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2020 CEO's Address

“Embracing the Cloud and Accelerating Transformation”

Altium Annual General Meeting

Sydney, Australia, 19 November 2020 - Good morning everyone. It is a great pleasure to speak with you today and to share my excitement about Altium and how it is poised to dominate and transform the electronics industry. We are, indeed, in a most fortunate position to be pursuing a journey of transformation through dominance where our strong software business can combine with our innovative new Cloud platform Altium 365 to deliver exceptional value for our stakeholders. Far from the typical examples of software companies going to the Cloud, Altium embracing the Cloud is all positive with no negative.

In the next few minutes, I would like to share with you why I believe this to be the case, so that you may better appreciate what differentiates Altium from its peers.

The most important thing to appreciate about Altium is its unique strategy of transformation through dominance. In particular, this strategy de-risks Altium's move to the Cloud by extending our current value proposition to our customers and, at the same time, this strategy raises the bar and reinforces Altium's position of absolute market dominance in PCB design. This combination will set a resonance that has the potential to bring about industry transformation.

While dominance and transformation are part of one journey, this strategy sets up two engines of growth for value creation. Our strong software business drives our dominance engine, and our new cloud platform Altium 365, is the basis of our transformation engine. From a business perspective, these two engines provide independent drive, and at the same time are complementary and reinforce each other.

What is important to note, is that our move to the Cloud is forming a new business. It is not the evolution nor is it altering the course of our software business. Our software business is regarded as world class and is well on the way to achieving worldwide

dominance, which will essentially give us a position of absolute market dominance similar to what has been achieved by Adobe and Microsoft, for the electronics industry.

Absolute market dominance in software business is a greater market position than either achieved through SaaS or term-based licensing. As such, we are not changing our winning formula or forcing our customers to move from perpetual to term-based licensing or moving the design process onto the Cloud. While benefiting from the Cloud, our software business will continue to power on its pursuit of market dominance and strongly form our dominance engine.

Our Cloud platform is the basis for our second engine and its goal is to bring about industry transformation. It assists and, at the same time, is assisted by our dominance pursuit but remains independent. I will explain this further.

To appreciate the complementary nature of these two engines, it is important to recognize that customers of Altium do largely two things. First, they design electronics using our software tools and second they engage and collaborate with the supply chain and manufacturers to realize their electronic hardware. Our first engine of growth is related to design and our second engine of growth is related to realization. Our dominance comes from the design domain and transformation is in the realization domain.

Further, what is important to note is that we are not taking our design software to the Cloud, but encouraging our customers to move only their data to the Cloud for collaboration purposes. This will enable seamless collaboration, in real time, for the realization of electronic hardware, something that until now, has been very labor-intensive and quite frankly, archaic. Engineers have had to contend with emails, phone calls and in-person meetings to collaborate on their designs. With Altium 365 this is all done at the platform level in the Cloud.

I hope that this demonstrates clearly the shortcomings of drawing parallels between Altium's move to the Cloud in pursuit of transformation with companies such as SAP that take their traditional software from desktop and on-premise to the Cloud. Altium's flagship software stays on the desktop and will not be going to the Cloud nor will Altium be forcing its customers from perpetual to term-based licensing. This means that parallels with companies, such as Autodesk, are also not relevant.

Altium 365 impacts our revenue in two distinct ways. One is through what we refer to as indirect monetization and the other is through direct monetization. What is important to note is that the indirect monetization only enhances our existing revenue and avoids the negatives that are usually associated with software companies moving to the Cloud. The direct monetization, on the other hand, is the main return for all of our hard work. We have not started any activities in this direction, as it is critical to first secure a significant volume of users on the platform. This means that our indirect monetization not only will enhance our existing revenue but will also pave the way for our direct monetization.

Let me explain in detail how indirect monetization enhances our existing revenue.

Our existing software business drives its revenue primarily through the sale of software licences and annual recurring fees for maintenance. Our current rate of recurring revenue is 60% of our total revenue, and we expect that this will grow significantly over the next few years. The introduction of Altium 365 impacts our existing revenue indirectly by bringing about a change to the nature of our revenue without a need to change our existing software licensing model.

Unlike other companies that move to the Cloud, Altium is not requiring any change to its existing software licensing model. All that Altium requires from its customers is to remain on a valid software maintenance subscription to be able to access its Cloud platform for collaboration purposes. This is expected to significantly increase renewal rates for maintenance subscription and reduce churn, which should have the most dramatic impact on our revenue and our climb to 100,000 subscribers by 2025.

Altium 365 will also allow us to increase the rate of utilization per customer and drive our software license sales. Altium 365 membership is on a named-user basis and through in-app engagement, where we can see how our engineers use the software and the platform, we can market directly to those needs and ensure that customers hold the appropriate number of licences. This will drive a gradual transition from perpetual licences to term-based licences as our customers will want to add capacity.

The implication of all this, is that the adoption of Altium 365 will implicitly change the nature of Altium's revenue from being old world perpetual and maintenance based to the new world of term-based and SaaS. This means, as far as Altium's existing software revenue is concerned, Altium may very well be able to accomplish a Sun Tzu move in winning a war without fighting a battle.

Although we have not yet started, I would like to say a few words that will give you a feel for our direct monetization plans.

Altium 365 is designed as a platform for users beyond the design community to include professionals from manufacturing and supply chain to compliance and third-party service providers. The standard membership for Altium 365 is free for all users. This will drive the network effect and make the platform attractive for collaboration across all segments of the industry. Altium does not intend to charge standard users of the platform in the same way that Amazon, Uber or Airbnb do not charge users to sign up to their platforms.

There are two pathways to directly monetize the users and the activities on our Cloud platform. One is through offering "premium services" similar to Amazon Prime, whereby a professional user's experience is enhanced and made more productive. The other is by charging a transaction fee associated with supply chain or manufacturing services.

It is crucial that Altium firmly establishes the value of this platform and secures a significant volume of users without relying on premium services or advanced manufacturing and supply chain capabilities. Users may otherwise erroneously perceive the platform as a “bait and switch” tactic by Altium, which is clearly not the case.

The early signs are extremely positive. Customers are embracing the power and the potential of Altium 365 for collaboration that is truly different to anything that they have seen before in this industry.

In May we launched our new cloud platform Altium 365 as the world’s first digital platform for electronics design and realization. As at 15th of November, we have 7,486 active users and 3,739 active accounts on Altium 365. Both measures are up over 40% since the end of July when I last shared progress with the market. This is encouraging and bodes well for our transformative agenda. We are definitely off to a good start and the feedback confirms that customers are seeing the value of this new platform.

What is worth mentioning, is that the spread and the adoption of Altium 365 so far has been based on word of mouth and through a network effect rather than our traditional marketing and advertising. In fact, we have done very little on this front and it has all been driven by users’ excitement and appreciation for the value that this platform is delivering to them.

Finally, this brings me to sharing my thinking as to how I am seeing the short-term progress and the full year unfolding for Altium. As you are all aware, we shared a detailed “flight path” to 2025 at our full year results on the basis that we see FY21 as a “pre-vaccine year”, FY22 as a “transitional year” and FY23 and beyond as back to a normal environment. While I must admit that I am as hopeful as all of you that we can come out of COVID quicker than anticipated, particularly as we hear positive news about potential vaccines, however, given the record infections in the US and second wave in Europe, I think it is prudent to continue to view the remainder of FY21 as a “pre-vaccine” environment.

Like many businesses, we have felt the impact of the ongoing worldwide pandemic, the second-wave of COVID and, more recently, close to home, the US elections. We have also leaned into our opportunity to lay the foundation for further acceleration of our transformative agenda by implementing an organizational restructure and bifurcating our sales teams.

We are continuing to be impacted by COVID. This is at a business level and at an employee and human capital level as we all feel the strain of our environment. This said, I believe that our hard pivot to the Cloud and our sales bifurcation will help to pick up momentum in the second half. We are already seeing early signs of this.

While our first half is expected to be still affected by COVID, we are seeing positive signs in the last two months and gaining confidence about the strength of our second half. This means that, based on our historic 45/55 revenue split between the halves, and with the momentum that I just spoke to, we can reaffirm Altium's guided range for the full year fiscal 2021:

- Revenue of \$US200 million to US\$212 million (6-12% growth).
- EBITDA US\$76 million to US\$89 million (38-42%).

Traditionally, our first half EBITDA margin is always lower than our second half as a stronger second half revenue positively impacts our EBITDA. I expect this to be exaggerated this year by COVID but confident that full year EBITDA margin will remain well within the range.

In closing, it is my ongoing honor and privilege to serve as the CEO of Altium. This is something that I am most passionate about and take great joy and pride in working with a team that is whole-heartedly committed to our journey. While we have achieved so much together, we recognize that we have an even greater mountain to climb to transform the global electronics industry. However, I am confident that we will get there with your support and belief and the support and belief of our people and our customers.

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About Altium

Altium ([ASX:ALU](https://www.altium.com)) is a multinational software corporation headquartered in San Diego, California, that focuses on electronics design systems for 3D PCB design and embedded system development. Altium products are found everywhere from world leading electronic design teams to the grassroots electronic design community.

With a unique range of technologies, Altium helps organizations and design communities to innovate, collaborate and create connected products while remaining on time and on budget. Products provided are ACTIVEBOM®, ActiveRoute®, Altium 365®, Altium Concord Pro™, Altium Designer®, Altium NEXUS®, Altium Vault®, Autotrax®, Camtastic®, Ciiva™, CIIVA SMARTPARTS®, CircuitMaker®, CircuitStudio®, Common Parts Library™, Draftsman®, DXP™, Easytrax®, EE Concierge®, NanoBoard®, NATIVE 3D™, OCTOMYZE®, Octopart®, P-CAD®, PCBWORKS®, PDN Analyzer™, Protel®, Situs®, SmartParts™, the TASKING® range of embedded software compilers, Upverter®, X2®, XSignals®, PCB:NG®, and Gumstix®.

Founded in 1985, Altium has offices worldwide, with US locations in San Diego, Boston, Dallas and New York City, European locations in Karlsruhe, Amersfoort, Kiev, St Petersburg, Moscow, Munich, Markelo and Zug, and Asia Pacific locations in Shanghai, Beijing, Shenzhen, Tokyo and Sydney. For more information, visit www.altium.com. You can also follow and engage with Altium via [Facebook](#), [Twitter](#), [LinkedIn](#) and [YouTube](#).

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