

PTC INC.
 Form 424B5
 May 05, 2016
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Filed Pursuant to Rule 424(b)(5)
 Registration No. 333-211049

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed Maximum Offering Price Per Note	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
6.000% Senior Notes due 2024	\$500,000,000	100.000%	\$500,000,000	\$50,350.00(1)

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended.

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**Filed Pursuant to Rule 424(b)(5)
Registration No. 333-211049**

Prospectus supplement

(To prospectus dated May 2, 2016)

PTC Inc.

\$500,000,000

6.000% Senior Notes due 2024

Interest payable May 15 and November 15

Issue price: 100.000%

We are offering \$500,000,000 aggregate principal amount of our 6.000% Senior Notes due 2024 (the notes). The notes will mature on May 15, 2024. Interest will accrue from May 12, 2016, and the first interest payment date will be November 15, 2016.

We may redeem some or all of the notes at any time on or after May 15, 2019, at the redemption prices set forth in this prospectus supplement, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. We may also redeem up to 40% of the notes using the proceeds of certain equity offerings before May 15, 2019, at a redemption price equal to 106.000% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to May 15, 2019, we may redeem some or all of the notes at a price equal to 100% of the principal amount thereof, plus a make-whole premium, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. If we sell certain of our assets and do not reinvest the proceeds or repay senior debt, or if we experience specific kinds of changes of control, we must offer to purchase the notes.

On the issue date, the notes will not be guaranteed by any of our subsidiaries. After the issue date, the notes will be required to be guaranteed on a senior unsecured basis by any of our domestic subsidiaries that in the future becomes a guarantor of our senior credit facility or certain other material indebtedness of PTC Inc. or any other future guarantor. See Description of notes Future guarantors.

The notes will be our senior unsecured obligations and will rank equally in right of payment to all of our existing and future senior debt and senior in right of payment to all of our future subordinated debt. The notes will be effectively subordinated to any of our existing and future secured debt to the extent of the value of the assets securing such debt. In addition, on the issue date, the notes will be structurally subordinated to the liabilities of all of our subsidiaries and in the future will be structurally subordinated to the liabilities of any of our subsidiaries that does not become a guarantor of the notes.

You should read this prospectus supplement, together with the accompanying prospectus, carefully before you invest in the notes. Investing in the notes involves risks. See Risk factors beginning on page S-22 for a discussion of certain risks that you should consider in connection with an investment in the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these debt securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to

the contrary is a criminal offense.

	Price to public(1)	Underwriting discounts and commissions(2)	Proceeds, before expenses, to PTC Inc.(1)
Per note	100.000%	0.875%	99.125%
Total	\$500,000,000	\$4,375,000	\$495,625,000

(1) Plus accrued interest, if any, from May 12, 2016.

(2) We have agreed to reimburse the underwriters for certain expenses. See Underwriting (conflicts of interest). The notes are a new issue of securities with no established trading market. We do not intend to apply to list the notes on any securities exchange.

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company on or about May 12, 2016.

Book-running manager

J.P. Morgan

Co-managers

Barclays	Fifth Third Securities	HSBC	Huntington Investment Company
Janney Montgomery Scott		KeyBanc Capital Markets	RBC Capital Markets RBS
Santander	SunTrust Robinson Humphrey		TD Securities US Bancorp

The date of this prospectus supplement is May 4, 2016.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus prepared by us or on our behalf. We and the underwriters have not authorized anyone to provide you with different information. If you receive any other information, you should not rely on it. We and the underwriters are not making an offer of these securities, or soliciting an offer to buy these securities, in any jurisdiction where the offer or solicitation is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or the accompanying prospectus, or the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those respective dates.

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About this prospectus supplement

This prospectus supplement is a supplement to the accompanying prospectus that also is part of this document. This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under the shelf registration process, we may, at any time from time to time, issue and sell to the public any combination of the securities described in the accompanying prospectus up to an indeterminate amount. The first part of this document is the prospectus supplement, which describes the specific terms of the notes we are offering and certain other matters relating to us and our financial condition. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to the notes we are offering. You should read this prospectus supplement along with the accompanying prospectus, the documents incorporated by reference herein and therein, as well as any free writing prospectus that is filed, including the term sheet for the notes we are offering. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Cautionary statement regarding forward-looking statements

This prospectus supplement and the documents we incorporate herein by reference contain disclosures that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements include all statements that do not relate solely to historical or current facts, which can be identified by the use of words such as may, will, expect, project, estimate, anticipate, plan, believe, potential, should and continue, including but not limited to statements about our anticipated financial results and growth, subscription adoption, the development of our products and markets, and anticipated tax rates. These forward-looking statements are based on our current plans and assumptions and involve risks and uncertainties that could cause actual results to differ materially from those projected. These risks include: macroeconomic and/or global manufacturing climates may not improve or may deteriorate; customers may not purchase our solutions when or at the rates we expect; our businesses, including our Technology Platform and SLM businesses, may not expand and/or generate the revenue we expect; our market size and growth estimates may be incorrect and we may be unable to grow our business at or in excess of market growth rates; new products released and planned products, including Technology Platform-enabled core products, may not generate the revenue we expect or be released as we expect; foreign currency exchange rates may vary from our expectations and thereby affect our reported revenue and expense; the mix of revenue between license, subscription, support and professional services could be different than we expect, which could impact our earnings per share results and cash flows; our customers may purchase more of our solutions as subscriptions than we expect, which would adversely affect near-term revenue, operating margins and earnings per share; customers may not purchase subscriptions at the rate we expect, which could affect our longer-term business projections; sales of our solutions as subscriptions may not have the longer-term positive effect on revenue that we expect; our workforce realignment may adversely affect our operations and may not achieve the expense savings we expect; we may be unable to generate sufficient operating cash flow to return 40% of free cash flow to shareholders and other uses of cash could preclude share repurchases; the settlements with the U.S. Securities and Exchange Commission and the U.S. Department of Justice to resolve our Foreign Corrupt Practices Act investigation in China (the China FCPA Investigation) may have collateral effects on our business in China, the U.S. or elsewhere; we may incur material damages in connection with a recently-filed securities law action concerning disclosures about the China FCPA Investigation; and material fines and penalties may be assessed against us in connection with the investigation by the China Administration for Industry and Commerce. In addition, our assumptions concerning our future GAAP and non-GAAP effective income tax rates

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are based on estimates and other factors that could change, including the geographic mix of our revenue, expenses and profits and loans and cash repatriations from foreign subsidiaries. Other important information about factors that may cause our actual results to differ materially from those contemplated by these statements is discussed under **Risk factors** in this prospectus supplement, as well as in our latest Annual Report on Form 10-K, which is incorporated by reference herein.

Market, ranking, industry data and forecasts

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein or therein, include market share, ranking, industry data and forecasts that we obtained from industry publications, surveys, public filings and internal company sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position and ranking are based on market data currently available to us, management's estimates and assumptions we have made regarding the size of our markets within our industry. While we are not aware of any misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading **Risk factors** in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters can guarantee the accuracy or completeness of such information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Trademarks, service marks and copyrights

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. PTC, the PTC logo, ThingWorx, Creo, Windchill, Servigistics, Vuforia and Kepware, and all other PTC product names and logos are trademarks or registered trademarks of PTC Inc. or its subsidiaries in the United States and in other countries. We also own or have the rights to copyrights that protect the content of our products. Solely for convenience, the trademarks, service marks, tradenames and copyrights referred to in this prospectus supplement are listed without the [®], [®] and symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and tradenames.

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Summary

This summary highlights information appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not include all of the information that you should consider before investing in the notes. You should carefully read the entire prospectus supplement and the accompanying prospectus, including the historical financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus and the section entitled "Risk factors and under Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, before making any investment decision. As used in this prospectus supplement, except as otherwise indicated or the context otherwise implies, when we refer to PTC, the company, we, us, or our, we are describing PTC Inc., together with its subsidiaries. With respect to any description of the terms of offer or the notes, references to PTC, us, we, or our, refer only to PTC Inc. and not to its subsidiaries.

Unless otherwise indicated, all figures referred to as adjusted in this prospectus supplement give effect to (i) additional borrowings of \$120.0 million on January 11, 2016 under our revolving line of credit, of which \$100.0 million was used for our purchase of Kepware, Inc., and (ii) this offering and the use of proceeds therefrom.

Unless otherwise indicated, all references to a year are to our fiscal year, which ends on September 30.

Our company

We develop and deliver technology solutions, comprised of software and services, that enable customers to transform the way they create, operate and service their products for a smart, connected world.

We generate revenue through the sale of software licenses, software subscriptions, support (which includes technical support and software updates when and if available), and services (including cloud services, whereby our customers receive secure hosting and 24/7 application management).

Our solutions and software products address the challenges our customers face in the following areas:

Solutions Group

Computer-Aided Design (CAD): Helps companies design and optimize their products through the creation of 3D virtual prototypes.

Product Lifecycle Management (PLM): Integrates people, processes and systems from a product's concept through service and retirement.

Application Lifecycle Management (ALM): Manages global software development from concept to delivery.

Service Lifecycle Management (SLM): Enables companies to maximize service efficiency, optimize parts revenue, and increase value for their customers.

Technology Platform Group

Internet of Things (IoT): Enables connectivity, development, analysis and augmented reality for smart, connected products and environments.

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Our business

For 2015, we achieved revenue of \$1,255.2 million, operating income of \$41.6 million and Adjusted EBITDA (as defined in footnote 3 in Summary historical consolidated financial data) of \$333.2 million. We are currently working to transition our business from a perpetual licensing model to a subscription model in order to increase our lifetime customer value, increase the recurring nature of our revenue and better satisfy customer demand. While we expect that this transition will provide significant value to the company over time, until we have fully transitioned to a stable mix of subscription and perpetual license sales, we expect that our total software revenue will decrease due to the differences in the timing and amount of revenue recognized for a subscription (revenue is recognized ratably over the term of the subscription) and a perpetual license (revenue is generally recognized upon shipment of the software).

We have built a world-class portfolio of solutions through both internal development and acquisitions. Consistent with our vision to help our customers create, operate and service smart, connected products, we have completed a number of recent acquisitions related to our Technology Platform business, including Kepware in the second quarter of 2016, Vuforia in the first quarter of 2016, ColdLight in 2015, and Axeda and ThingWorx in 2014. We expect to continue to pursue opportunities to broaden our solutions and customer base through acquisitions.

We serve over 26,000 customers spanning a broad range of industries, including industrial products; electronics and high tech; federal, aerospace and defense; automotive; retail and consumer; and life sciences. No single customer accounted for more than 10% of our total revenue in 2015. We currently sell our software and services primarily through a direct sales organization while 20% to 25% of our products and services were sold in 2015 through third-party resellers and other strategic partners. Our direct sales force is located throughout the Americas, Europe, Asia Pacific and Japan. As we grow our Technology Platform business, we expect our go-to-market strategy will rely more on channel partners and marketing directly to end users and developers. We are expanding our service partner program, under which service engagements are referred to third-party service providers, as part of our overall margin expansion strategy.

The following charts break out our 2015 revenue by product area, geographic region and end market:

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Products and services

Solutions Group

CAD

Our CAD products enable users to create conceptual and detailed designs, analyze designs, perform engineering calculations and leverage the information created downstream using 2D, 3D, parametric and direct modeling. Our principal CAD products are:

PTC Creo is an interoperable suite of product design software that provides a scalable set of packages for design engineers designed to meet a variety of specialized needs. PTC Creo provides capabilities for design flexibility, advanced assembly design, piping and cabling design, advanced surfacing, comprehensive virtual prototyping and other essential design functions.

PTC Mathcad is software for solving, analyzing and sharing vital engineering calculations. PTC Mathcad combines the ease and familiarity of an engineering notebook with the powerful features of a dedicated engineering calculations application.

In 2015, CAD revenue totaled \$511.6 million. The CAD market is estimated to exceed \$4 billion with an expected compound annual growth rate (CAGR) of approximately 4% between 2015 and 2018.

Extended PLM

Extended PLM (ePLM) includes our PLM and ALM products.

Our PLM products are designed to address common challenges that companies, particularly manufacturing companies, face over the life of the product, from concept to retirement. These software products help customers manage product configuration information through each stage of the product lifecycle, and communicate and collaborate across the entire enterprise, including product development, manufacturing and the supply chain, including sourcing and procurement. Our principal PLM products are:

PTC Windchill is a suite of PLM software that offers lifecycle intelligence from design to service. PTC Windchill offers a single repository for all product information. As such, it is designed to create a single source of truth for all product-related content such as CAD models, documents, technical illustrations, embedded software, calculations and requirement specifications for all phases of the product lifecycle to help companies streamline enterprise-wide communication and make informed decisions.

The PTC Windchill product family includes supply chain management (SCM) solutions that allow manufacturers, distributors and retailers to collaborate across product development and the supply chain, including sourcing and procurement, to identify an optimal set of parts, materials and suppliers. This functionality provides automated cost modeling and visibility into supply chain risk information to balance cost and quality, and enables customers to design products that meet compliance requirements and performance targets.

PTC Creo View enables enterprise-wide visualization, verification, annotation and automated comparison of a wide variety of product development data formats, including CAD (2D and 3D), electronic CAD (ECAD), and documents. PTC Creo View provides access to designs and related data without requiring the original authoring tool.

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Our ALM products are designed for discrete manufacturers where coordination and collaboration between software and hardware teams is critical to understand product release readiness, support variant complexity, automate development processes, ensure complete lifecycle traceability and manage change. Our ALM products enable companies to accelerate innovation of software-intensive products.

PTC Integrity, our principal ALM product suite, enables users to manage system models, software configurations, test plans and defects. With PTC Integrity, engineering teams can improve productivity and quality, streamline compliance, and gain greater product visibility, ultimately enabling them to bring more innovative products to market.

Our Model-Based Systems Engineering (MBSE) solution connects requirements engineering, architecture modeling, physical product definition and system verification functions. Our solution allows multi-functional teams to work in concert while modeling the interdependencies of mechanical, electrical and software engineering components. In doing so, it enables users to drive efficiencies and process standardization, allowing distributed teams to collaboratively build digital models of complex systems, while managing system variability and enabling reuse.

In 2015, our ePLM solutions achieved \$524.7 million in revenue. The PLM and ALM markets are estimated to exceed \$5 billion and \$3 billion, respectively, with expected CAGRs of approximately 6% and 8%, respectively, between 2015 and 2018.

SLM

Our SLM products help manufacturers and their service providers improve service efficiency and quality. These include capabilities to support product service and maintenance requirements, service information delivery, service parts planning and optimization, service knowledge management, and service analytics. Our principal SLM products are:

PTC Servigistics is a suite of SLM software products that integrate service planning, delivery and analysis to optimize service outcomes. PTC Servigistics products enable a systematic approach to service lifecycle management by providing a single view of service throughout the service network, enabling customers to improve their products and services and increase customer satisfaction.

PTC Arbortext is an enterprise software suite used by manufacturers to create, illustrate, manage and publish technical and service parts information to improve the operation, maintenance, service and upgrade of equipment throughout its lifecycle. These products are available in stand-alone configurations as well as integrated with PTC Windchill Service Information Manager and PTC Creo Illustrate to deliver dynamic, product-centric service and parts information.

In 2015, our SLM solutions achieved \$166.1 million in revenue. The SLM market is estimated to be \$2.8 billion with an expected CAGR of approximately 10% between 2015 and 2018.

Technology Platform Group

Our Technology Platform products allow manufacturers and their service providers to enable connectivity and optimize data intelligence for smart, connected products for the Internet of Things (IoT). Our solutions support the development of applications to gather, analyze and visualize product data, which in turn helps our customers design, operate and service smart, connected products. Our principal Technology Platform products are:

ThingWorx, a technology platform that enables users to create and deploy applications and solutions for today's smart, connected world, enabling customers to transform their products and services, innovate, and

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unlock new business models. ThingWorx allows customers to reduce the time, cost, and risk required to connect, manage, and develop innovative applications for smart, connected products such as predictive maintenance, system monitoring, and usage-based product design requirements. Our ThingWorx solutions include tools added through our acquisition of Axeda, including cloud-based tools that allow customers to easily and more securely connect products and devices to the cloud, and intelligently process, transform, organize and store product and sensor data.

ThingWorx Machine Learning, a predictive intelligence tool that uses artificial intelligence technology to simplify and automate the processes of creating and operationalizing predictions inside ThingWorx-powered solutions and other systems of record. ThingWorx Machine Learning complements our Technology Platform portfolio by introducing data analytics to information collected from smart, connected products.

Vuforia, an augmented reality technology platform that enables applications to see things in the real world and then interact with them. Using computer vision technologies, and building them for mobile platforms, the technology is accessible through an application programming interface and developer workflows.

KEPServerEX, a communications platform that provides a single source of industrial automation data. The platform allows users to connect, manage, monitor, and control diverse automation devices and software applications through one intuitive user interface. KEPServerEx facilitates our entry into the factory setting and industrial IoT.

In 2015, our Technology Platform business achieved \$52.9 million in revenue. The IoT market is estimated to be \$1.1 billion, with an expected CAGR of 38% between 2015 and 2018 according to a leading industry source and management estimates.

Services

We offer consulting, implementation and training services through our Global Services Organization, with approximately 1,000 professionals worldwide, as well as through third-party resellers and other strategic partners. Our services create value by helping customers improve product development performance through technology enabled process improvement and multiple deployment paths. We also offer cloud services, whereby our customers receive hosting and 24/7 application management.

Competitive strengths

Deeply embedded, mission critical solutions drive high retention rates

We have historically had very low customer attrition. For example, our first customer, John Deere, circa 1987, remains one of our largest customers. Our solutions are mission critical and, because they underlie our customers' ability to deliver their core products, are essential in day to day operations. Tens of thousands of engineers and designers use our CAD products to perform their jobs; relying on the historical data, designs, and configurations stored in our proprietary format to create new products and refine existing ones. Our PLM solutions benefit from the same drivers but are even more embedded in our customers' operations, integrating employee interactions with product data across every business unit within a customer from product design to distribution and support. Our solutions span technological, organizational, and geographic boundaries; thus, by their very nature, they become deeply integrated into our customers' systems and operations resulting in high degrees of customer loyalty.

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Strong competitive position with high level of technical expertise

Our competitive position is established and sustained through our core capabilities and high-level technical expertise. Engineering and design software is highly technical and complex and our solutions have been built through decades of research and development. Many of our customers operate in highly regulated industries and use our software to design products where precision and safety are paramount. Our long history of partnering closely with customers in the industries we serve provides a wealth of insight that allows us to continually innovate and serve our customers' evolving needs. We believe that our extensive experience across many different sectors, leading technologies, expert workforce, which includes more than 1,100 engineers and more than 300 quota-carrying sales representatives, and ability to provide value-added services, position us well to serve our customers operating in dynamic environments.

Significant recurring revenue

Approximately 59% of our revenue in 2015 came from recurring revenue streams, which include our subscription solutions and support. This represents a 700 basis point increase from one year ago. We expect that our shift to a subscription model will increase our mix of recurring revenue to approximately 70% by 2021. We anticipate that this expected increase in recurring revenue will lead to greater visibility and stability in our business and will enhance our ability to innovate and invest, increase our resilience throughout economic cycles, and support leverage to grow returns. Recent changes to our support terms are expected to increase support renewal rates. Additionally, customers may elect to convert existing perpetual licenses with support to subscription licenses, which will decrease support revenue but increase subscription revenue.

Diverse revenue base including relationships with Fortune 100 companies and influential developers

We are widely diversified across geographic regions, industries, customers and products. During 2015, we derived approximately 42% of our revenue from the Americas, 37% from Europe, 11% from the Pacific Rim and 9% from Japan. Our revenue is also well diversified across multiple industry sectors, including industrial products; electronics and high tech; federal, aerospace and defense; automotive; life sciences; and retail and consumer. Our largest industry vertical, industrial products, contributed 31% of total revenue during 2015 while our largest solution area, ePLM, contributed 42% of total revenue. No single customer accounted for more than 10% of our total revenue in each of our last three fiscal years. We also have more than 750 partners, including value-added resellers, enterprise software and performance team partners, hardware and system integration partners and service and training partners.

Expanding margins and strong cash flow generation

Over the last five years, our management team has, with great success, focused on improving margins and operating efficiency. Non-GAAP operating margins increased from 15.6% in 2010 to 24.2% in 2015, driven by increases in sales and marketing efficiency, service margin expansion and modest reductions in research and development expense as a percentage of revenue. (GAAP operating margins fluctuated during the same period; they were 7.4% in 2010 and 3.3% in 2015.) These operational changes along with disciplined capital expenditures have driven significant free cash flow generation. For 2015, we converted \$333.2 million of Adjusted EBITDA into \$228.3 million of Adjusted free cash flow. (Adjusted EBITDA, non-GAAP operating margin and Adjusted free cash flow are defined in Summary historical consolidated financial data.) Since 2011, our Adjusted free cash flow grew at a 23% CAGR through 2015. While our transition to a subscription model negatively impacts traditional financial metrics like revenue, Adjusted EBITDA and Adjusted free cash

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flow in the short term (see *Recent developments* for more detail), we believe the subscription business model, once fully adopted, will provide a competitive advantage and will ultimately result in a more attractive financial profile.

Well-positioned to capitalize on emerging growth opportunities

We believe we have an opportunity to grow our business by capitalizing on the significant opportunity in the high-growth Internet of Things market with our award-winning ThingWorx technology platform, as well as our acquisitions of Axeda, ColdLight, Vuforia and Kepware, which have enabled us to create leading Technology Platform solutions. Our Technology Platform business generated 5% of our total software license revenue in 2015. We are focused on the B2B segment of this market. While the market for our Technology Platform solutions is in its early days, we believe demand is poised to grow significantly among our customers and our Technology Platform solutions are a natural extension of our core solutions, which manage the cradle-to-grave lifecycle of our customers' products. Our Technology Platform solutions deliver valuable data from products in the field (e.g., usage, durability, performance) back to manufacturers that they can use to make future design improvements.

Business strategy

Sustainable growth

Our goals for overall growth are predicated on continuing to expand our Technology Platform footprint and making structural changes to our business to improve operational performance and increase growth potential for both our Technology Platform solutions and our core solutions. For 2016, we reorganized the company into two main business units: the Solutions Group, comprised of our core CAD, ePLM and SLM business, and the Technology Platform Group, comprised of our IoT, analytics and augmented reality business. This new structure facilitates appropriate focus on both our core business and the Technology Platform business. We expect to continue to invest in our businesses to support their growth.

Transition to subscription revenue

A majority of our software license sales to date have been perpetual licenses, under which customers own the software license and we generally recognize revenue upon shipment of the software. Due to evolving customer preferences, our plan to increase our recurring revenue base and our acquisitions in the IoT and cloud services space, a growing percentage of our business consists of subscriptions for which revenue is recognized ratably over the subscription term. Under a subscription, the customer does not own the software license but pays a periodic fee to license our software for a specified period of time, including access to technical support. In October 2015, we launched the second phase of our subscription program with the goal of accelerating our transition to a predominantly subscription-based model. To drive that acceleration, we launched new pricing and packaging for subscriptions and new sales incentive compensation plans. We also launched a program for our existing customers to convert their support contracts to subscription contracts. We expect there will be greater opportunities for the remainder of 2016 and into 2017 than in subsequent years to convert existing support and term license contracts into subscription contracts due to the cyclical nature of certain of those contracts.

We believe that by 2018, a significant majority of our license and subscription order bookings will be subscriptions. We estimate that, over time, this can generate an approximately 40% higher lifetime value per customer.

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Cost controls and margin expansion

We continue to proactively manage our cost structure and invest in what we believe are the highest return opportunities in our business. Our goal is to drive continued margin expansion over the long term. To that end, in October 2015, we committed to a plan to restructure approximately 8% of our workforce and consolidate select facilities in order to reduce our cost structure and to realign our investments with our identified growth opportunities. The restructuring is expected to result in a charge of up to \$50 million, of which \$41.7 million was recorded in the first half of 2016 and the remainder of which is expected to be recorded in the second half of 2016. We expect that the expense reductions will be offset by planned cost increases, investments in our business and the anticipated effects of foreign currency fluctuations, which effect is contemplated in our most recent financial targets for fiscal 2016. Our financial targets do not reflect the effect of increased interest expense that will be incurred as a result of the proposed offering.

Recent developments

The discussion below includes discussion of our bookings and our license and subscription bookings operating measures. Information about these measures is provided in Management's discussion and analysis of financial condition and results of operations below in this prospectus supplement.

The results of operations of acquired businesses, including Kepware and Vuforia, have been included in our consolidated financial statements beginning on their respective acquisition dates. Kepware contributed approximately \$5 million to our revenue in the second quarter of 2016.

Second quarter results

Revenue for the second quarter of 2016 was \$272.6 million, compared with \$314.1 million for the second quarter of 2015, a decline of \$41.5 million (13%), or (10%) on a constant currency basis. We believe the decline of \$30.7 million (12%) in total software revenue in the quarter was due to the acceleration of adoption of subscription licensing by our customers, which resulted in subscription bookings constituting a higher percentage of license and subscription bookings in the quarter than in the prior year. A decline in professional services revenue of 18% accounted for the remaining \$10.8 million of the decline in revenue in the quarter as a result of our strategy to grow our service partner ecosystem and transition more services to our partners. Revenue was also adversely affected by a challenging macroeconomic environment and the impact of foreign currency exchange rates on our reported revenue due to an increase in the strength of the U.S. Dollar relative to international currencies, most notably the Euro and the Yen.

Approximately 80% of our total software revenue in the second quarter came from recurring revenue streams (subscription and support revenue).

We recorded a restructuring charge of \$4.6 million in the second quarter in connection with our restructuring plan announced in October 2015, bringing the total restructuring charge for the first half of 2016 to \$41.7 million. We expect the remaining \$8 million of the anticipated \$50 million total charge will be recorded in the second half of 2016.

Adjusted EBITDA for our second quarter of 2016 was \$45.5 million, as compared with \$80.9 million for the corresponding quarter in 2015. This decline was driven primarily by the higher subscription mix and its resulting impact on total software revenue.

Excluding fines and penalties totaling \$28.2 million paid to the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) in February 2016 to resolve an investigation under the U.S. Foreign

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Corrupt Practices Act related to our China business (the "China FCPA Investigation") and \$25.1 million paid in the quarter in connection with the restructuring described above. Adjusted free cash flow for the second quarter of 2016 was \$97.4 million, as compared with \$91.3 million for the corresponding quarter in 2015.

Adjusted EBITDA, non-GAAP operating income, free cash flow and Adjusted free cash flow are non-GAAP financial measures. See footnotes (3) and (5) in "Summary historical consolidated financial data" and "Information about non-GAAP financial measures" below for a discussion of management's definitions and use of these non-GAAP measures and limitations of their use. The following table provides a reconciliation of non-GAAP operating income to operating income and of Adjusted EBITDA to net income (loss), the most directly comparable financial measures calculated in accordance with generally accepted accounting principles ("GAAP"), as well as a reconciliation of free cash flow and Adjusted free cash flow to net cash provided by operating activities, the most directly comparable financial measure calculated in accordance with GAAP.

(In thousands)	Three months ended	
	April 4, 2015 (unaudited)	April 2, 2016 (unaudited)
Adjusted EBITDA reconciliation:		
Net income (loss)	\$ 5,392	\$ (5,173)
Provision for (benefit from) income taxes	(5,005)	1,604
Interest and other expense, net	3,601	5,327
Operating income	3,988	1,758
Fair value adjustment of acquired deferred revenue(a)	1,133	1,063
Fair value adjustment of acquired deferred costs(b)	(151)	(125)
Stock-based compensation	12,822	14,836
Amortization of acquired intangible assets included in cost of software revenue	4,714	6,725
Amortization of acquired intangible assets	9,173	8,396
Acquisition-related charges included in general and administrative expenses	1,892	1,071
U.S. pension plan termination-related costs(c)	1,713	
Restructuring charges(d)	38,487	4,579
Non-GAAP operating income	73,771	38,303
Depreciation	7,080	7,169
Adjusted EBITDA	\$ 80,851	\$ 45,472
Adjusted free cash flow reconciliation:		
Net cash provided by operating activities	\$ 91,992	\$ 48,885
Capital expenditures	(6,160)	(4,681)
Free cash flow	85,832	44,204
Restructuring payments(d)	5,483	25,066
Legal settlement payments(e)		28,162
Adjusted free cash flow	\$ 91,315	\$ 97,432

(a) Reflects the restoration of the reduction of revenue as a consequence of the write-down of deferred revenue due to purchase accounting adjustments.

(b) Reflects the restoration of the reduction of expenses due to purchase accounting adjustments.

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- (c) We maintained a U.S. defined benefit pension plan that covered certain persons who were employees of Computervision Corporation (acquired by us in 1998). Benefits under the plan were frozen in 1990. We terminated the plan in 2015. In connection with the termination, we incurred pension expense of \$1.7 million in the three months ended April 4, 2015.

- (d) In the second quarter of 2015, we implemented actions to restructure our workforce and reduce costs through organizational efficiencies. In October 2015, we adopted a plan to further restructure our workforce and consolidate select facilities. See Notes C and O to our audited consolidated financial statements included in our most recent Annual Report on Form 10-K, which is incorporated into this prospectus supplement, and Note 3 to our unaudited consolidated financial statements included in our most recent Quarterly Report on Form 10-Q, which is incorporated by reference into this prospectus supplement.

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(e) Reflects the payment of our legal settlement accrual recorded as charges during the third and fourth quarters of 2015 in connection with the China FCPA Investigation. See Resolution of previously disclosed FCPA investigation in China below.

The selected financial data presented above for the three months ended April 2, 2016 is preliminary and subject to the completion of our closing procedures for the three months ended April 2, 2016. Those procedures have not been completed, and we may make further adjustments as a result of developments occurring between now and the time the financial results for this period are finalized. Accordingly, these results may change and those changes may be material. This preliminary consolidated financial data has been prepared by and is the responsibility of our management. PricewaterhouseCoopers LLP has not audited, reviewed, compiled or performed any procedures with respect to this preliminary consolidated financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

See Summary historical consolidated financial data.

Acceleration of subscription business model transition

The second quarter of 2016 saw significant acceleration in the adoption of subscription licensing by our customers. Subscription bookings as a percentage of license and subscription bookings grew to 54% for this period, up from 28% in the first quarter and up from 14% in the corresponding quarter of 2015. License and subscription bookings grew 25% in the second quarter over the first quarter of 2016, with license and subscription bookings of \$86 million in the second quarter of 2016, and grew 6% over the second quarter of 2015.

For the first half of 2016, subscription bookings increased over 2015 subscription bookings at a higher rate than we had anticipated, and we currently expect that subscription bookings for the full 2016 year will be approximately 45% of our total bookings, while in our original 2016 plan we had expected subscription bookings to account for about one-third of our total bookings. Although we believe that this higher mix of subscription bookings will be favorable to our revenue and earnings over time, it has been and will be unfavorable to our reported revenue and earnings per share in 2016. If a greater percentage of our customers continue to elect our subscription offering in the second half of 2016 than we anticipated, our revenue, operating margin, cash flow and earnings per share will be adversely impacted relative to those financial targets, although this change in the mix of our business is expected to be beneficial to our longer-term prospects. In addition, subscription orders tend to be smaller than perpetual license deals, which can also adversely affect revenue.

Technology Platform acquisitions

On January 12, 2016, we acquired Kepware, a software development company that provides communications connectivity to industrial automation environments, for \$100.0 million in cash and \$18.0 million of contingent earn-out. At the time of the acquisition, Kepware had approximately 115 employees and historical annualized revenue of approximately \$20 million. In January 2016, we borrowed \$120.0 million under our senior credit facility, \$100.0 million of which was used to fund the acquisition of Kepware.

On November 3, 2015, we acquired the Vuforia augmented reality business from Qualcomm. The Vuforia platform is a mobile vision platform that enables applications to see and connect the physical world with digital experiences. We paid \$64.8 million in cash, net of cash acquired, for the Vuforia business.

Amended and restated credit agreement

On November 4, 2015, we amended and restated our senior credit facility with our syndicate of 16 lenders, whereby we repaid our term loan facility in full by borrowing additional amounts under our revolving line of

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credit, amended the financial covenants, granted the lenders a security interest in our assets, and made various other changes to the terms and conditions of the credit facility. We further amended the credit facility on April 18, 2016 to make additional changes to the terms and conditions of the credit facility, including an ame