyzed our historic and projected non-GAAP earnings mix by geography along with other factors such as our current tax structure, recurring tax credits and incentives, and expected tax positions. On an annual basis we will re-evaluate this rate for significant items that may materially affect our projections.

Non-GAAP financial measures are not in accordance with, or an alternative for, GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

We have provided a reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures as listed below:

GAAP Reporting Measure

Revenue
Gross Profit
Gross Profit Margin
Operating Income
Operating Profit Margin
Net Income
Diluted Earnings Per Share

Non-GAAP Reporting Measure

Non-GAAP Revenue
Non-GAAP Gross Profit
Non-GAAP Gross Profit Margin
Non-GAAP Operating Income
Non-GAAP Operating Profit Margin
Non-GAAP Net Income
Non-GAAP Diluted Earnings Per Share

Constant currency. In addition to the non-GAAP financial measures detailed above, we use constant currency results for financial and operational decision-making and as a means to evaluate period-to-period comparisons by excluding the effects of foreign currency fluctuations on the reported results. To present this information, the 2022 results for entities whose functional currency is a currency other than the U.S. Dollar were converted to U.S. Dollars at rates that were in effect for the 2021 comparable period, rather than the actual exchange rates in effect for 2022. Constant currency growth rates are calculated by adjusting the 2022 reported amounts by the 2022 currency fluctuation impacts and comparing the adjusted amounts to the 2021 comparable period reported amounts. We believe that these non-GAAP financial measures are useful to investors because they allow investors to (a) evaluate the effectiveness of the methodology and information used by us in our financial and operational decision-making, and (b) compare our reported results to our past reports of financial results without the effects of foreign currency fluctuations.

Liquidity and Capital Resources

<i>(in thousands)</i>	September 30, 2022	December 31, 2021	Change
Cash, cash equivalents and short-term investments	\$ 632,703	\$ 668,028	\$ (35,325)
Working capital	\$ 840,186	\$ 860,082	\$ (19,896)

Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist primarily of highly liquid investments such as money market funds and deposits held at major banks. Short-term investments consist primarily of deposits held by certain of our foreign subsidiaries with original maturities of three months to one year. The following table presents our foreign and domestic holdings of cash, cash equivalents and short-term investments as of September 30, 2022 and December 31, 2021:

<i>(in thousands, except percentages)</i>	September 30, 2022	% of Total	December 31, 2021	% of Total
Domestic	\$ 359,619	56.8	\$ 365,390	54.7
Foreign	273,084	43.2	302,638	45.3
Total	<u>\$ 632,703</u>		<u>\$ 668,028</u>	

In general, it is our intention to permanently reinvest all earnings in excess of previously taxed amounts. Substantially all of the pre-2018 earnings of our non-U.S. subsidiaries were taxed through the transition tax and post-2018 current earnings are taxed as part of global intangible low-taxed income tax expense. These taxes increase our previously taxed earnings and allow for the repatriation of the majority of our foreign earnings without any residual U.S. federal tax. Unrecognized provisions for taxes on indefinitely reinvested undistributed earnings of foreign subsidiaries would not be significant.

The amount of cash, cash equivalents and short-term investments held by foreign subsidiaries is subject to translation adjustments caused by changes in foreign currency exchange rates as of the end of each respective reporting period, the offset to which is recorded in accumulated other comprehensive loss on our condensed consolidated balance sheet.

Cash Flows from Operating Activities

<i>(in thousands)</i>	Nine Months Ended September 30,		Change
	2022	2021	
Net cash provided by operating activities	\$ 457,031	\$ 447,829	\$ 9,202

Net cash provided by operating activities increased during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 due to increased net cash flows from operating assets and liabilities of \$10.0 million, partially offset by decreased net income (net of non-cash operating adjustments) of \$0.8 million. The growth in net cash provided by operating activities was a result of increased customer receipts driven primarily by ACV growth and lower income tax payments, partially offset by additional cash outflows related to increased operating expenses as compared to the nine months ended September 30, 2021.

Cash Flows from Investing Activities

<i>(in thousands)</i>	Nine Months Ended September 30,		Change
	2022	2021	
Net cash used in investing activities	\$ (258,622)	\$ (123,656)	\$ (134,966)

Net cash used in investing activities increased by \$135.0 million during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 due to increased acquisition-related net cash outlays of \$137.5 million. We currently plan capital spending of \$20.0 million to \$25.0 million during fiscal year 2022 as compared to the \$23.0 million that was spent in fiscal year 2021. The level of spending will depend on various factors, including the growth of the business and general economic conditions.

Cash Flows from Financing Activities

(in thousands)	Nine Months Ended September 30,		Change
	2022	2021	
Net cash used in financing activities	\$ (197,978)	\$ (146,865)	\$ (51,113)

Net cash used in financing activities increased during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 due to increased stock repurchases of \$119.6 million, partially offset by decreased principal payments on long-term debt of \$45.0 million and decreased restricted stock withholding taxes paid in lieu of issued shares of \$30.1 million.

Other Cash Flow Information

On June 30, 2022, we entered into the 2022 Credit Agreement with PNC Bank, National Association as administrative agent, swing line lender, and an L/C issuer, the lenders party thereto, and the other L/C issuers party thereto. The 2022 Credit Agreement refinanced our previous credit agreements in their entirety. Terms used in this description of the 2022 Credit Agreement with initial capital letters that are not otherwise defined herein are as defined in the 2022 Credit Agreement.

The term loan facility was advanced by the lenders thereunder to refinance and replace the Prior Credit Agreements.

As of September 30, 2022, the carrying value of our term loan was \$753.5 million, with no principal payments due in the next twelve months. Borrowings under the term loan and revolving loan facilities accrue interest at a rate that is based on the Term SOFR plus an applicable margin or at the base rate plus an applicable margin, at our election. The base rate is the highest of (i) the Overnight Bank Funding Rate, plus 0.500%, (ii) the PNC Bank, National Association prime rate, and (iii) Daily Simple SOFR plus an adjustment for SOFR plus 1.00%. The applicable margin for the borrowings is a percentage per annum based on the lower of (1) a pricing level determined by our then-current consolidated leverage ratio and (2) a pricing level determined by our public debt rating (if available). The rate in effect for the fourth quarter under the 2022 Credit Agreement is 4.53%.

We previously entered into operating lease commitments, primarily for our domestic and international offices. The commitments related to these operating leases is \$145.5 million, of which \$23.6 million is due in the next twelve months.

In November 2022, we had a \$70.0 million cash outflow (net of cash acquired) associated with a strategic acquisition.

We believe that existing cash and cash equivalent balances, together with cash generated from operations and access to our \$500.0 million revolving loan facility, will be sufficient to meet our working capital and capital expenditure requirements through the next twelve months. Our cash requirements in the future may also be financed through additional equity or debt financings. However, future disruptions in the capital markets could make financing more challenging, and there can be no assurance that such financing can be obtained on commercially reasonable terms, or at all.

Under our stock repurchase program, we repurchased shares as follows:

(in thousands, except per share data)	Nine Months Ended	
	September 30, 2022	September 30, 2021
Number of shares repurchased	500	97
Average price paid per share	\$ 311.14	\$ 371.83
Total cost	\$ 155,571	\$ 35,993

All of the shares repurchased during the nine months ended September 30, 2022 were repurchased in the first quarter. As of September 30, 2022, 2.0 million shares remained available for repurchase under the program.

The authorized repurchase program does not have an expiration date, and the pace of the repurchase activity will depend on factors such as working capital needs, cash requirements for acquisitions, our stock price, and economic and market conditions. Our stock repurchases may be effected from time to time through open market purchases including pursuant to a Rule 10b5-1 plan.

We continue to generate positive cash flows from operating activities and believe that the best uses of our excess cash are to invest in the business; acquire or make investments in complementary companies, products, services and technologies; and make payments on our outstanding debt balances. Any future acquisitions may be funded by available cash and investments, cash generated from operations, debt financing, or the issuance of additional securities. Additionally, we have in the past, and expect in the future, to repurchase stock in order to both offset dilution and return capital, in excess of our requirements, to stockholders with the goal of increasing stockholder value.

Contractual and Other Obligations

There were no material changes to our significant contractual and other obligations during the nine months ended September 30, 2022 as compared to those previously reported within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Form 10-K.

Critical Accounting Estimates

During the first quarter of 2022, we completed the annual impairment test for goodwill and the indefinite-lived intangible asset and determined that these assets had not been impaired as of the test date, January 1, 2022. Given the adverse economic and market conditions in the third quarter, we considered a variety of qualitative factors to determine if an additional quantitative impairment test was required subsequent to our annual impairment test. Based on a variety of factors, including the excess of the fair value over the carrying amount in the most recent impairment test, we determined it was not more likely than not that an impairment existed as of September 30, 2022. No other events or circumstances changed during the nine months ended September 30, 2022 that would indicate that the fair values of our reporting unit and indefinite-lived intangible asset are below their carrying amounts.

No significant changes have occurred to our critical accounting estimates as previously reported within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk. As we operate in international regions, a portion of our revenue, expenses, cash, accounts receivable and payment obligations are denominated in foreign currencies. As a result, changes in currency exchange rates will affect our financial position, results of operations and cash flows. We seek to reduce our currency exchange transaction risks primarily through our normal operating and treasury activities, including the use of derivative instruments.

With respect to revenue, on average for the quarter ended September 30, 2022, the U.S. Dollar was 15.3% stronger, when measured against our foreign currencies, than for the quarter ended September 30, 2021. With respect to revenue, on average for the nine months ended September 30, 2022, the U.S. Dollar was 11.8% stronger, when measured against our foreign currencies, than for the nine months ended September 30, 2021. The table below presents the net impacts of currency fluctuations on revenue for the three and nine months ended September 30, 2022. Amounts in brackets indicate a net adverse impact from currency fluctuations.

<i>(in thousands)</i>	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Euro	\$ (15,924)	\$ (32,897)
Japanese Yen	(9,724)	(23,618)
South Korean Won	(8,633)	(14,463)
British Pound	(2,320)	(3,993)
Taiwan Dollar	(546)	(1,395)
Indian Rupee	(661)	(1,322)
Other	(429)	(659)
Total	<u>\$ (38,237)</u>	<u>\$ (78,347)</u>

The impacts from currency fluctuations resulted in decreased operating income of \$23.1 million and \$45.0 million for the three and nine months ended September 30, 2022, respectively, as compared to the three and nine months ended September 30, 2021.

A hypothetical 10% strengthening in the U.S. Dollar against other currencies would have decreased our revenue by \$25.0 million and \$66.7 million for the three and nine months ended September 30, 2022, respectively, and decreased our operating income by \$13.1 million and \$29.5 million for the three and nine months ended September 30, 2022, respectively.

The most meaningful currency impacts on revenue and operating income are typically attributable to U.S. Dollar exchange rate changes against the Euro and Japanese Yen. Historical exchange rates for these currency pairs are reflected in the charts below:

As of	Period-End Exchange Rates	
	EUR/USD	USD/JPY
September 30, 2022	0.98	144.78
December 31, 2021	1.14	115.11
September 30, 2021	1.16	111.30

Three Months Ended	Average Exchange Rates	
	EUR/USD	USD/JPY
September 30, 2022	1.01	138.32
September 30, 2021	1.18	110.09

Nine Months Ended	Average Exchange Rates	
	EUR/USD	USD/JPY
September 30, 2022	1.06	127.42
September 30, 2021	1.20	108.45

Interest Rate Risk. Changes in the overall level of interest rates affect the interest income that is generated from our cash, cash equivalents and short-term investments and the interest expense that is generated from our outstanding borrowings. For the three and nine months ended September 30, 2022, interest income was \$1.3 million and \$2.1 million, respectively, and interest expense was \$6.1 million and \$13.7 million, respectively.

Cash and cash equivalents consist primarily of highly liquid investments such as money market funds and deposits held at major banks. Short-term investments consist primarily of deposits held by certain foreign subsidiaries with original maturities

of three months to one year. A hypothetical 100 basis point change in interest rates on these holdings would have an immaterial impact on our financial results.

Our outstanding term loan borrowings of \$755.0 million as of September 30, 2022 accrue interest at a rate that is based on the Term SOFR plus an applicable margin or at the base rate plus an applicable margin, at our election. The base rate is the highest of (i) the Overnight Bank Funding Rate, plus 0.500%, (ii) the PNC Bank, National Association prime rate, and (iii) Daily Simple SOFR plus an adjustment for SOFR plus 1.00%. The applicable margin for the borrowings is a percentage per annum based on the lower of (1) a pricing level determined by our then-current consolidated leverage ratio and (2) a pricing level determined by our public debt rating (if available). Because interest rates applicable to the outstanding borrowings are variable, we are exposed to interest rate risk from changes in the underlying index rates, which affects our interest expense. A hypothetical increase of 100 basis points in interest rates would result in an increase in interest expense and a corresponding decrease in cash flows of \$7.6 million over the next twelve months, based on outstanding borrowings at September 30, 2022.

No other material change has occurred in our market risk subsequent to December 31, 2021.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rules 13a-15 and 15d-15 of the Exchange Act, we have evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective, as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act.

We have not yet included our 2022 acquisitions in our assessment of the effectiveness of our internal control over financial reporting. Accordingly, pursuant to the SEC's general guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment in the year of acquisition, the scope of our assessment of the effectiveness of our disclosure controls and procedures does not include our 2022 acquisitions. As of and for the three and nine months ended September 30, 2022, our 2022 acquisitions represented 4.0% of our consolidated assets and accounted for less than 1% of our consolidated revenues.

We believe, based on our knowledge, that the financial statements and other financial information included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented in this report. We are committed to both a sound internal control environment and to good corporate governance.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

From time to time, we review the disclosure controls and procedures, and may periodically make changes to enhance their effectiveness and to ensure that our systems evolve with our business.

Changes in Internal Control. There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2022 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various claims, investigations and legal and regulatory proceedings that arise in the ordinary course of business, including, but not limited to, commercial disputes, labor and employment matters, tax audits, alleged infringement of third parties' intellectual property rights and other matters. Use or distribution of our products could generate product liability, regulatory infraction, or claims by our customers, end users, channel partners, government entities or third parties. Sales and marketing activities that impact processing of personal data, as well as measures taken to ensure license compliance against pirated or unauthorized usage of our commercial product, may also result in claims by customers and individual employees of customers or by non-customers using pirated versions of our products. Each of these matters is subject to various uncertainties, and it is possible that an unfavorable resolution of one or more of these matters could have a significant adverse effect on our condensed consolidated financial statements as well as cause reputational damage. In our opinion, the resolution of pending matters is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

We face a number of risks that could materially and adversely affect our business, financial position, results of operations and cash flows. A discussion of our risk factors can be found in Part I, Item 1A "Risk Factors" in our 2021 Form 10-K and Part II, Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022. The risk factor set forth below includes additional information relating to trade restrictions and should be read together with the risk factors disclosed in our 2021 Form 10-K and Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022.

We are subject to trade restrictions that could impact our ability to sell to customers and result in liability for violations.

Due to the global nature of our business, we are subject to domestic and international trade protection laws, policies, sanctions, and other regulatory requirements affecting trade and investment. For example, we are subject to import and export restrictions and regulations that prohibit the shipment or provision of certain products and services to certain countries, regions and persons targeted by the U.S., including the Export Administration Regulations administered by the U.S. Bureau of Industry and Security (BIS), economic and trade sanctions administered by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC), and International Traffic in Arms Regulations (ITAR) administered by the Department of State's Directorate of Defense Trade Controls (DDTC).

BIS continues to expand its export control restrictions and impose new licensing requirements. The receipt of licenses to export to certain countries, including China, is not guaranteed, and in the absence of a license, these export control restrictions could limit our ability to deliver products and services to our customers and our ability to sell products and services to customers in the future. Additionally, BIS continues to add more companies, including existing customers, to its Entity List and Unverified List, and OFAC continues to increase the number of companies subject to its sanctions, which continues to limit the companies with which we can do business. In addition, restrictions implemented by OFAC limit our ability to sell to, or transact with, restricted individuals, entities, or countries. Adding companies as restricted parties and subjecting companies to heightened export control restrictions may encourage those companies to seek substitute products from competitors whose products are not subject to these restrictions or to develop their own products. We cannot predict whether or when any changes will be made that eliminate or decrease these limitations on our ability to sell products and provide services to these customers. Additionally, other existing and prospective customers may be added as restricted parties and/or be subjected to trade restrictions in the future, and such actions may result in other indirect impacts that cannot be quantified, including the imposition of additional trade restrictions on our business by the U.S., China, or other countries. Restrictions on our ability to sell and ship to customers could have a significant adverse effect on our business and consolidated financial statements.

Our products could also be delivered to restricted parties by third parties, including our channel partners. We take measures to confirm that our channel partners comply with all applicable trade restrictions; however, any failure by channel partners to comply with such restrictions could have negative consequences for us.

Violators of trade restrictions may be subject to significant penalties, which may include considerable monetary fines, criminal proceedings against them and their officers and employees, a denial of export privileges, and suspension or debarment from selling products or services to the federal government. Any such penalties could have a significant adverse effect on our business and consolidated financial statements. In addition, the political and media scrutiny surrounding any governmental investigation could cause significant expense and reputational harm and distract senior executives from managing normal day-to-day operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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, thereunto duly authorized.

ANSYS, Inc.

Date: November 2, 2022

By: /s/ Ajei S. Gopal
Ajei S. Gopal
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2022

By: /s/ Nicole Anasenes
Nicole Anasenes
Chief Financial Officer and Senior Vice President, Finance
(Principal Financial Officer and Principal Accounting Officer)