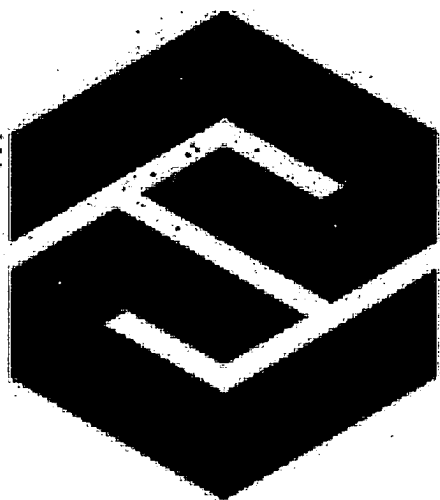


Annual Report Parametric Technology (UK) Limited

For the year ended 30 September 2019



Registered number: 02513030

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Company Information

Directors	Enrico Soldatini Axel Aurelio Heltzel
Company number	02513030 (England and Wales)
Registered office	Abbey House 282 Farnborough Road Farnborough, Hampshire England GU14 7NA
Auditor	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD

Strategic Report

For the year ended 30 September 2019

The directors present their strategic report on the company for the year ended 30 September 2019.

The business

PTC is a global software and services company that delivers a technology platform and solutions to help companies design, manufacture, operate, and service things for a smart, connected world.

Our Internet of Things Group offers Industrial Internet of Things (IIoT) solutions that enable companies to connect smart things and environments, manage and analyse data generated by those things and environments, and create IIoT applications and Augmented Reality (AR) experiences that transform the way users create, operate, and service products. Our Solutions Group offers a portfolio of innovative Computer-Aided Design (CAD), Product Lifecycle Management (PLM) and Service Lifecycle Management (SLM) solutions that enable manufacturers to create, innovate, operate, and service products.

Our Customer Success solutions and services help customers unleash the full value of our software offerings. These include advisory services designed to provide strategic insights for operational, organisational and technological IoT transformation; implementation services; adoption services that include digital learning solutions and change enablement services; success management services that leverage data and systems to monitor and improve the customer experience; cloud services; and customer support resources and tools. Our principal Customer Success offerings are described below.

Global Support

We offer global support plans for our software products. Participating customers receive updates that we make generally available to our support customers and also have direct access to our global technical support team of certified engineers for issue resolution. We also provide self-service support tools that allow our customers access to extensive technical support information. When products are purchased as a subscription, support is included as part of the subscription.

Professional Services

We offer consulting, implementation, training and cloud services through our Global Professional Services Organisation, with approximately 900 professionals worldwide, as well as through third-party resellers and other strategic partners. Our services help customers improve product development performance through technology enabled process improvement and multiple deployment paths. Our cloud services customers receive hosting and 24/7 application management.

Parametric Technology (UK) Limited is distributing the products of the PTC Group and offers services for these products to customers in the United Kingdom.

Key performance indicators

Total revenue remained stable which a very slight decrease of 0.3% (£73k) to £25.7m. While Licence revenue decreased by a further 39% (£0.5m) to £0.7m, Subscription revenue increased by 38% (£3.3m) to £11.8m. Software as a Service revenue increased by £0.6m to £1.7m while Hosting revenue remained stable at £0.8m. Maintenance revenue decreased by 13% (£1.2m) and consulting and training revenue decreased by 47% (£2.2m). There were no substantial implementations in 2019 as there were in 2018.

In 2015, we began offering our customers the option to purchase subscription licences for most of our products, whereby a fee paid for the right to use our software is inclusive of the right to receive support services throughout the subscription term. Transitioning a substantial portion of our business from a perpetual licensing model to a subscription licence model continues to be a top priority for the company.

The increase in gross profit in 2019 by £2m (18%) whilst revenue remained stable is due to decrease in the transfer price from 48% (2018) to 54% (average for the year). The company's profit for the financial year was £1.5m (2018: £1.5m).

Strategic Report (continued)

For the year ended 30 September 2019

The directors believe that the company has maintained its overall market share due to its broad engineering solution portfolio, the strategic acquisitions and continuous development and improvement of its products.

Position of the business and future developments

Based on 2019 results, current economic conditions and spending patterns and the competitive strength of our products, we believe we are well-positioned in the markets we serve.

In 2015 the company started offering the customers an alternative to buying perpetual licences; to use the products in a “subscription model”. Since 1 January 2018, with the exception of Kepware (a company that was acquired by PTC Inc. on 12 January 2016), all new contracts are subscription only, perpetual licences are no longer offered. When selling perpetual licences, the revenue is recognised on the software being made available to the customer. When selling subscription licence, the revenue is recognised over the term of the subscription. During the change of business model, there is a gap in the revenue which will be deferred to future accounting periods. This is unique in the transitional period but leads to a more sustainable and consistent turnover profile in the long run.

The directors, working closely with senior corporate management continue to drive the company’s business. Parametric Technology (UK) Limited follows a strategy and goals that are in line with those of the ultimate parent company, PTC Inc. That company carries out research and development activities, including developing new releases of PTC software that work together in a more integrated fashion and that include functionality enhancements desired by our customers and the markets that we serve. Additionally, acquisitions may serve to strengthen the market position. Those activities are carried out under the guidance of our ultimate parent company, PTC Inc.

During the year a restructuring program took place to reduce future costs and increase efficiency. The cost of the restructuring was £0.6m (2018: £nil) and included 20 employees.

No impairment charge has been recognised on intangible assets in 2019 (2018: £0.2m). See note 11 for further details.

Principal risks and uncertainties

The principal risk for the company is a downturn in the British Isles market for the products and services of the PTC Group. From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the PTC Group, which include those of the company, are discussed in PTC Inc.’s annual report which does not form part of this report.

The company’s operations expose it to a variety of financial risks that include the effects of credit risk, changes in market prices, liquidity risk and interest rate cash flow risk.

Brexit

Following the withdrawal of the United Kingdom from the European Union on 31 January 2020, the uncertainties as a result of the withdrawal are a risk for the Group and the company, however as the terms of the future trade and other relationships with the European Union are not yet clear it is difficult to identify all the potential implications. The PTC Group is working to mitigate potential risks that may arise as a result.

Covid-19

In December 2019, a novel strain of coronavirus, now referred to as COVID-19, surfaced. The virus has spread to over 100 countries and has been declared a pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has significantly impacted global economic activity and has created future macroeconomic uncertainty. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts COVID-19

information in context with the information reasonably available to us and the unknown future impacts COVID-19

Strategic Report (continued)

For the year ended 30 September 2019

Principal risks and uncertainties (continued)

through to the date of this report. While there was not a material impact to our financial statements, our financial condition and the results of operations as of the date of this report, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our financial statements, our financial condition and the results of operations. A reverse stress test was performed to assess a range of scenarios triggered by the Covid-19 crisis and the ability of the company to absorb them. As result of this analysis we conclude that a significant negative deterioration of the position of the company is extremely unlikely.

We are continuously monitoring our financial situation with a focus on revenue, profitability and cash to be able to respond to material adverse effects on our operations.

Credit risk

The company has implemented policies that require appropriate credit checks on all potential customers before sales are made. No change in credit risk as a result of covid-19 has been identified to date.

Market Prices

The PTC Group seeks to continually modify and enhance the company's products to keep pace with changing technology and address customers' needs, any failure to do so could reduce demand for the company's products.

Interest rate

The company has no debt outside of the PTC Group of companies. The company has no interest-bearing debt as of 30 September 2019 (2018: £nil).

The company does not use derivative financial instruments and as such no hedge accounting is applied.

On behalf of the Board



Axel Aurilio
Director

18 June 2020

Directors' report

For the year ended 30 September 2019

The directors present their report on the affairs of the company and the audited statutory financial statements of Parametric Technology (UK) Limited ("PTC") for the year ended 30 September 2019.

Employee information

Regular meetings are held between senior management and employee representatives to discuss matters of concern. Employees are kept well-informed about progress and position of the company by means of regular departmental meetings.

Employment of disabled persons

The company's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their aptitude and abilities. Disabled employees receive appropriate training to promote their career development within the company. Employees who become disabled are retained in their existing posts where applicable or retrained for suitable alternative posts.

Directors

The directors of the company during the year to 30 September 2019 and up to the date of signing of the financial statements are as follows:

Charles Dunn (resigned on 26 March 2019)

Petra Heck (resigned on 26 March 2019)

Marina Stavrinides (appointed on 28 November 2018; resigned on 1 April 2020)

Enrico Soldatini (appointed on 28 November 2018)

Axel Aurelio Heltzel (appointed on 1 April 2020)

The directors of the company had the benefit of a qualifying indemnity provision throughout the financial year ending 30 September 2019 and is currently in force.

Dividends

The directors do not recommend the payment of a dividend (2018: £nil).

Going concern

In December 2019, a novel strain of coronavirus, now referred to as COVID-19, surfaced. The virus has spread to over 100 countries and has been declared a pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has significantly impacted global economic activity and has created future macroeconomic uncertainty. While there was not a material impact to our financial statements, our financial condition and the results of operations as of the date of this report, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our financial statements, our financial condition and the results of operations.

We expect that our results will be impacted, by our ability to close large transactions, which has been adversely impacted by the COVID-19 pandemic as customers delay purchases due to the macroeconomic uncertainty and the inability to implement many of our solutions due to the on-site work generally required to do so. The amount of revenue attributable to large transactions, and the number of such transactions, may also vary significantly from quarter to quarter based on customer purchasing decisions and macroeconomic conditions. Such transactions may have long lead times as they often follow a lengthy product selection and evaluation process and, for existing customers, are influenced by contract expiration cycles. This may cause volatility in our results. For the PTC group we currently anticipate new bookings will be down approximately 30% year over year for the second half of 2020 due to the COVID-19 pandemic as described above. We also anticipate that our churn rate may deteriorate to approximately 8% for the year rather than a modest improvement over the fiscal 2019 churn rate as previously expected as customers may not renew their subscriptions or support contracts in full due to the COVID-19

Directors' report (continued)

For the year ended 30 September 2019

pandemic if they reduce their workforces and users or due to macroeconomic and liquidity uncertainty. We expect to continue to control costs due to savings on certain expenses due to the COVID-19 pandemic (such as curtailing travel), as well as lower anticipated variable compensation and increased cost discipline related to employee hiring. Despite the challenges associated with COVID-19, we are anticipating FY'20 ARR growth of approximately 11%, revenue growth of approximately 12% for the PTC group. We anticipate a similar effect for Parametric Technology (UK) Limited.

We expect to have sufficient liquidity with cash on hand and cash generated from operations to meet our working capital requirements through at least the next twelve months.

Taking into consideration the company's 2019 results, the competitive strength of its products and the positioning in the markets served as well as the anticipated impact of COVID-19, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Research and development

The company has considerable R&D developments that result in several product upgrades. Innovation and development of existing technologies is and will be an ongoing activity.

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

For the year ended 30 September 2019

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that directors are aware, there is no relevant audit information of which the company's auditor is unaware, and
- that directors have taken all the steps that ought to have been taken as directors in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's auditor is aware of that information.

Auditor

Mazars LLP was appointed as approved by shareholders on 18 June 2020 in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 18 June 2020 and is signed on its behalf.



Axel Aurelio Heltzel

Director

Company registration no: 02513030

Independent Auditor's Report

To the members of Parametric Technology (UK) Limited

Opinion

We have audited the financial statements of Parametric Technology (UK) Limited (the 'company') for the year ended 30 September 2019 which comprise profit and loss account, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – impact of the outbreak of COVID-19 on the financial statements

In forming our opinion on the company/group financial statements, which is not modified, we draw your attention to the directors' view on the impact of the COVID-19 as disclosed on page 5, and the consideration in the going concern basis of preparation on page 14 and non-adjusting post balance sheet events on page 33.

Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. The full impact following the recent emergence of the COVID-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the company's trade, customers, suppliers and the wider economy.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report

To the members of Parametric Technology (UK) Limited

(continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specific by law are not made; or
- we have not received all the information and explanations we require for our audit; or

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report

To the members of Parametric Technology (UK) Limited

(continued)

Responsibilities of Directors (continued)

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.



Samantha Russell (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD
Date 22 June 2020

Profit and loss account

For the year ended 30 September 2019

	Note	2019 £'000	2018 £'000
Turnover	5	25,657	25,730
Cost of sales		<u>(12,408)</u>	<u>(14,485)</u>
Gross profit		13,249	11,245
Administrative expenses		(21,169)	(21,505)
Other operating expenses		(92)	-
Other operating income		<u>10,123</u>	<u>12,058</u>
Operating profit excluding exceptional items		2,111	1,798
Exceptional items - employee restructuring		(593)	-
Exceptional items - goodwill and customer lists impairment	11	-	(213)
Interest payable and similar charges		(2)	-
Interest receivable and similar income	7	<u>14</u>	<u>1</u>
Profit on ordinary activities before taxation	6	1,530	1,585
Tax on profit on ordinary activities	9.	-	(55)
Profit for the financial year		1,530	1,530
Other comprehensive income			
Recharge in respect of share options granted to employees	23	<u>(960)</u>	<u>(681)</u>
Total comprehensive profit for the financial year		570	849
Profit for the year attributable to:			
Owners of the parent		<u>1,530</u>	<u>1,530</u>
Total comprehensive profit for the year attributable to:			
Owners of the parent		<u>570</u>	<u>849</u>

All amounts relate to continuing operations.

The notes on pages 14 to 34 form part of these financial statements and include significant accounting policies.

Balance sheet

As at 30 September 2019

Registered number: 02513030

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	11	1,989	2,604
Tangible assets	12	358	369
		<u>2,347</u>	<u>2,973</u>
Current assets			
Debtors: amounts falling due within one year	13	18,053	17,242
Debtors: amounts falling due after more than one year	13	160	128
Cash at bank and in hand		300	366
		<u>18,513</u>	<u>17,736</u>
Creditors: amounts falling due within one year	14	<u>(13,660)</u>	<u>(13,992)</u>
Net current assets		<u>4,853</u>	<u>3,744</u>
Total assets less current liabilities		<u>7,200</u>	<u>6,717</u>
Creditors: amounts falling due after more than one year	15	(11)	(30)
Provisions for liabilities	16	<u>(117)</u>	<u>(185)</u>
Net assets		<u><u>7,072</u></u>	<u><u>6,502</u></u>
Capital and reserves			
Called up share capital	18	188	188
Share premium account	19	37,281	37,281
Profit and loss account	19	<u>(30,397)</u>	<u>(30,967)</u>
		<u><u>7,072</u></u>	<u><u>6,502</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 18 June 2020.



 Axel Aurelio Hertz
 Director

Statement of changes in equity

As at 30 September 2019

	Note	Called-up share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance as at 1 October 2017		188	37,281	-	(31,816)	5,653
Profit for the year		-	-	-	1,530	1,530
Stock based compensation		-	-	1,311	-	1,311
Recharge in respect of share options granted to employees	23	-	-	(1,311)	(681)	(1,992)
Total comprehensive income		-	-	-	849	849
Balance as at 30 September 2018		<u>188</u>	<u>37,281</u>	<u>-</u>	<u>(30,967)</u>	<u>6,502</u>
Profit for the year		-	-	-	1,530	1,530
Stock based compensation		-	-	1,387	-	1,387
Recharge in respect of share options granted to employees	23	-	-	(1,387)	(960)	(2,347)
Total comprehensive income		-	-	-	570	570
Balance as at 30 September 2019		<u>188</u>	<u>37,281</u>	<u>-</u>	<u>(30,397)</u>	<u>7,072</u>

The notes on pages 14 to 34 form part of these financial statements and also include significant accounting policies.

Notes to the financial statements

For the year ended 30 September 2019

1. Company information

Parametric Technology (UK) Ltd is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is Abbey House, 282 Farnborough Road, Farnborough, Hampshire, England, GU14 7NA. The financial statements have been prepared using sterling as the presentation currency rounded to the nearest thousand.

2. Basis of preparation

These financial statements for the year ended 30 September 2019 have been prepared in accordance with FRS 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' issued by the Financial Reporting Council, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis, unless otherwise stated.

In preparing these financial statements, the company has taken advantage of the disclosure exemptions, as permitted by FRS 102 paragraph 1.12. The company has therefore complied with the applicable conditions.

The company has taken advantage of the following exemptions in preparing the company financial statements:

- (i) from preparing a Cash Flow Statement in accordance with Section 7 'Cash Flow Statements';
- (ii) from providing the financial instrument disclosures, required under paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as this information is provided in the consolidated financial statement;
- (iii) from disclosing the company's key management personnel compensation, as required by paragraph 7 of Section 33 'Related Party Disclosures'; and
- (iv) from disclosing share based payment arrangements, required under paragraphs 26.18(c), 26.19 to 26.21 and 26.23 concerning its own equity instruments.

Going concern

In December 2019, a novel strain of coronavirus, now referred to as COVID-19, surfaced. The virus has spread to over 100 countries and has been declared a pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has significantly impacted global economic activity and has created future macroeconomic uncertainty. While there was not a material impact to our financial statements, our financial condition and the results of operations as of the date of this report, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our financial statements, our financial condition and the results of operations.

We expect that our results will be impacted, by our ability to close large transactions, which has been adversely impacted by the COVID-19 pandemic as customers delay purchases due to the macroeconomic uncertainty and the inability to implement many of our solutions due to the on-site work generally required to do so. The amount of revenue attributable to large transactions, and the number of such transactions, may also vary significantly from quarter to quarter based on customer purchasing decisions and macroeconomic conditions. Such transactions may have long lead times as they often follow a lengthy product selection and evaluation process and, for existing customers, are influenced by contract expiration cycles. This may cause volatility in our results. For the PTC group we currently anticipate new bookings will be down approximately 30% year over year for the second half of 2020 due to the COVID-19 pandemic as described above. We also anticipate that our churn rate may deteriorate to approximately 8% for the year rather than a modest improvement over the fiscal 2019 churn rate as previously expected as customers may not renew their subscriptions or support contracts in full due to the COVID-19 pandemic if they reduce their workforces and users or due to macroeconomic and liquidity uncertainty. We expect to continue to control costs due to savings on certain expenses due to the COVID-19 pandemic (such as curtailing

Notes to the financial statements

For the year ended 30 September 2019

Going concern (continued)

travel), as well as lower anticipated variable compensation and increased cost discipline related to employee hiring. Despite the challenges associated with COVID-19, we are anticipating FY'20 ARR growth of approximately 11%, revenue growth of approximately 12% for the PTC group. We anticipate a similar effect for Parametric Technology (UK) Limited. A reverse stress test was performed to assess a range of scenarios triggered by the Covid-19 crisis and the ability of the company to absorb them. As result of this analysis we conclude that a significant negative deterioration of the position of the company is extremely unlikely.

We expect to have sufficient liquidity with cash on hand and cash generated from operations to meet our working capital requirements through at least the next twelve months. We are continuously monitoring our financial situation with a focus on revenue, profitability and cash to be able to respond to material adverse effects on our operations.

Taking into consideration the company's 2019 results, the competitive strength of its products and the positioning in the markets served as well as the anticipated impact of COVID-19, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements (continued)

For the year ended 30 September 2019

3. Critical accounting judgements and key sources of estimation uncertainty

In applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

The most important accounting judgments and estimates that we made in preparing the financial statements involved:

- Revenue recognition, and
- Valuation of goodwill and intangibles

Revenue Recognition

Our sources of revenue include: (1) licence, (2) subscription, (3) software as a service (4) Hosting, (5) Maintenance and (6) consulting and training revenue. We record revenues for software related deliverables in accordance with the guidance provided, by ASC 985-605, Software-Revenue Recognition and revenues for non-software deliverables in accordance with ASC 605-25, Revenue Recognition, Multiple-Element Arrangements when the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred (electronic distribution), (3) the fee is fixed or determinable, and (4) collection is probable. This is in compliance with FRS102. We exercise judgment and use estimates in connection with determining the amounts of software license and services revenues to be recognised in each accounting period. Our primary judgments involve the following:

- determining whether collection is probable;
- assessing whether the fee is fixed or determinable;
- determining whether service arrangements, including modifications and customisation of the underlying software, are not essential to the functionality of the licensed software and thus would result in the revenue for license and service elements of an agreement being recorded separately; and
- determining the fair value of services and support elements included in multiple-element arrangements, which is the basis for allocating and deferring revenue for such services and support.

Our software is distributed primarily through our direct sales force. In addition, we have an indirect distribution channel through alliances with resellers. Revenue arrangements with resellers are generally recognised on a sell-through basis; that is, when we deliver the product to the end-user customer. We record consideration given to a reseller as a reduction of revenue to the extent we have recorded revenue from the reseller. We do not offer contractual rights of return, stock balancing, or price protection to our resellers, and actual product returns from them have been insignificant to date. As a result, we do not maintain reserves for reseller product returns.

Notes to the financial statements (continued)

For the year ended 30 September 2019

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Revenue Recognition (continued)

At the time of each sale transaction, we must make an assessment of the collectability of the amount due from the customer. Revenue is only recognised at that time if management deems that collection is probable. In making this assessment, we consider customer credit-worthiness and historical payment experience. At that same time, we assess whether fees are fixed or determinable and free of contingencies or significant uncertainties. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction, including transactions with payment terms that extend beyond our customary payment terms, and our collection experience in similar transactions without making concessions, among other factors. If the fee is determined not to be fixed or determinable, revenue is recognised only as payments become due from the customer, provided that all other revenue recognition criteria are met. Our software license arrangements generally do not include customer acceptance provisions. However, if an arrangement includes an acceptance provision, we record revenue only upon the earlier of (1) receipt of written acceptance from the customer or (2) expiration of the acceptance period.

Generally, our contracts are accounted for individually. However, when contracts are closely interrelated and dependent on each other, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts.

Subscription

Subscription revenue includes revenue from two primary sources: (1) subscription-based licenses, and (2) cloud services. Subscription-based licenses include the right for a customer to use our licenses, which may be on premise or in the cloud, and receive related support for a specified term and revenue is recognised rateably over the term of the arrangement. When sold in arrangements with other elements, vendor-specific objective evidence ("VSOE") of fair value is established for the subscription-based licenses through the use of a substantive renewal clause within the customer contract for a combined annual fee that includes the term-based license and related support. Cloud services reflect recurring revenues that include fees for hosting and application management of customers' perpetual or subscription-based licenses. Generally, customers have the right to terminate the cloud services contract and take possession of the licenses without a significant penalty.

Support

Support contracts generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates and bug fixes. Support revenue is recognised rateably over the term of the support contract on a straight-line basis.

Perpetual License

Under perpetual license arrangements, we generally recognise license revenue up front upon shipment to the customer. We use the residual method to recognise revenue from perpetual license software arrangements that include one or more elements to be delivered at a future date when evidence of the fair value of all undelivered elements exists, and the elements of the arrangement qualify for separate accounting as described below. Under the residual method, the fair value of the undelivered elements (i.e., support and services) based on our VSOE of fair value is deferred and the remaining portion of the total arrangement fee is allocated to the delivered elements (i.e., perpetual software license). If evidence of the fair value of one or more of the undelivered elements does not exist, all revenues are deferred and recognised when delivery of all of those elements has occurred or when fair values can be established. We determine VSOE of the fair value of services and support revenue based upon our recent pricing for those elements when sold separately. For certain transactions, VSOE is determined based on a substantive renewal clause within a customer contract. Our current pricing practices are influenced primarily by product type, purchase volume, sales channel and customer location. We review services and support sold separately on a periodic basis and update, when appropriate, our VSOE of fair value for such elements to ensure that it reflects our recent pricing experience.

Notes to the financial statements (continued)

For the year ended 30 September 2019

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Revenue Recognition (continued)

Professional Services

Our software arrangements often include implementation, consulting and training services that are sold under consulting engagement contracts or as part of the software license arrangement. When we determine that such services are not essential to the functionality of the licensed software, we record revenue separately for the license and service elements of these arrangements, provided that appropriate evidence of fair value exists for the undelivered services (i.e. VSOE of fair value). We consider various factors in assessing whether a service is not essential to the functionality of the software, including if the services may be provided by independent third parties experienced in providing such services (i.e. consulting and implementation) in coordination with dedicated customer personnel, and whether the services result in significant modification or customisation of the software's functionality. When professional services qualify for separate accounting, professional services revenues under time and materials billing arrangements are recognised as the services are performed. Professional services revenues under fixed-priced contracts are generally recognised as the services are performed using a proportionate performance model with hours or costs as the input method of attribution.

When we provide professional services that are considered essential to the functionality of the software, the arrangement does not qualify for separate accounting of the license and service elements, and the license revenue is recognised together with the consulting services using the percentage-of-completion method of contract accounting. Under such arrangements, consideration is recognised as the services are performed as measured by an observable input. In these circumstances, we separate license revenue from service revenue for income statement presentation by allocating VSOE of fair value of the consulting services as service revenue, and the residual portion as license revenue. Under the percentage-of-completion method, we estimate the stage of completion of contracts with fixed or "not to exceed" fees based on hours or costs incurred to date as compared with estimated total project hours or costs at completion. Adjustments to estimates to complete are made in the periods in which facts resulting in a change become known. When total cost estimates exceed revenues, we accrue for the estimated losses when identified. The use of the proportionate performance and percentage-of-completion methods of accounting require significant judgment relative to estimating total contract costs or hours (hours being a proxy for costs), including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed and anticipated changes in salaries and other costs.

Training services include on-site and classroom training. Training revenues are recognised as the related training services are provided.

Notes to the financial statements (continued)

For the year ended 30 September 2019

3. Critical accounting judgements and key sources of estimation uncertainty (Continued)

Valuation of Intangibles including Goodwill

We test intangibles for impairment on a yearly basis or when circumstances change that would, more likely than not, reduce the fair value of a reporting segment for the relevant product below its carrying value. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in our use of the acquired assets or a significant change in the strategy for our business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, or a reduction of our market capitalisation relative to net book value.

To conduct our impairment test, the fair value of each reporting unit is compared to its carrying value. If the reporting unit's carrying value exceeds its fair value, we record an impairment loss equal to the difference between the carrying value of goodwill and its implied fair value. We estimate the fair values of our reporting units using discounted cash flow valuation models. Those models require estimates of future revenues, profits, capital expenditures, working capital, terminal values based on revenue multiples, and discount rates for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans and industry data. When completing our annual goodwill impairment review for 2019 we concluded that no impairment charge was required (2018: £0.2m), for more details see note 4.2.

4. Principal accounting policies

4.1. Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree plus costs directly attributable to the business combination.

Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities is recognised as goodwill. If the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination the excess is recognised separately on the face of the balance sheet immediately below goodwill.

Notes to the financial statements (continued)

For the year ended 30 September 2019

4. Principal accounting policies (Continued)

4.2. Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible assets are amortised over the following useful economic lives:

- Goodwill 10 to 11 years
- Customers lists & trademarks 7 to 10 years

Intangible assets are reviewed annually for signs of impairment. Where there are signs of impairment the carrying value is compared to the recoverable amount based on expected future cash flows.

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

If the net fair value of the identifiable assets and liabilities acquired exceeds the cost of a business combination, the excess up to the fair value of non-monetary assets acquired is recognised in profit or loss in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in profit or loss in the periods expected to be benefitted.

4.3. Tangible assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their expected useful lives, using the straight-line method. The rates applicable are:

- Furniture and equipment 3 years
- Computer hardware and software 3 years
- Leasehold improvements Over the lease term

4.4. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

4.5. Financial instruments

Basic financial instruments are measured at transaction price and subsequently measured at amortised cost using the effective interest method. A financial asset or liability that is repayable on demand is measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

4.6. Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

4.7. Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the company recognises annual rent expense equal to amounts owed to the lessor.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

Notes to the financial statements (continued)

For the year ended 30 September 2019

4. Principal accounting policies (Continued)

4.8. Provisions for liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

The company recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence and is included within accruals (note 14).

4.9. Turnover

Turnover is derived from licensing PTC's software products and from service revenue consisting of training, consulting and maintenance. Perpetual licence revenue is recognised upon contract execution, provided PTC's obligations to make the software available to the customer have been met, fees are fixed or determinable and collection is probable. Turnover from subscription licences and software maintenance is recognised monthly over the contract period. Turnover from consulting and training is recognised upon performance.

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.

Turnover that is due on services rendered but not billed is recognised within the same accounting period in which the cost of providing that services is also recognised, and is included in accrued income.

The company provides software support and subscription licenses, for which the company invoices in advance. Income billed in advance is initially deferred, and turnover is recognised on a straight line basis over the term of the contract. On a case by case basis training and consulting services are invoiced prior to service delivery. Turnover in these cases is recognised when the service is delivered.

4.10. Other operating income

Other operating income includes charges for the provision of training and other services to group companies and the reimbursement of research and development expenditure incurred by Parametric Technology (UK) Limited on behalf of other group companies.

4.11. Functional Currency

The primary economic environment of the company is United Kingdom. As a result of that the functional currency is pound sterling.

Notes to the financial statements (continued)

For the year ended 30 September 2019

4. Principal accounting policies (Continued)

4.12. Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the company is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the company has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.13. Employee benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

4.14. Foreign currency translation

In preparing the financial statements, transactions in currencies other than the functional currency of the company (foreign currencies) are recognised at the spot rate at the dates of the transactions, or at an average rate where this rate approximates the actual rate at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Notes to the financial statements (continued)

For the year ended 30 September 2019

4. Principal accounting policies (Continued)

4.15. Research and development

Research and development expenditure is written off in the profit and loss account in the period in which it is incurred.

4.16. Share based payments

The PTC group issues equity-settled share based payments to certain employees of the company. Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on estimates of shares that will eventually vest. At each balance sheet date, the company revises its estimates of the number of equity settled share based payments that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

5. Turnover

Turnover, analysed geographically between markets, was as follows:

	2019 £'000	2018 £'000
United Kingdom	25,392	25,403
Rest of the world	265	327
	<u>25,657</u>	<u>25,730</u>

Turnover, analysed by category, was as follows:

	2019 £'000	2018 £'000
Licence revenue	724	1,190
Subscription revenue	11,763	8,508
Software as a Service revenue	1,656	1,020
Hosting revenue	778	795
Maintenance revenue	8,239	9,479
Consulting and training revenue	2,497	4,738
	<u>25,657</u>	<u>25,730</u>

Notes to the financial statements (continued)

For the year ended 30 September 2019

6. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after:

	2019 £'000	2018 £'000
Amortisation of intangible assets	615	1,092
Depreciation of tangible assets	220	359
Operating lease rentals:		
-plant and machinery	12	12
-other	521	529
Research and development	(6,002)	(7,719)
Foreign exchange losses	107	105
Fees payable to the company's auditor for the audit of the company's annual accounts	30	32
Fees payable to the company's auditor for other services:		
- Tax compliance services	-	15
Exceptional items:		
- Goodwill impairment	-	213

7. Interest receivable and similar income

	2019 £'000	2018 £'000
Intercompany Interest Income	14	1

8. Directors and employees

Staff costs during the year were as follows:

	2019 £'000	2018 £'000
Wages and salaries	13,049	12,835
Social security costs	1,843	1,812
Stock based compensation (note 22)	2,347	1,311
Other pension costs (note 20)	572	552
	17,810	16,510

The company operates a stakeholder defined contribution pension scheme for the benefit of the employees and directors. The assets of the scheme are administered by an independent pensions provider.

Notes to the financial statements (continued)

For the year ended 30 September 2019

8. Directors and employees (Continued)

The average number of employees of the group during the year was:

	2019 Number	2018 Number
Sales	51	44
General administration	11	11
Support services	32	32
Technical development	48	65
	<u>142</u>	<u>152</u>

No directors are remunerated for their services as directors of Parametric Technology (UK) Limited (2018: £nil). No directors were entitled to retirement benefits under any pension scheme at 30 September 2019 (2018: none). The directors are employed by the group and their services to the company are incidental.

During the year a restructuring program took place to reduce future costs and increase efficiency. The cost of the restructuring was £0.6m (2018: £nil) and included 20 employees.

9. Tax on profit on ordinary activities

	2019 £'000	2018 £'000
Analysis of tax charge for the period		
<i>Current tax</i>		
UK Corporation Tax at 19%	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	-
Adjustments to brought forward values	-	55
Tax on results on ordinary activities	<u>-</u>	<u>55</u>
Provision for deferred tax		
<i>Movement in Provision</i>		
Provision at start of period	-	-
Deferred tax charged in Statement of comprehensive	-	-
Provision at end of the year	<u>-</u>	<u>-</u>
Deferred tax asset not recognised	<u>(6,889)</u>	<u>(6,514)</u>

Notes to the financial statements (continued)

For the year ended 30 September 2019

9. Tax on profit on ordinary activities (Continued)

Reconciliation of tax charge

on ordinary activities before tax	<u>1,530</u>	<u>1,585</u>
Tax on loss on ordinary activities at standard CT rate of 19% (2018: 19%)	291	301
Effects of:		
Fixed assets differences	42	169
Income not taxable for tax purposes	(188)	(99)
Expenses not deductible for tax purposes	126	113
Adjustments to brought forward values	-	-
Other permanent differences	-	-
Adjustments to tax charge in respect of previous periods	-	55
Timing differences not recognised in the computation	-	-
Adjust closing deferred tax to average rate of 19%	-	766
Adjust opening deferred tax to average rate of 19%	-	(817)
Deferred tax not recognised	<u>(271)</u>	<u>(433)</u>
Tax charge for the period	<u>-</u>	<u>55</u>

10. Dividends

The directors do not recommend the payment of a dividend (2018: £nil).

Notes to the financial statements (continued)

For the year ended 30 September 2019

11. Intangible fixed assets

	Trademarks £'000	Customer lists £'000	Goodwill £'000	Total £'000
Cost				
At 1 October 2018 at 30 September 2019	29	2,704	16,651	19,384
Amortisation and impairment				
At 1 October 2018	29	1,825	14,926	16,780
Charge for the year	-	183	432	615
At 30 September 2019	29	2,008	15,358	17,395
Net book amount at 30 September 2019	-	696	1,293	1,989
Net book amount at 30 September 2018	-	879	1,725	2,604

Amortisation of intangible assets is included in administrative expenses.

12. Tangible fixed assets

	Furniture and equipment £'000	Computer hardware & software £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 October 2018	98	1,349	291	1,738
Additions	-	209	2	211
Disposals	(10)	(83)	(10)	(103)
At 30 September 2019	88	1,475	283	1,846
Depreciation				
At 1 October 2018	73	1,135	161	1,369
Charge for the year	16	182	21	220
Disposals	(10)	(83)	(8)	(101)
At 30 September 2019	79	1,234	174	1,488
Net book amount at 30 September 2019	9	241	109	358
Net book amount at 30 September 2018	25	214	130	369

Notes to the financial statements (continued)

For the year ended 30 September 2019

13. Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	4,910	4,768
Amounts owed by group undertakings	12,317	11,768
Other debtors	199	221
Prepayments and accrued income	627	485
	<u>18,053</u>	<u>17,242</u>
Amounts falling due after more than one year:		
Other debtors	<u>160</u>	<u>128</u>

Amounts owed by group undertakings relate to the recharge of costs borne by the company on behalf of other group entities. They are unsecured, repayable on demand and bear interest computed on the daily balance at a rate equivalent to LIBOR rate plus 0.5% (where PTC (IFSC) Limited, a PTC Inc. group company registered in Ireland, is the Lender) or at a rate equivalent to LIBOR rate minus 0.5% (where the company is the Lender) on a basis of 360 days. PTC (IFSC) Limited or an agent on its behalf shall advise the company of such interest rate at the end of each month.

14. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	336	226
Amounts owed to group undertakings	-	1,434
Taxation and social security (2018 restated)	791	926
Accruals and deferred income	12,533	11,406
	<u>13,660</u>	<u>13,992</u>

Amounts owed to group undertakings relate to the recharge of costs borne by other group entities on behalf of the company. They are interest free, unsecured and repayable upon demand.

15. Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Long term deferred income	<u>11</u>	<u>30</u>

Notes to the financial statements (continued)

For the year ended 30 September 2019

16. Provisions for liabilities

	Onerous lease	Dilapidations	Total
	£'000	£'000	£'000
At 1 October 2018	(59)	(126)	(185)
Additions	-	(11)	(11)
Utilised	41	29	70
Reversals	9	-	9
At 30 September 2019	(9)	(108)	(117)

Onerous lease provision

Since 30 June 2016, the entire Swindon facility is no longer utilised. The lease expiration date is 11 August 2020 with an early termination option on 8 May 2019. The total provision included at 30 September 2019 is £9k (2018: £59k).

Dilapidations provision

The dilapidations provision includes the estimated restoration costs for all six leased facilities, the provision for the restructured facility was fully utilised during the year. The provisions are accrued on a straight line basis over the initial lease term.

17. Deferred taxation

The unrecognised deferred taxation asset is as follows:

	2019	2018
	£'000	£'000
Accelerated capital allowances	996	899
Short term timing differences	232	415
Losses	5,661	5,200
Total deferred tax asset not recognised	6,889	6,514
At 1 October 2018	6,514	6,957
Utilisation of losses	(274)	(497)
Other deferred tax movements	3	64
Prior year adjustment	646	(10)
At 30 September 2019	6,889	6,514

In the directors' opinion it is uncertain as to when and whether the deferred tax asset will crystallise and accordingly it has not been recognised.

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%. At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

Notes to the financial statements (continued)

For the year ended 30 September 2019

18. Called up share capital

	2019 £'000	2018 £'000
Allotted and fully paid:		
188,203 (2018: 188,203) ordinary shares of £1 each	<u>188</u>	<u>188</u>

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the company.

19. Reserves

Share premium account

This reserve represents any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Profit and loss account

This reserve represents the cumulative profits and losses.

Other reserves

This reserve represents the equity incentive plan outlined in note 23.

20. Leasing commitments

The company's future minimum operating lease payments are as follows:

	2019		2018	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Within one year	430	2	460	10
Between one and five years	<u>187</u>	<u>-</u>	<u>342</u>	<u>2</u>
Total	<u>617</u>	<u>2</u>	<u>802</u>	<u>12</u>

21. Pension commitments

The company operates a number of defined contribution pension schemes. The assets of the schemes are held in independently administered funds. The contributions to the schemes payable by the company for the year were £0.5m (2018: £0.5m). The contributions outstanding as at the balance sheet date were £0.1m (2018: £0.1m).

Notes to the financial statements (continued)

For the year ended 30 September 2019

22. Related party transactions

The company is a wholly owned subsidiary of Parametric Holdings (UK) Limited, and as such has taken advantage of the exemption permitted by FRS 102 section 33 'Related party disclosures' not to provide disclosures of transactions entered into with wholly owned members of the group. The company undertakings are included within the consolidated financial statements of PTC Inc., which are publicly available and can be obtained from its registered office at Abbey House, 282 Farnborough Road, Farnborough, Hampshire, England, GU14 7NA.

23. Equity incentive plan

The 2000 Equity Incentive Plan (2000 Plan) of the ultimate holding company, PTC Inc. provides for the grants of non-qualified and incentive stock options, common stock, restricted stock, restricted stock units and stock appreciation rights to its employees, directors, officers and consultants. The United Kingdom employees participate in this plan.

The company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognised over the period during which an employee is required to provide service in exchange for the award.

Until 2005, the company generally granted stock options. For those options, the option exercise price was typically the fair market value at the date of grant, and they generally vested over three years and expire ten years from the date of grant. The fair value of options was estimated at the date of grant using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. No stock options have been granted since 2005 to United Kingdom employees. There were no stock option movements during the last two years.

Restricted Stock Units

Since 2005, the parent company has awarded restricted stock units as the principal equity incentive awards for the company's employees. Each restricted stock unit represents the contingent right to receive one share of PTC Inc. common stock. The fair value of restricted stock units is based on the fair market value of PTC Inc. stock on the date of grant, and they are generally vested over a three-year period.

The fair value of restricted stock units granted in the year was \$2.4m (2018: \$1.9m).

Notes to the financial statements (continued)

For the year ended 30 September 2019

23. Equity incentive plan (continued)

A reconciliation of restricted stock unit movements over the year to 30 September is shown below:

	2019		2018	
Time Based Awards				
	Shares	Weighted average grant date price	Shares	Weighted average grant date price
Outstanding at 1 October	57,162	\$ 58.00	70,414	\$ 43.87
Granted	28,361	\$ 83.73	25,084	\$ 75.53
Transfers in	191	\$ 83.99	471	\$ 45.88
Transfers out	-	-	-	-
Vested	(31,095)	\$ (53.02)	(34,479)	\$ (43.01)
Forfeited	(4,074)	\$ (67.05)	(4,328)	\$ (47.73)
Outstanding at 30 September	50,545	\$ 74.87	57,162	\$ 58.00

	2019		2018	
Performance Based Awards				
	Shares	Weighted average grant date price	Shares	Weighted average grant date price
Outstanding at 1 October	6,185	\$ 53.89	9,278	\$ 53.89
Granted	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Vested	(3,093)	\$ (53.89)	(3,093)	\$ (53.89)
Forfeited	-	-	-	-
Outstanding at 30 September	3,092	\$ 53.89	6,185	\$ 53.89

Note – the weighted average exercise prices are in US Dollar (exchange rate of 1.2803).

The total charge for the year relating to employee restricted stock-based compensation was £1,387,588 (2018: £1,310,831), all of which related to equity-settled share-based payment transactions.

A movement of £960k (2018: £682k) has been recognised directly in the Profit and Loss Account. This movement relates to the statutory adjustment to disclose the stock based compensation as the expense for the year.

As each restricted stock grant vests, PTC Inc. cross charge the costs associated at the prevailing market value of the stock at point of vesting.

Notes to the financial statements (continued)

For the year ended 30 September 2019

24. Events after the reporting period

On 28 February 2020 the Board of Directors of Parametric Technology (UK) Limited passed a special resolution to reduce the Company's share premium account of £37,280,914 to nil and to credit a distributable reserve account, creating a distributable reserve upon registration of a copy of the required directors' solvency statement. Furthermore, the board of directors declared a dividend of £4,800,000 to its parent company Parametric Technology Holdings Limited which was distributed on 6 March 2020.

In December 2019, a novel strain of coronavirus, now referred to as COVID-19, surfaced. The virus has spread to over 100 countries and has been declared a pandemic by the World Health Organization. The COVID-19 pandemic has significantly impacted global economic activity and has created future macroeconomic uncertainty. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts COVID-19 through the date of this report. While there was not a material impact to our financial statements as of the date of this report, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our financial statements, our financial condition and the results of operations.

We expect that our results will be impacted, by our ability to close large transactions, which has been adversely impacted by the COVID-19 pandemic as customers delay purchases due to the macroeconomic uncertainty and the inability to implement many of our solutions due to the on-site work generally required to do so. The amount of revenue attributable to large transactions, and the number of such transactions, may also vary significantly from quarter to quarter based on customer purchasing decisions and macroeconomic conditions. Such transactions may have long lead times as they often follow a lengthy product selection and evaluation process and, for existing customers, are influenced by contract expiration cycles. This may cause volatility in our results. For the PTC group we currently anticipate new bookings will be down approximately 30% year over year for the second half of 2020 due to the COVID-19 pandemic as described above. We also anticipate that our churn rate may deteriorate to approximately 8% for the year rather than a modest improvement over the fiscal 2019 churn rate as previously expected as customers may not renew their subscriptions or support contracts in full due to the COVID-19 pandemic if they reduce their workforces and users or due to macroeconomic and liquidity uncertainty. We expect to continue to control costs due to savings on certain expenses due to the COVID-19 pandemic (such as curtailing travel), as well as lower anticipated variable compensation and increased cost discipline related to employee hiring. Despite the challenges associated with COVID-19, we are anticipating FY'20 ARR growth of approximately 11%, revenue growth of approximately 12% for the PTC group.

We expect to have sufficient liquidity with cash on hand and cash generated from operations to meet our working capital requirements through at least the next twelve months.

Notes to the financial statements (continued)

For the year ended 30 September 2019

25. Ultimate parent undertaking and controlling party

The company's immediate parent company at 30 September 2019 was Parametric Holdings (UK) Limited, a company incorporated in the United Kingdom.

The ultimate parent undertaking and the parent of the smallest and largest group for which group financial statements are prepared and of which Parametric Technology (UK) Limited is a member, is PTC Inc., a company incorporated in the Commonwealth of Massachusetts.

Copies of these consolidated financial statements can be obtained from:

Parametric Technology (UK) Limited

Abbey House

282 Farnborough Road

Farnborough

Hampshire

England

GU14 7NA

PTC Inc. is the ultimate controlling party.