



Technology That Loves Complexity

Topic 606

Karl E. Johnsen, CFO

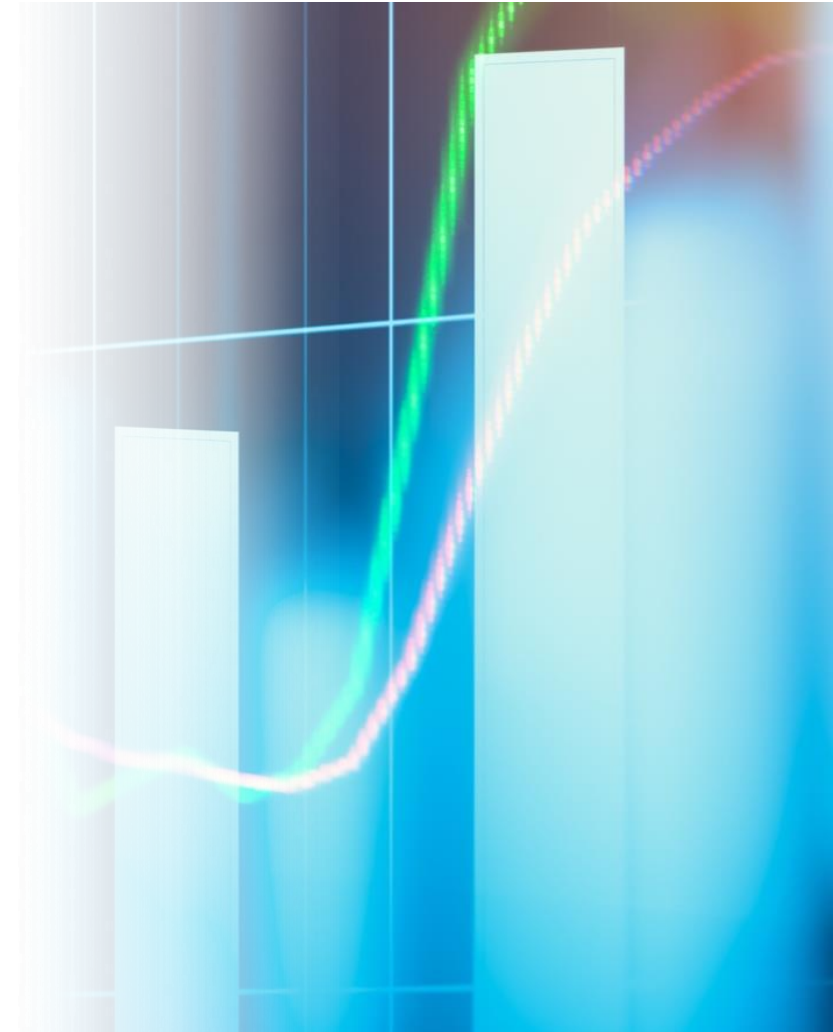
August 8, 2018

To watch a narrated video of this presentation, visit the Investor Relations section of the AspenTech website:

<http://ir.aspentech.com/events-and-presentations>

Agenda

- Overview of Topic 606
- Impact on AspenTech Revenue Model
- Summary of Preliminary Reprofiled Results for FY2015 – FY2018
- Metrics
- Business Model
- Key Takeaways



Overview of Topic 606

- New revenue accounting standard jointly issued by FASB and IASB (International Accounting Standards Board)
- Effective for fiscal years starting after December 15, 2017
- AspenTech adoption date: July 1, 2018 (FY2019)
- 5 steps to revenue recognition under Topic 606
 - Identify contracts
 - Identify separate performance obligations in the contract(s)
 - Determine transaction price
 - Allocate transaction price to the separate performance obligations
 - Recognize revenue as performance obligations are satisfied
- Aligns commission expense recognition with benefit period
- Adoption Methods
 - Full Retrospective (AspenTech method)
 - Cumulative Effect

Impact on the AspenTech Revenue Model

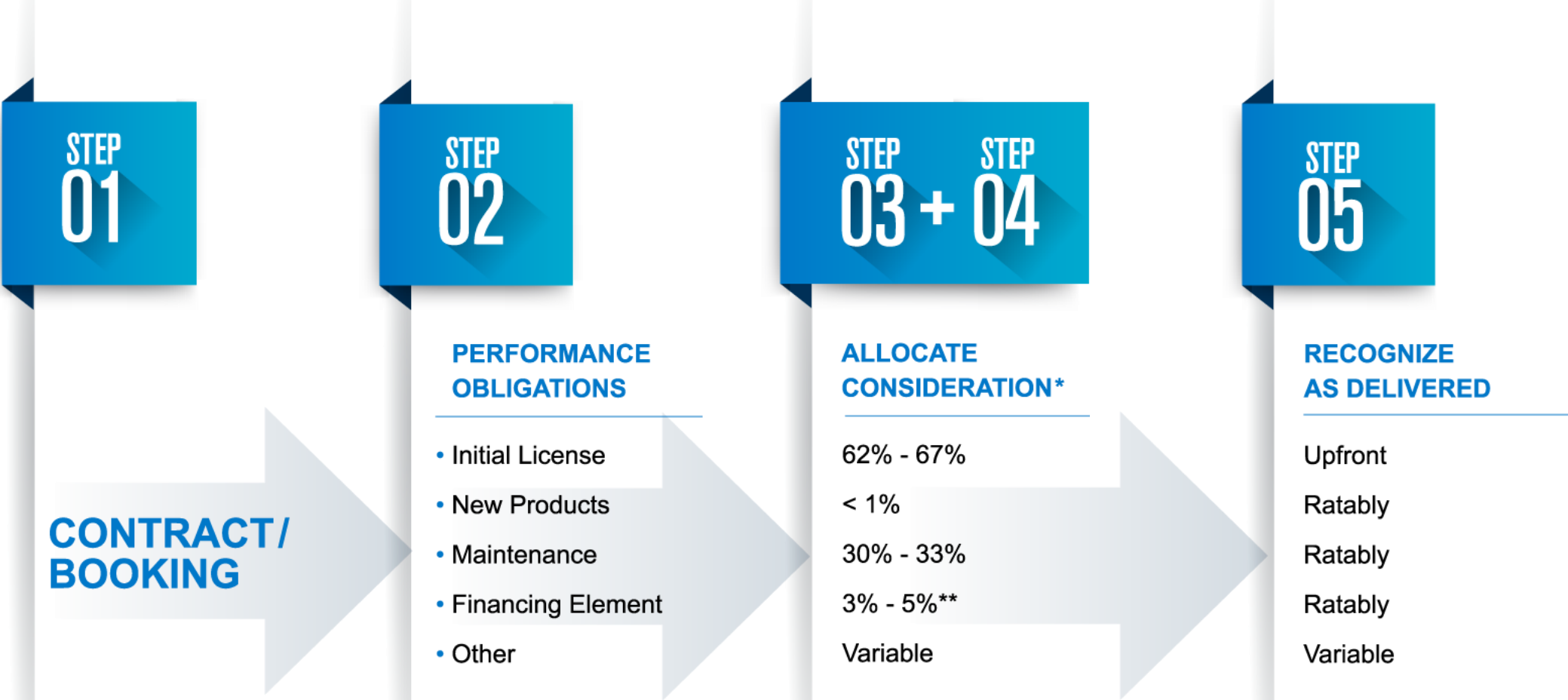
What Does Not Change

- The fundamental value proposition of AspenTech doesn't change
- No change to our cash flow model; customers will continue to pay annually in advance
- Business model (contract duration, non-cancellability, escalation) remains unchanged
 - 5 to 6 year terms
 - 2% to 3% annual escalation
 - Annual payments in advance
- We plan to continue to provide guidance on historical metrics and are introducing two new metrics

Differences from Current Revenue Model

- Term license contracts will have multiple performance obligations / revenue streams
- Significant portion of revenue from term license agreements will be recognized upfront with remainder recognized ratably over the term
- Contains an imputed financing element and related interest income
- Timing of contract renewals and growth will impact revenue between fiscal years and quarters
- Incremental selling expenses (e.g. commissions) will be recognized over benefit period; not a material impact to AspenTech
- Creates an unbilled AR balance
- Deferred revenue will decrease

Topic 606 Revenue Model



* Allocation values can change based on business conditions and external factors. The percentages presented are subject to change.

** Interest Income is dependent on our estimate for our customer specific incremental borrow rate and is subject to change.

New Metrics

- We will continue to use our historical metrics of annual spend and free cash flow as well as GAAP and non-GAAP profitability metrics; we believe free cash flow remains the best indicator of performance
- Since revenue and profitability metrics provide inconsistent insight into our growth and performance under Topic 606, we are introducing two new metrics:

- Bookings — we define Bookings as:

$$\text{Bookings} = \begin{array}{l} \text{Term License} \\ \text{Contracts signed} \\ \text{in the current} \\ \text{fiscal period} \end{array} - \begin{array}{l} \text{Term License} \\ \text{Contracts signed in} \\ \text{current fiscal period} \\ \text{deemed not to be} \\ \text{delivered} \end{array} + \begin{array}{l} \text{Term License Contracts} \\ \text{signed in prior fiscal} \\ \text{period deemed to be} \\ \text{delivered in current} \\ \text{period} \end{array}$$

- Total Contract Value – is defined as the aggregate value of all payments received or to be received under all active term license agreements, including maintenance and escalation. Comparing Total Contract Value for different dates provides insight into the growth of our business during the period.

Historical Periods FY2015 – FY2018

\$M	Topic 605				Topic 606			
	Fiscal Year				Fiscal Year			
	2015	2016	2017	2018	2015	2016	2017	2018
Annual Spend \$	\$ 419	\$ 441	\$ 460	\$ 489	\$ 419	\$ 441	\$ 460	\$ 489
Revenue								
Subscription and Software / License	406	440	454	471	295	330	325	335
Maintenance					150	155	160	165
Services & Other	35	32	29	28	30	25	30	30
Total Revenue	440	472	483	500	475	510	515	530
Gross Margin	88.7%	89.7%	90.2%	89.9%	89.6%	90.5%	90.8%	90.5%
GAAP Operating Margin	40.8%	44.8%	43.9%	42.0%	45.5%	49.0%	47.6%	45.8%
Non-GAAP Operating Margin	45.1%	49.3%	48.8%	47.4%	49.4%	53.1%	52.2%	50.9%
Other Income (Expense)	0	(1)	(2)	(6)	23	22	20	23
Free Cash Flow	\$ 224	\$ 165	\$ 187	\$ 212	\$ 224	\$ 165	\$ 187	\$ 212

- Topic 605 amounts are as reported in our Form 10Ks and on file with the SEC.
- Topic 606 amounts are based on our current estimates of the impact Topic 606 will have on our historical results. All amounts are unaudited, preliminary and subject to change.

Metrics and Guidance

- We plan to continue to give guidance on our historical metrics and on our new non-GAAP metric Bookings
- Due to the timing of renewals between quarters, we plan on giving annual guidance on revenue and our GAAP and non-GAAP profitability metrics
- We will be giving directional quarterly guidance on annual spend and bookings, similar to what we did in FY2018 for annual spend growth

Metrics

GAAP

- Total Revenue
- Total GAAP Expenses
- Operating Income
- Net Income
- Net Income per Share

Non GAAP

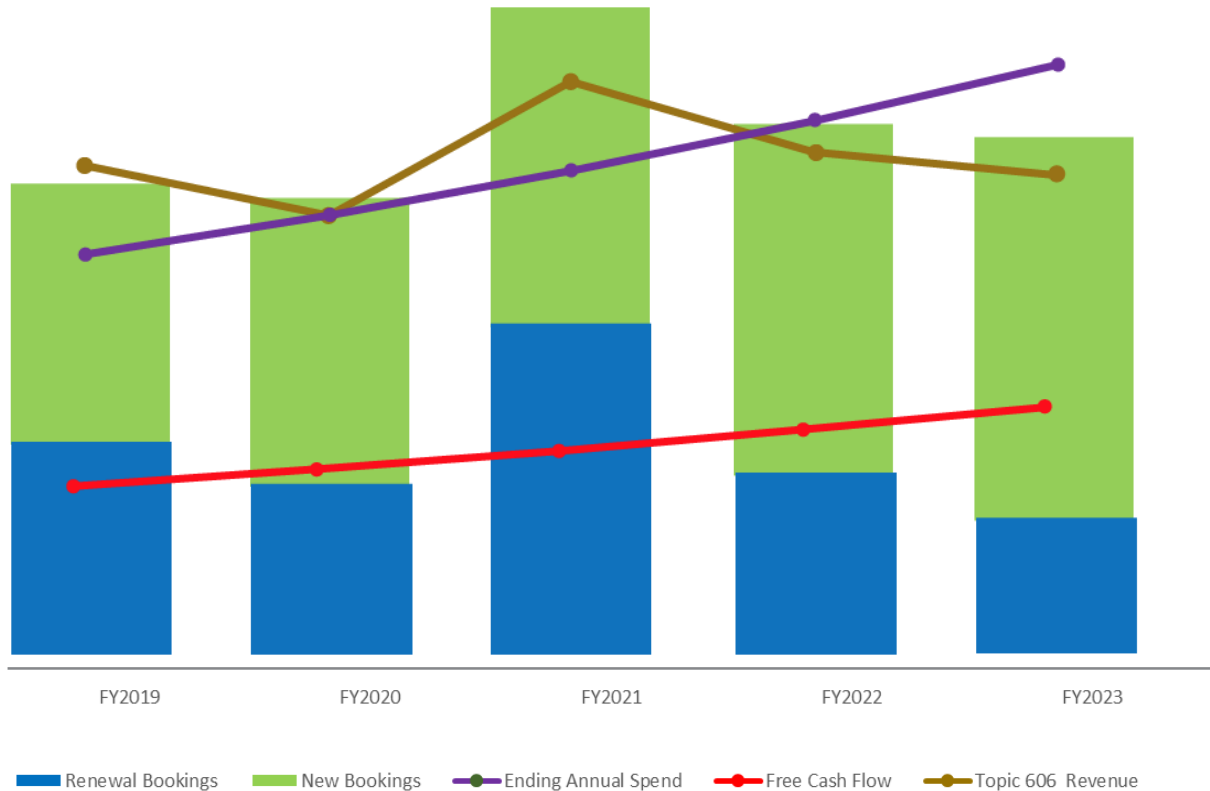
- Free Cash Flow
- Annual Spend Growth
- Non-GAAP Operating Margin
- Non-GAAP Net Income
- Non-GAAP Income per Share

New Non GAAP

- Total Contract Value (new)
- Bookings (new)

Financial Metrics – Topic 606

Analysis is for illustrative purposes only

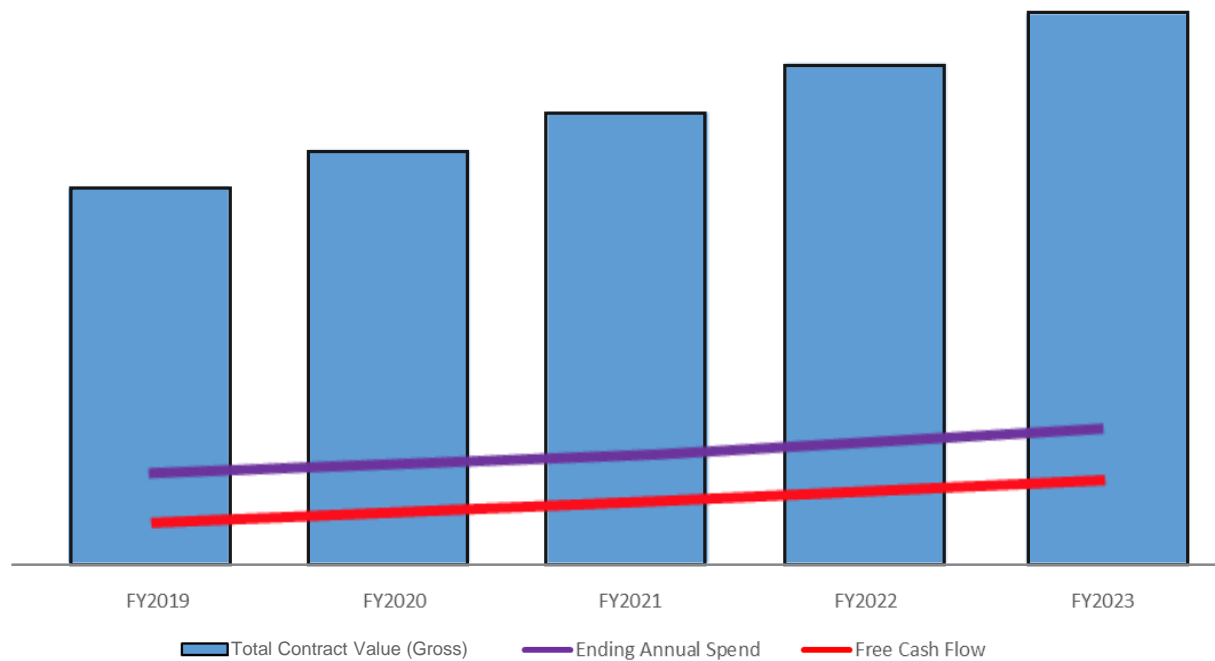


- Bookings, and therefore revenue, are heavily influenced by the timing of renewals
- The timing of forecasted renewals can be heavily impacted by early renewals and supersedes
- Bookings and revenue give an incomplete picture of our performance. We believe our non-GAAP metrics will aid investors in gaining a fuller understanding of our performance

Disclaimer: *The Renewal Bookings are based on our current forecast and are subject to change based on the actual renewal timing and early renewal supersedes, our actual results will vary. New Bookings and Annual Spend are based on an assumption of 7%-9% annual growth and our current contract metrics for term and escalation. Free cash flow and Topic 606 Revenue are based on our current Free Cash Flow and Topic 606 revenue model assumptions and are subject to change. Analysis is for illustrative purposes only and does not represent a forecast, guidance, or forward looking statement.*

Financial Metrics – Topic 606

Analysis is for illustrative purposes only



Disclaimer: *The Renewal Bookings are based on our current forecast and are subject to change based on the actual renewal timing and early renewal supersedes, our actual results will vary. New Bookings and Annual Spend are based on an assumption of 7%-9% annual growth and our current contract metrics for term and escalation. Free cash flow and Topic 606 Revenue are based on our current Free Cash Flow and Topic 606 revenue model assumptions and are subject to change. Analysis is for illustrative purposes only and do not represent a forecast, guidance, or forward looking statements.*

- Total Contract Value gives insight into the total value and growth of contracts under management
- Under Topic 606, Annual Spend gives insight into both the growth of our business and the cash available to collect in a period
- Free cash flow is an indication of cash flow that may be available to fund investments in future growth initiatives or to repay borrowings under the Credit Agreement

Target Operating Model

- Starting in fiscal year 2019, our revenue will fluctuate from year to year as a function of the timing of renewals. As such, stating our Target Operating Model in terms of annual revenue will give inconsistent results. Going forward we will state our Target Operating Model as a percentage of ending Annual Spend.

	As a Percentage of Topic 605 Revenue				As a Percentage of Topic 606 Revenue				As a Percentage of Ending Annual Spend			
	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015
Cost of Revenue	10%	10%	10%	11%	10%	9%	9%	10%	10%	10%	11%	12%
Sales & Marketing	20%	19%	19%	21%	19%	18%	18%	19%	21%	20%	21%	22%
Research & Development	16%	16%	14%	16%	15%	15%	13%	15%	17%	17%	15%	17%
General & Administrative	11%	11%	11%	11%	11%	10%	10%	10%	11%	11%	12%	12%
GAAP Operating Expenses	48%	46%	45%	48%	45%	43%	42%	44%	49%	49%	48%	50%
GAAP Operating Margin	42%	44%	45%	41%	45%	48%	49%	45%	41%	41%	41%	38%
Non-GAAP Operating Margin	47%	49%	49%	45%	51%	53%	55%	52%	46%	47%	47%	45%

Key Takeaways

- The fundamental value proposition of AspenTech has not changed. Topic 606 impacts the timing of revenue, not the underlying value creation or cash flows
- Revenue and profitability metrics are impacted by timing of bookings. Our non-GAAP metrics provide additional insight into our performance
 - Annual Spend
 - Bookings and Total Bookings Value
 - Free Cash Flow
 - Cashflow model remains consistent; customers will continue to pay annually in advance
- Our Business model (contract duration, non-cancellability, escalation) remains unchanged

Thank You

