

16 November 2018

ALTIUM LIMITED

ACN 009 568 772

Level 6, Tower B  
The Zenith  
821 Pacific Highway  
Chats wood 2067

Investor Relations

Contact Details:

Kim Besharati  
VP Investor Relations &  
Corporate Affairs  
Company Secretary

Phone: +1 858 864 1513

Mobile: +1 760 828 3567

## 2018 Chairman's Address Altium Annual General Meeting

**Sydney, Australia** - Ladies and gentlemen and fellow shareholders, it is a great pleasure to be with you this afternoon to review the results of the 2018 financial year and to consider our progress toward our 2020 targets. I will also outline our plans to dominate the PCB design market and based upon that to transform the electronics industry. And finally, I will share with you our current thinking about the essential factors to build a high-performance management team

I am pleased to report that during the financial year ended 30 June 2018, Altium delivered record results, with 26% revenue growth and 34% growth in net profit compared to financial year 2017. Over the year, our momentum increased with a strong performance in all markets and in all business units: from China to Europe to the United States, and from TASKING to Octopart.

Fiscal 2018 was the seventh consecutive year that Altium has delivered double-digit revenue growth and has expanded its EBITDA profit margin. I am happy to report that we are accelerating faster than before and are on track to achieve our 2020 targets of US\$200 million in revenue and an EBITDA margin of 35% or better.

Today, Altium is the fastest growing and one of the most profitable companies in the Electronic Design Automation (EDA) industry.

At our full year results announcement, our CEO Aram Mirkazemi described fiscal 2018 as "another inflection point for Altium". I share this view. Altium is using the momentum that we have generated in the PCB design tool market to establish a laser like focus on the plans and processes that will enable us to move from market leadership to market dominance.

As many of you are aware, we have committed ourselves to have 100,000 paid subscribers before 2025. This will put Altium in a position of strength so that we can align key industry stakeholders to our vision for the transformation of the electronics industry.

Before speaking further about our plans for market dominance and industry transformation, let's reflect upon what was achieved in fiscal 2018.

### FY18 Financial Highlights

Altium delivered an impressive performance across all regions, all business units and in all key financial metrics in fiscal 2018.

- Worldwide revenue increased by 26% to US\$140 million.
- Boards and Systems (our core PCB business) revenue grew by 24% to US\$108.8 million.
- EBITDA margin (on an "all-in" statutory accounts basis) was 32%. On an underlying basis (taking one-off costs associated with out-performance by Octopart and M & A costs) our EBITDA margin was 35.5%.

- Earnings per share (EPS) was US 28.86 cents (up 33%).
- Profit before tax (PBT) increased by 35% to US\$39.7 million.
- Net cash was US \$52.5 million as at 30 June 2018 (up 18%).
- Dividends paid during the year were AU 27 cents, up 17% from AU 23 cents in fiscal 2017.

I am happy to report that Altium Designer new seat sales grew by 15% resulting in 6,321 new licenses sold during the year and the subscription pool for recurring revenue grew by 10% during the year to reach 37,917. This is consistent with the run-rate required for the achievement of our 2020 goal of US\$200 million.

At a regional level, the Americas delivered a solid performance in fiscal 2018 to achieve 13% revenue growth. Renewals and add-on business were up, with reduced discounting resulting in increased revenue for new licence seats.

Europe is continuing to perform well, delivering 28% growth in revenue in Euros. Of this growth, 6% was due to a one-off positive revenue impact from acquiring our resellers. Our transactional sales methodology is now well established in Europe and we are extending our direct presence into additional countries.

China continued its impressive performance, delivering 29% revenue growth over fiscal 2018. This follows from our sustained focus on licence compliance. In January, we opened a new office in Shenzhen in southern China, which is at the heart of the electronics industry. This is in addition to our Shanghai regional HQ and we are looking to expand further in China in the coming months. I am pleased to say that we have lifted our extraction (or conversion) rate by 21% to over 1,700 licences per year in China from an estimated 100,000 unpaid licences. I share management's confidence that we can sustain growth in the future in China at 20% plus.

Both the Asia Pacific region and our Emerging Markets grew revenue by 25% respectively in fiscal 2018. Seat volume in APAC grew by 12% for the year and the Emerging Markets was buoyed by a strong performance in Russia.

Altium's agile enterprise product NEXUS (launched in January this year) is showing real promise in its early stages.

As we reported at our full year results, we have had our first real big win with NEXUS working with a tier one automotive company in the US on a 150+ seat deal that displaced Mentor Graphics: our first ever wholesale displacement of Mentor. What is more impressive is that we did not have any footprint into this account previously. Although early days, this early win is driving our confidence of NEXUS' ability to re-shape the high-end PCB market. We are currently working to scale our go-to-market for NEXUS to leverage "reference" account wins to drive adoption.

Turning to other parts of our business, Octopart is growing in strength and delivered 56% revenue growth, with increased traffic and improved search experience. Octopart provides supply chain intelligence and electronic parts search to the engineering community and delivered revenue of US\$12 million in fiscal 2018.

Our TASKING business performed well in fiscal 2018. TASKING won its largest ever deal with a tier one automotive supplier worth US\$7.3 million over three years. This is three times the size of the previous largest deal by TASKING. Revenue growth of 23% over the year reflects our commitment to TASKING and our decision to focus TASKING's business model on co-operating with semi-conductor manufacturer Infineon to capitalize on the rise of Infineon's TriCore and Aurix chip set for the automotive industry.

## **Strategy for Market Dominance and Industry Transformation**

Printed circuit boards are central to electronics and electronics is at the heart of all intelligent product systems. We believe that the rise of smart connected devices, more commonly called the *Internet of Things* is driving board design into mainstream engineering and will require a multi-disciplinary approach, with Electronic CAD, Mechanical CAD and Product Lifecycle Management (PLM) software all integrated for the design and realization of intelligent products.

Altium will provide the "easy to" design tools that make seamless electronic design and its realization a reality through a collaborative design process that connects all key stakeholders and disciplines: from electronic to mechanical design to parts procurement to fabrication and assembly.

Altium is the major force in the mainstream electronic engineering world. With over 50,000 active users of Altium Designer and 38 thousand subscribers the brand **Altium** is synonymous with PCB. The PCB market is moving towards a state of “winner-takes-all”, similar to some other software markets such as desktop publishing and office productivity tools.

Our goal of 100,000 subscribers before 2025 is designed to deliver market dominance. Committing to it in public has had a galvanizing effect on the company and for our leadership team. Together, we are committed to market dominance in revenue (by dollars) and in mindshare (by seats). At our current run-rate, however, our subscriber pool will likely grow to around 75,000 subscribers or so by 2025. To achieve our 100,000 subscribers target we will need to accelerate our growth rate by:

- Creating Altium brand awareness that is bigger than what would be warranted for an ECAD tool company. Think of the Intel Inside ad campaign or even the Apple 1984 Super bowl Macintosh commercial.
- Introducing next-generation transactional selling which we call, man-out-of-the-loop as it relies heavily on digital engagement as demonstrated by companies like Atlassian.
- Adding capacity to Altium’s transactional sales teams to aggressively pursue competitive displacements.
- Refocusing Altium’s technical support and customer success to drive and facilitate customers transitioning from legacy CAD systems to Altium’s platform.
- Making Altium software more accessible by reducing the upfront cost of ownership.

Most significantly, at our recent *AltiumLive* event in the US we officially launched “*Altium 365*”. *Altium 365* is a new design experience, that runs both in the cloud or in on-premise infrastructure, for design collaboration that connects all key stakeholders and disciplines, from mechanical design to parts procurement to fabrication and assembly. This is an industry first and is a first step for Altium to connect all aspects of electronics, from concept to design and from design to the manufacturing floor. Altium Designer users who are on subscription will be able to access a host of new services that run on the *Altium 365* infrastructure.

*Altium 365*, which will be available to customers next month, seamlessly integrates with Altium Designer 19 and leverages the power of the cloud to connect designers, component distributors and manufacturing stakeholders to make it easy to share information and to design collaboratively.

For the high end, or enterprise level, of the market, we have our “agile enterprise” product offer: NEXUS. Also, for the high end is the work we have undertaken with Dassault Systems to natively integrate our ECAD design tools onto Dassault’s 3D Experience platform, especially with CATIA.

Our pursuit of market dominance is not just for the financial reward but because we believe that dominance is necessary for transformation. We need to be in a dominant position to persuade key stakeholders in the two trillion-dollar electronics industry to support Altium’s transformative agenda for electronic design and its realization. For this to be successful, we need to get ourselves into a dominant position before 2025.

I am pleased to report that we are making good progress in assembling the technological platform that will directly connect the design space to the supply chain and to manufacturing. Our recent acquisition of smart manufacturer start-up *PCB:NG* is part of this undertaking and a further step in preparing us towards transforming electronic design and its realization.

## **Our Transformative Journey Demands Attracting, Rewarding and Retaining Exceptional Talent**

Of all challenges that face Altium during its transformative journey, the highest and most formidable is its ability to attract, retain and reward exceptional talent. While this is something that has always been a critical part of our success, during the next phase of our growth, this will become of vital importance.

The Board of Altium has carefully considered its options and believes that for Altium to overcome this challenge, it will need to take extraordinary measures to succeed in this regard.

We believe that an incentive plan must be devised that at its core aims at attracting, retaining and rewarding present and future key employees that will underwrite the success of our journey.

## Rationale for the Plan

The journey that we have now embarked upon to transform Electronics design and its realization requires an extraordinary commitment from our people today and those whom we can attract in the years to come. The Board and management have considered how Altium can invest in an innovative way to attract, retain and secure exceptional talent, or to put it more directly, “Silicon Valley grade talent” with the most innovative minds, passionate vision and proven high-level performance.

The search for exceptional talent is being played out in a highly competitive global technology environment whose epicenter is California, in the United States where we have chosen to base our main operations and where the competition for talent is fierce.

For some time, we have been working on a new model that will not only enable us to maintain and retain key employees but also allow us to attract exceptional talent through appropriate compensation and remuneration. While a more conventional approach to remuneration may suffice for the medium term (utilising short term and long-term incentives for executives and key employees), in the long-term, the strategic challenge for Altium is to have a compensation framework that is as transformative as is our strategic plan.

A transformative framework will help to position Altium as an iconic company on an industry-changing journey that can attract exceptional talent. With it in place, Core Team members will share in the success of Altium as next generation **founders** and their reward will be proportional to the *outcome* rather than solely related to their *effort*.

This is not the first time that Altium has utilized innovative compensation design to accelerate growth for shareholders. In 2012 we set out a strategic plan that had three primary objectives:

- i. To restore value for shareholders.
- ii. To provide value for our customers by instilling in the Company a single-minded focus on our core business, the creation of PCB design tools.
- iii. And to increase revenue each year by at least ten percent and to increase costs at a lower rate than the increase in revenue.

More recently we expanded our strategic horizon with an additional objective to become the market leader in PCB design tools.

The Board believes that the plan, which we established in 2012 (the Key Employee Share Plan), was highly effective in creating an ownership culture amongst our key employees which enabled us to achieve our strategic objectives and produced a significant increase in shareholder value (more than two billion dollars.)

If Altium is successful in the transformation of the electronics industry, the future value that will be created for shareholders will far exceed what has been delivered since 2012. Our transformative framework will be called the “*Altium Ownership Plan [AOP.]*”

Its principal objectives are to:

- o Underpin the importance of **ownership**, not reward, by allowing our employees to share in the increase in the equity value of the Company and align their interests with those of shareholders.
- o Provide focus on the Company’s significant **growth objectives** (in both revenue and EBITDA) and goals for **industry transformation and market dominance**.
- o Deliver a “**life changing**” **equity grant** to attract and retain the best employees who will be critical to the long-term growth of the Company.
- o Deliver the grant to employees only after the capital appreciation value has been created.

Up to 5% of the Company’s issued share capital will be set aside for the Plan for this purpose. This represents less than half of the equity pool used for the 2012 share plan.

Equity in the AOP, depending on company performance, and the extent to which we meet our stretch goals over the next seven (7) years to 2025, will be allocated to those employees who make the greatest contribution to achieving our targets.

## Performance conditions

Whether any shares are available to be allocated under the Plan will depend on whether the Company achieves its long-term strategic objectives over the period to 2025, including:

- Achievement of 100,000 Altium Designer subscribers to support our objective of transforming the electronic design industry.
- Becoming the market leader for PCB design to the point that represents dominance, not just leadership.

The Board will set other long-term financial and strategic targets for the business which will be clarified and communicated over the next few years.

Our CEO, Aram Mirkazemi while he strongly supports this initiative, has chosen **not** to participate in this Plan.

For this initiative to be effective, Altium shareholders will need to support it. Accordingly, the Board will engage in extensive consultation with shareholders before the Plan is implemented and if needed, seek shareholder approval.

I am very excited about the Altium Ownership Plan and the potential it has to deliver our plan to transform Electronics Design and by so doing to deliver tremendous increase in shareholder value over the next seven years.

## Looking Ahead

Our focus this financial year is to go beyond our “Line and Length” strategy and deliver high teens double-digit revenue growth and expanding margin to achieve our 2020 targets.

Specifically, in fiscal 2019 we will:

- Expand the penetration of our NEXUS go-to-market model for solution selling.
- Drive adoption of Altium 365 as a cloud offering and increase our subscription run-rate.
- Increase the efficiency and reach of our transactional sales model (with a focus on account-based intelligence) to increase our recurring revenue and conversion rate.
- Scale up our licence compliance operations in China to drive growth and maintain a 20% plus run-rate each year.
- Deliver a prototype of design to manufacturing by combining Altium’s design tools, Ciiva, Octopart and PCB:NG.

## Conclusion

In concluding, I would like to personal acknowledge the hard-working, dedicated and loyal Altium employees and my fellow Directors and express both my thanks and my enduring gratitude.

I would like to thank our Altium customers in every market, each of whom accomplishes varied and interesting results with our software and contributes in both large and small ways to ‘changing the world’.

Every day we are indebted to our shareholders for your commitment to Altium Limited. We truly value your belief in us and will continue to work hard to deliver outstanding results in return for that confidence. This is an exciting journey for all of us and together we can deliver a truly special future.

Thank you.

ENDS

## About Altium

Altium Limited (ASX: ALU) is an Australian multinational software corporation 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 organisations and design communities to innovate, collaborate and create connected products while remaining on-time and on-budget. Products provided are Altium Designer®, Altium Vault®, CircuitStudio®, CircuitMaker®, the TASKING® range of embedded software compilers and Octopart® the search engine for electronic components and industrial products. Founded in 1985, Altium has offices worldwide, with US locations in San Diego, New York and Boston, European locations in Munich, Karlsruhe, Amersfoort, Kiev and Zug and Asia-Pacific locations in Shanghai, Tokyo and Sydney. For more information, visit [www.altium.com](http://www.altium.com). You can also follow and engage with Altium via Facebook, Twitter and YouTube.