

2019 PDF Solutions
Analyst Day

PDF/SOLUTIONS™

S1.7A - CFO Analyst Day Presentation

October 15, 2019

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This presentation may contain forward-looking statements regarding projected business performance, operating results, financial condition and other aspects of the Company, expressed by such language as "expected," "anticipated," "projected" and "forecasted." Please be advised that such statements are estimates only and there is no assurance that the results stated or implied by forward-looking statements will actually be realized by the Company. Forward-looking statements may be based on management assumptions that prove to be wrong. The Company and its business are subject to substantial risks and potential events beyond its control that could cause material differences between predicted results and actual results, including the Company incurring operating losses and experiencing unexpected material adverse events. Forward-looking statements are based on current expectations and assumptions, which are subject to risks and uncertainties that may cause results to differ materially from those expressed or implied in the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise. For additional information concerning factors that could cause actual results and events to differ materially from those projected herein, please refer to our most recent 10-K, 10-Q and 8-K reports.

Building a Platform for Success

GROWTH

- Analytics segment revenue CAGR of 35% since 2014
- Analytics now represents 50% of total revenues in TTM Q2 2019 vs 10% in 2014

PROFITABILITY

- Total company gross margins expanding driven by high margin Analytics
- 62% GAAP, and 67% non-GAAP, gross margins YTD Q2 2019*
- Targeting 70%+ gross margins

VISIBILITY

- 74% annual recurring revenue (ARR) as a percent of 2018 Analytics revenue; 31% ARR CAGR since 2014
- 97% analytics customer retention rate in through Q2 2019
- Gainshare royalties expected to continue for several years

DIVERSIFICATION

- Increased number of Analytics customers from 48 to 130 since 2014
- Customer concentration significantly reduced; largest customer 34% of revenue in YTD 2019 vs 52% in 2014
- No more than 25% of sales come from any one country

STRENGTH

- \$87 million cash balance at end of Q219; No long-term debt
- Initiatives to improve DSO's in place to manage working capital
- Non-GAAP operating profit every year since 2012

INVESTMENT

- Ongoing commitment to invest in Engineering Technology and Sales & Marketing
- Expanded technology offerings through strategic acquisitions
- \$47 million in share buybacks since 2014

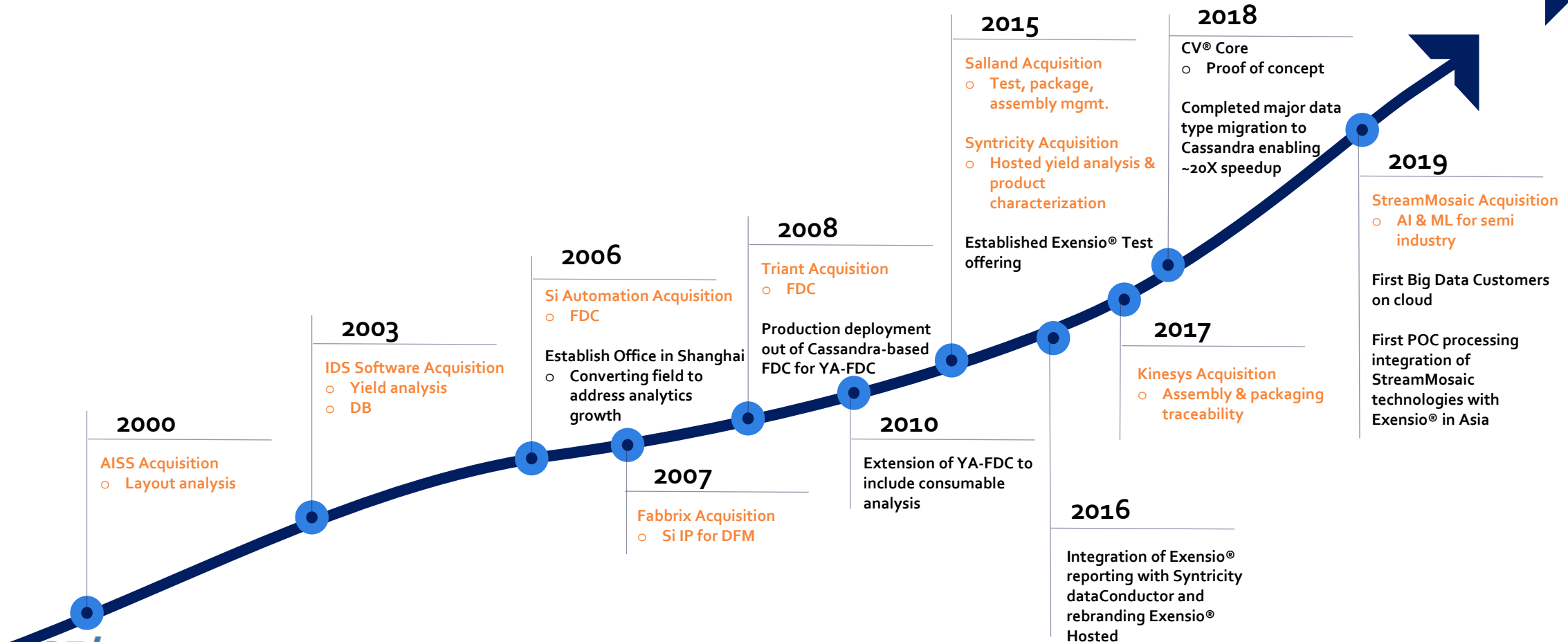
*See reconciliation of GAAP to non-GAAP in appendix

Investing to Lead the Change

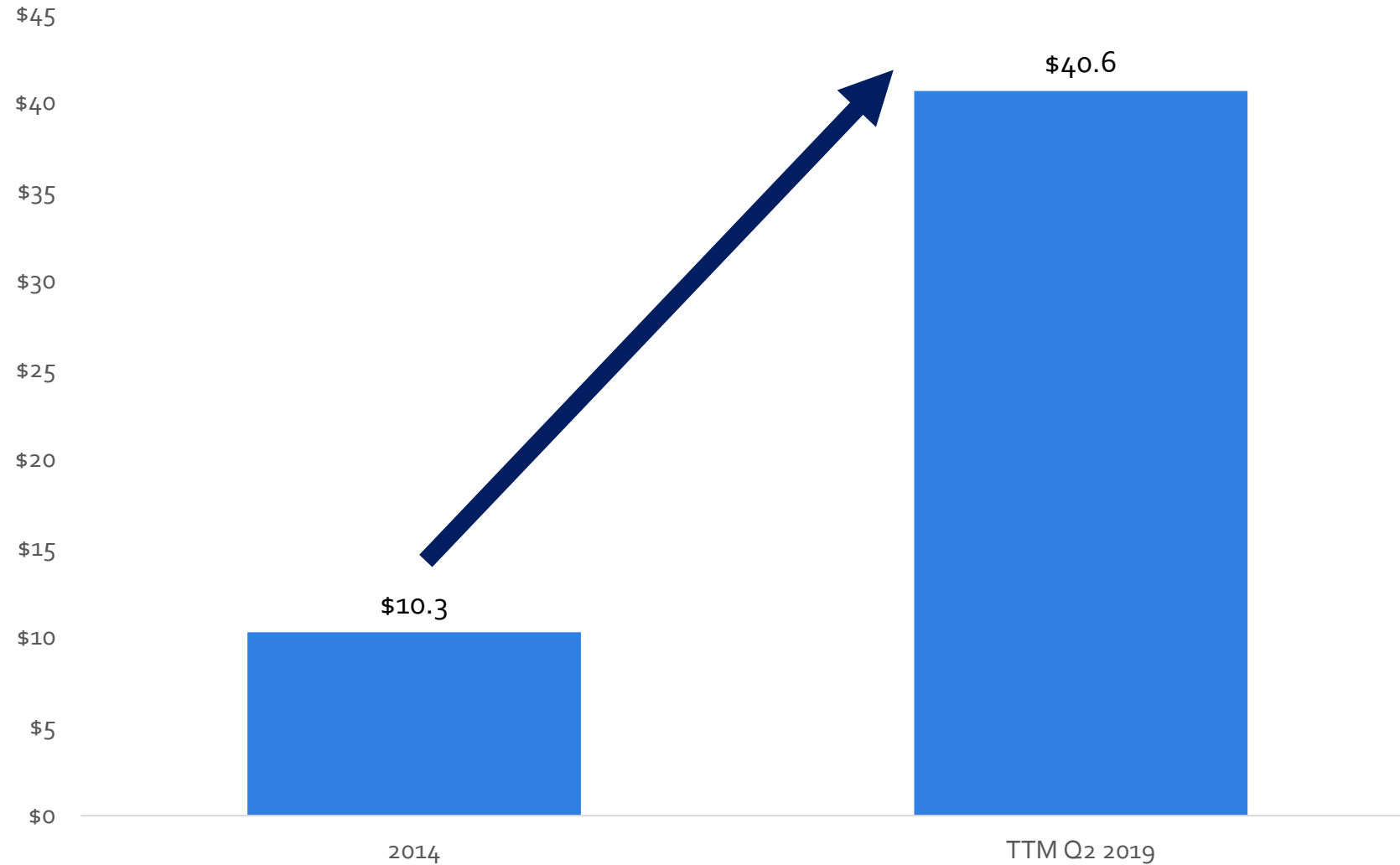
PDF Acquisitions and Product Releases Have Expanded Our Scope and TAM

Gainshare Model "Selling Time to Volume"

Subscription Model "Selling Data"



Analytics Revenue Growth



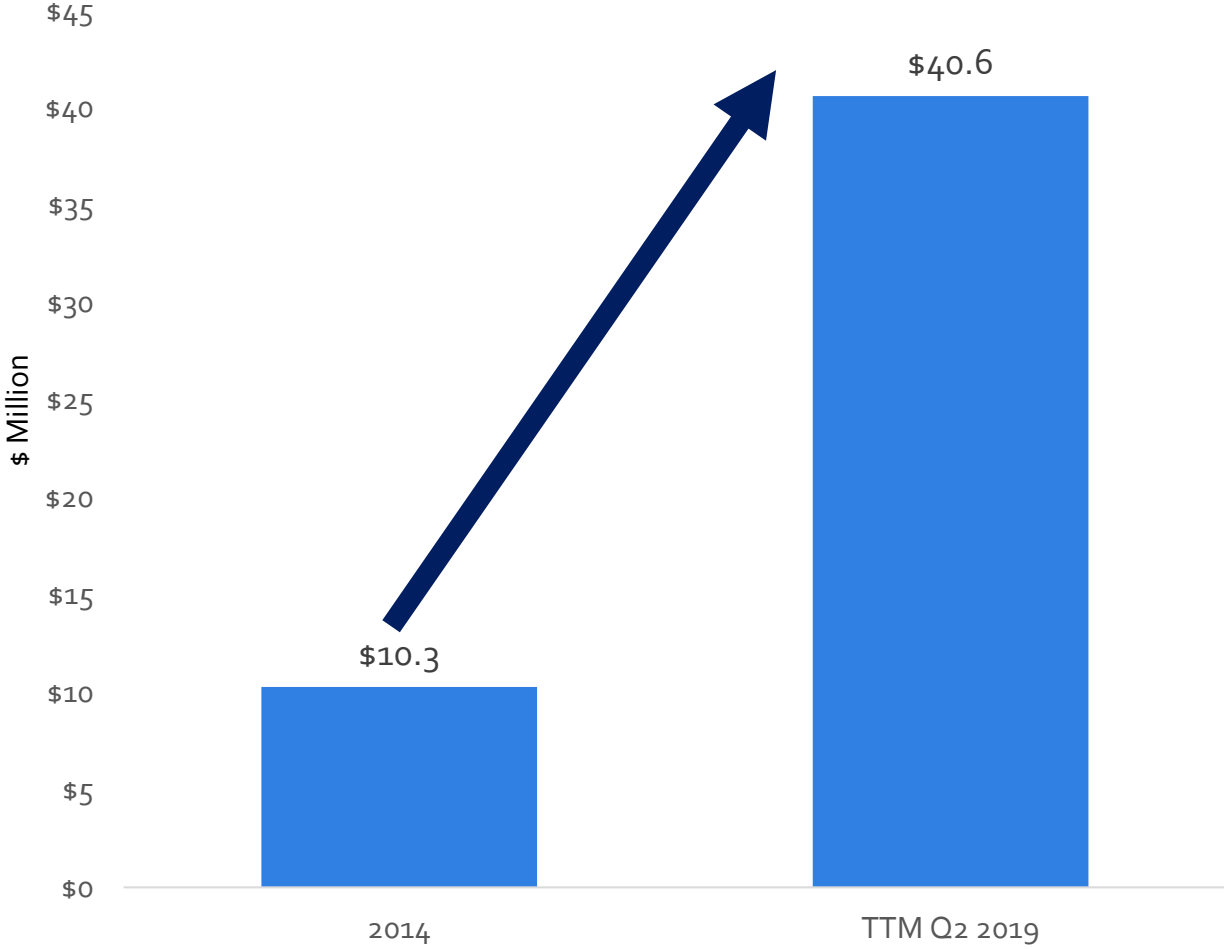
GROWTH

Revenue CAGR

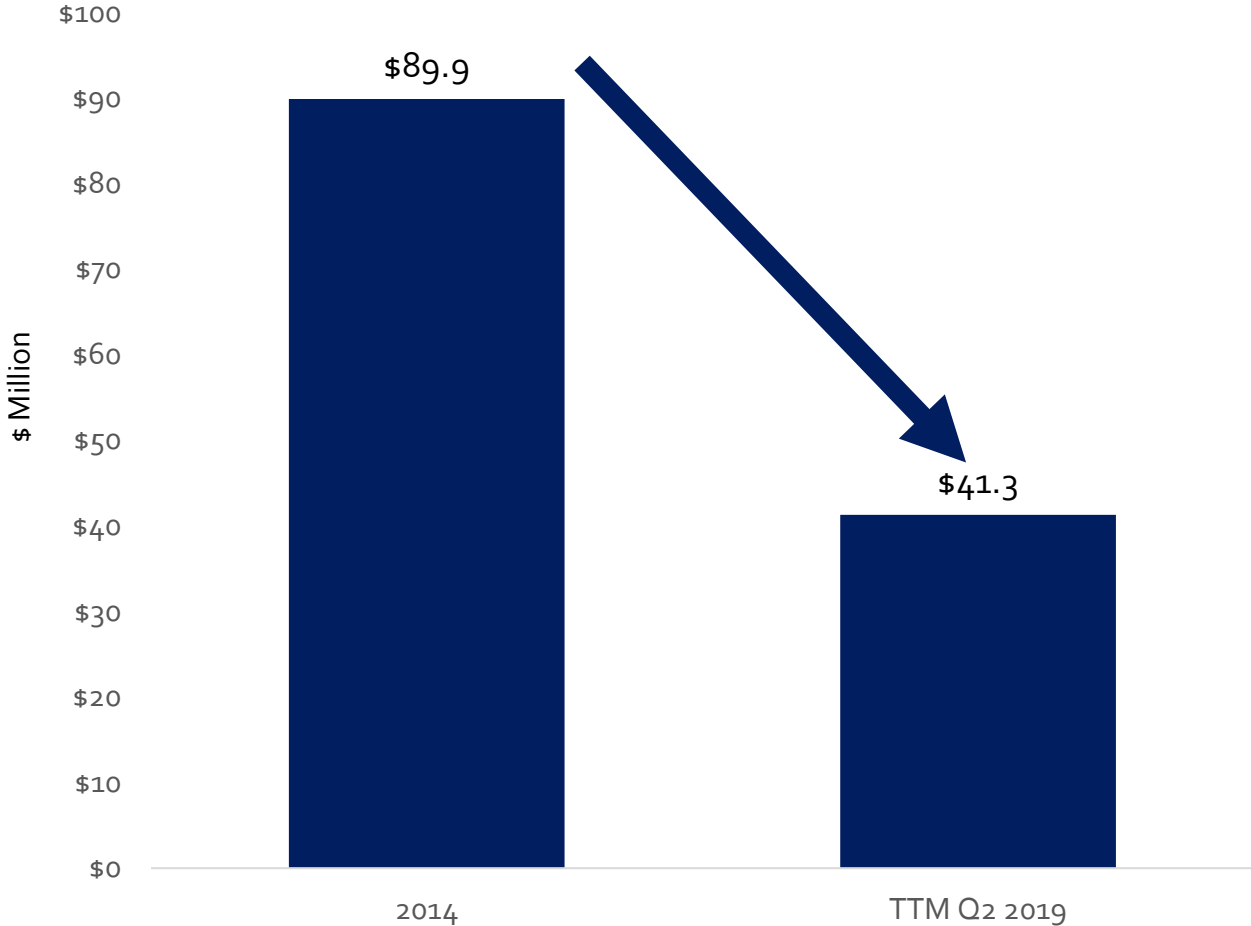
35%

Revenue: Analytics vs. IYR

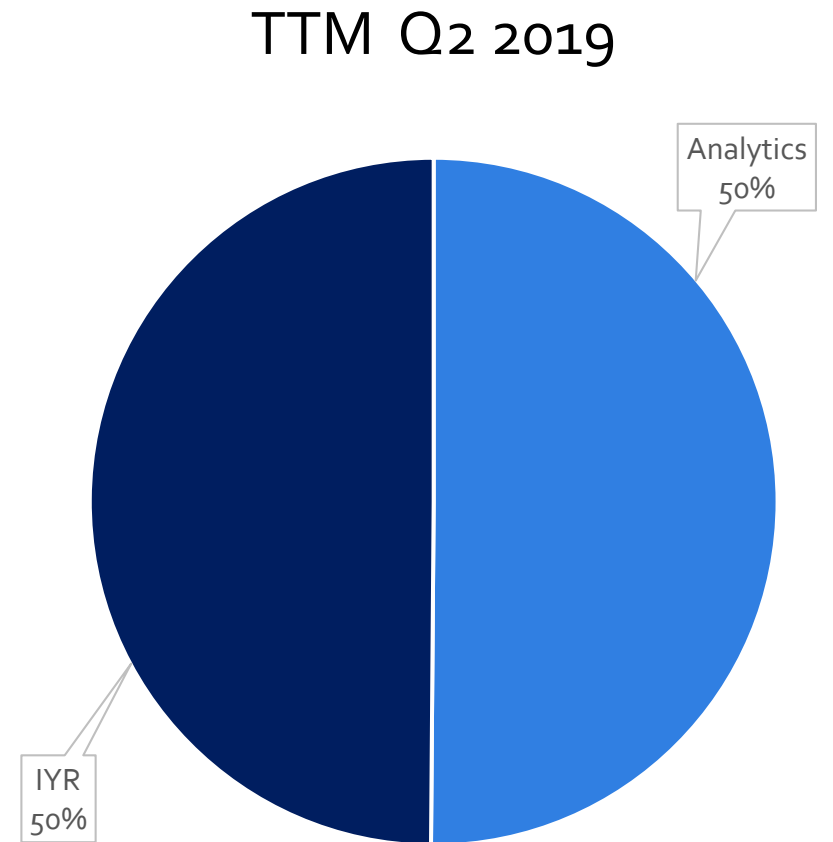
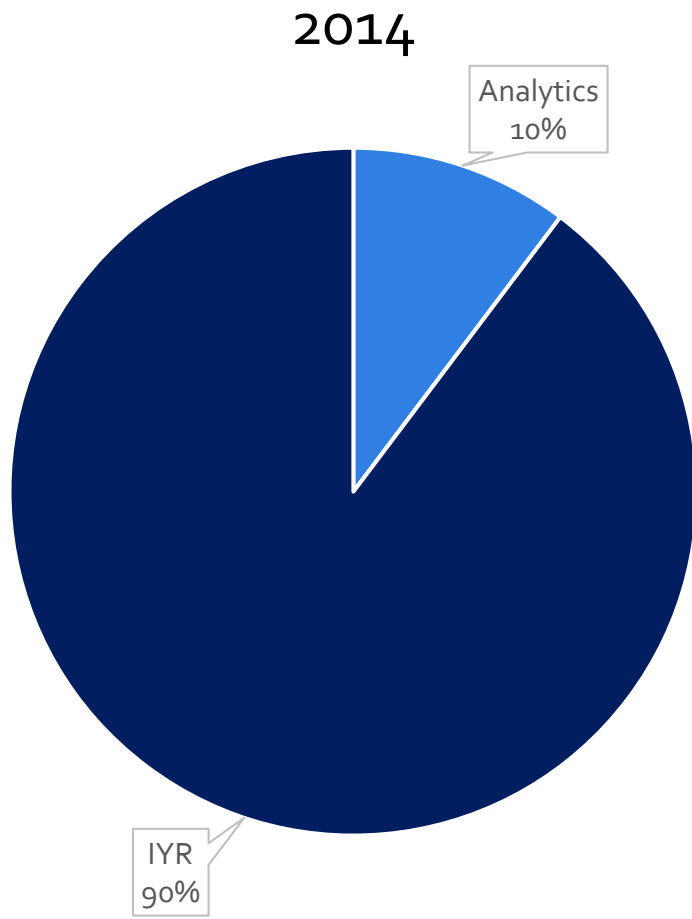
Analytics Revenue



IYR Revenue

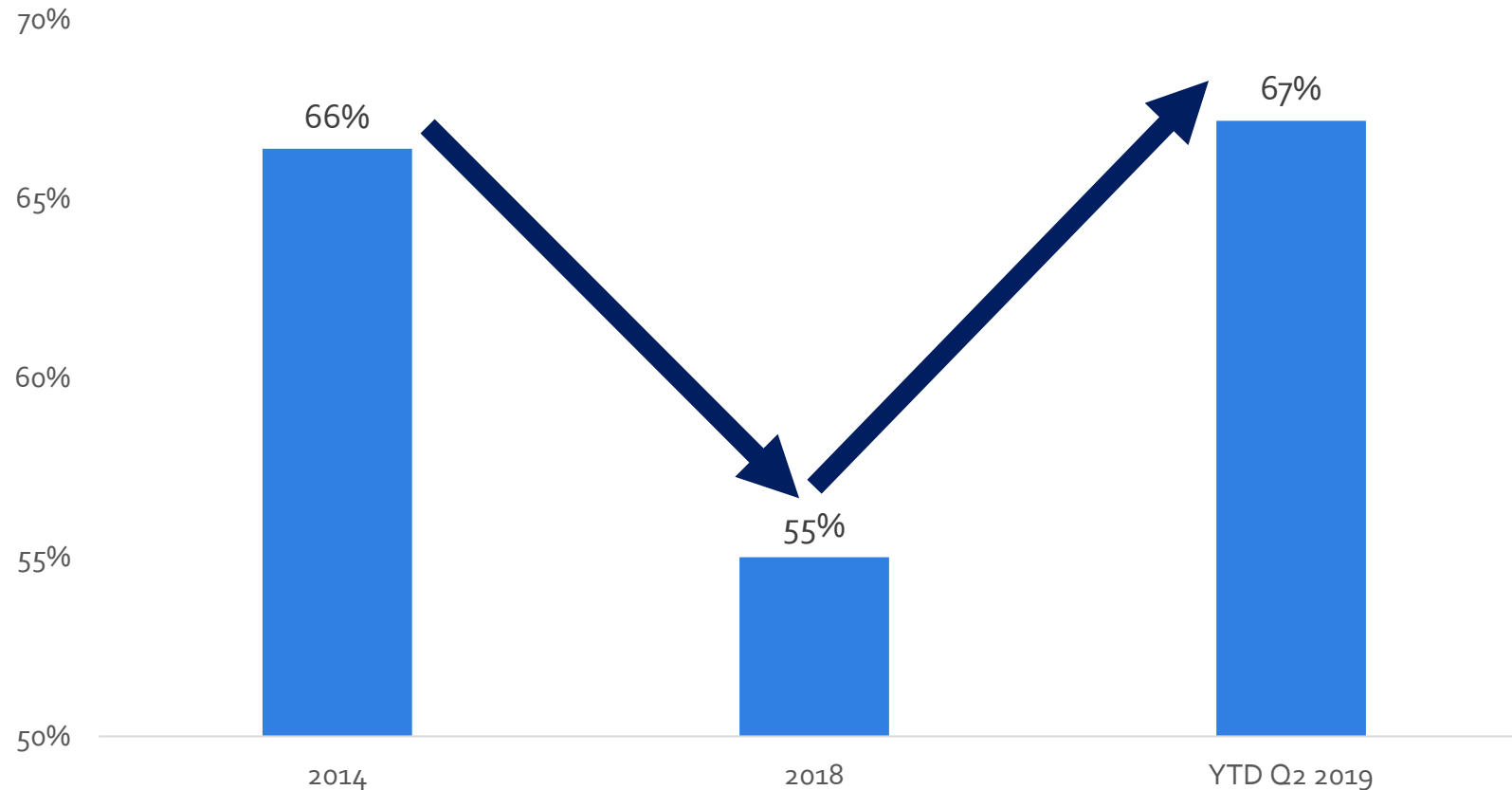


Revenue by Segment



Total Company Gross Margins

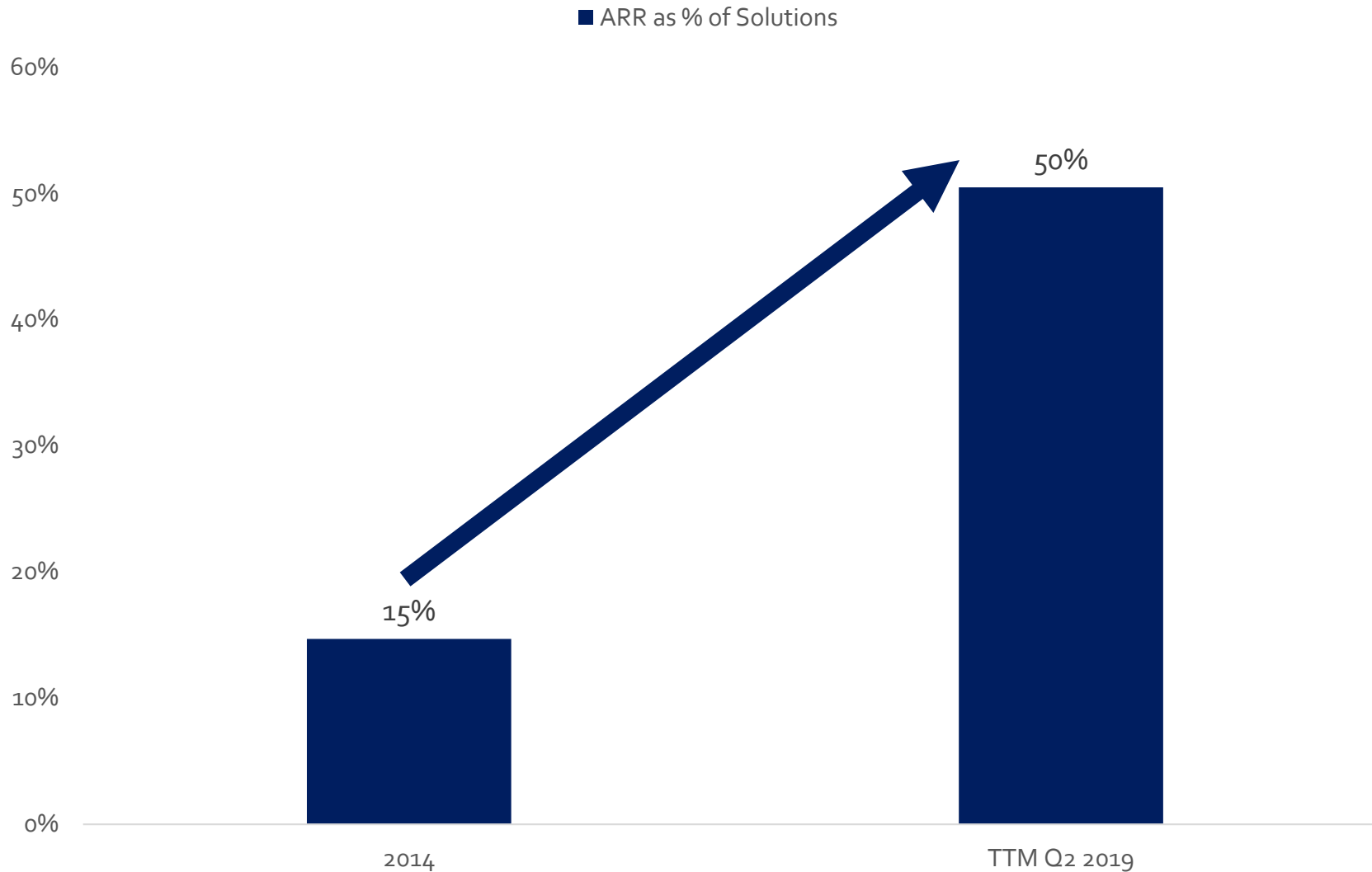
Total Company Non-GAAP Gross Margins*



*See reconciliation of GAAP to non-GAAP in appendix

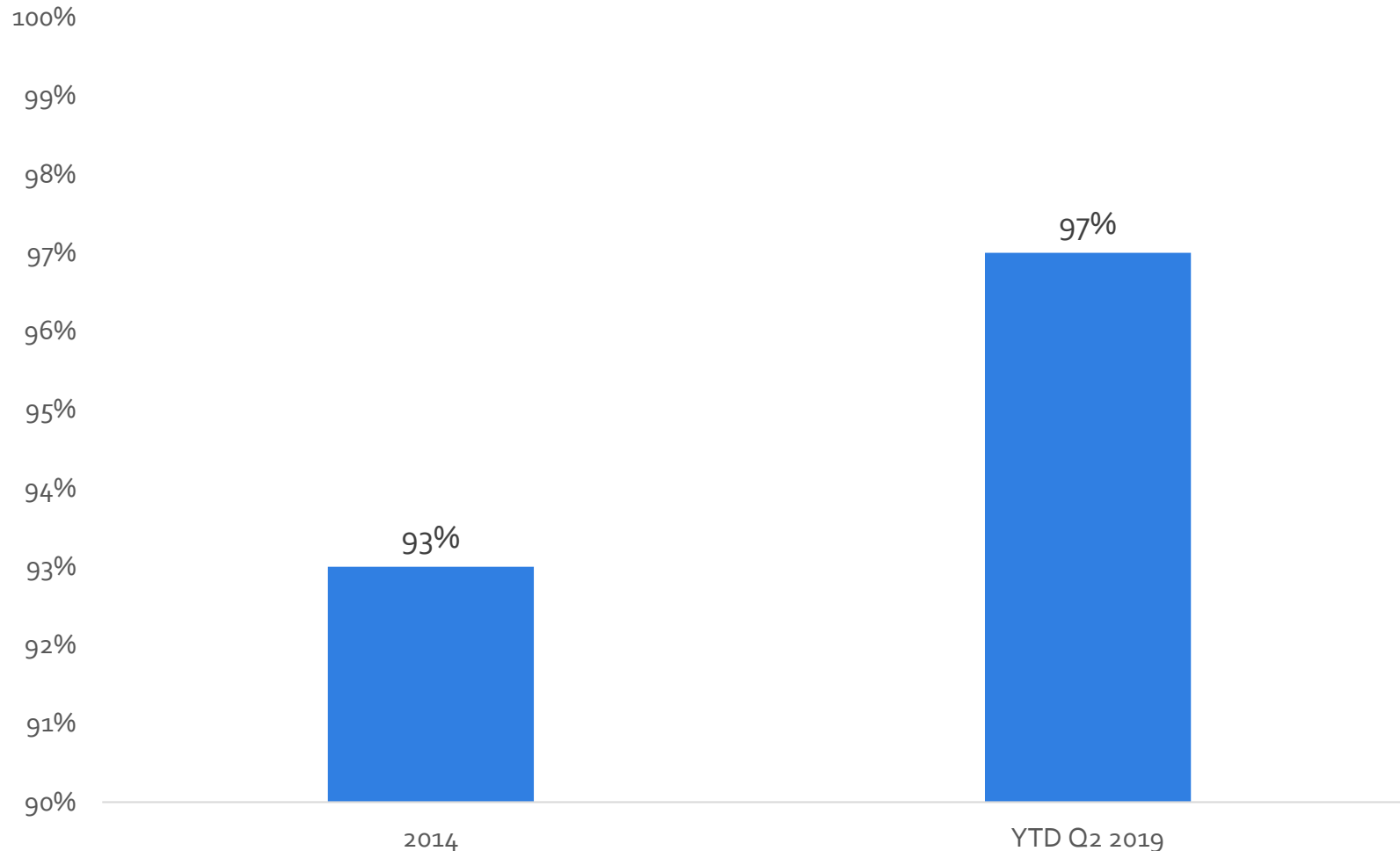
- First monetization of technology was IYR with associated royalties.
- IYR when combined with Gainshare created meaningful margins.
- Current gross margin expansion driven by Analytics growth.
- Progressing towards industry-leading gross margin standards. Replacing Gainshare 100% margin with Analytics margins.

Annual Recurring Revenue



- 31% ARR CAGR since 2014
- ARR is the value of the contracted recurring revenue components of multi-year subscriptions normalized to a one-year period
- ARR provides good level of forward revenue visibility
- Prior to 2014 the majority of our revenue was perpetual licenses. We have transitioned to time-based license by 2019.
- 2019 increased demand for paid pilot projects which are not ARR

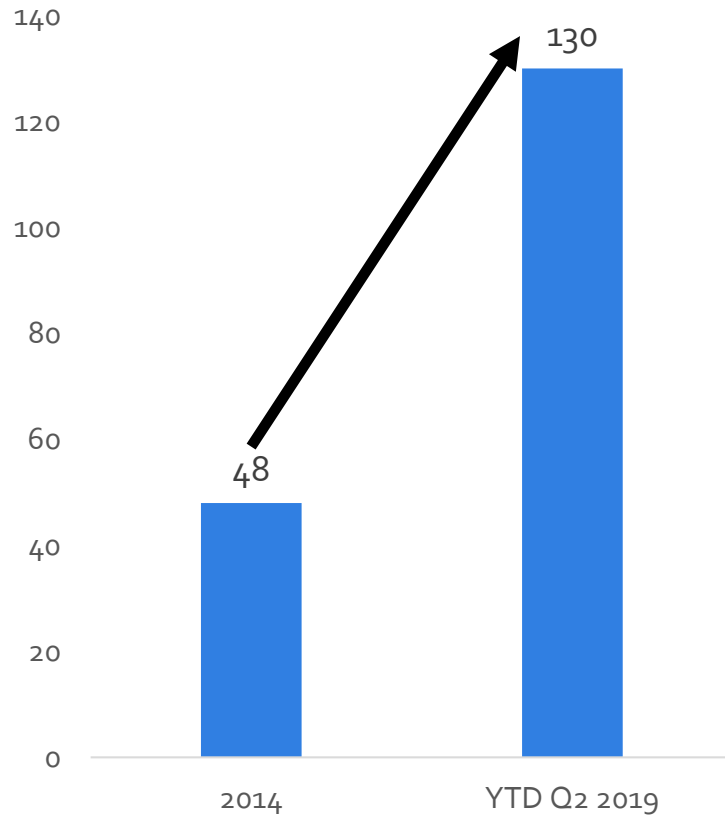
Analytics Retention Rate



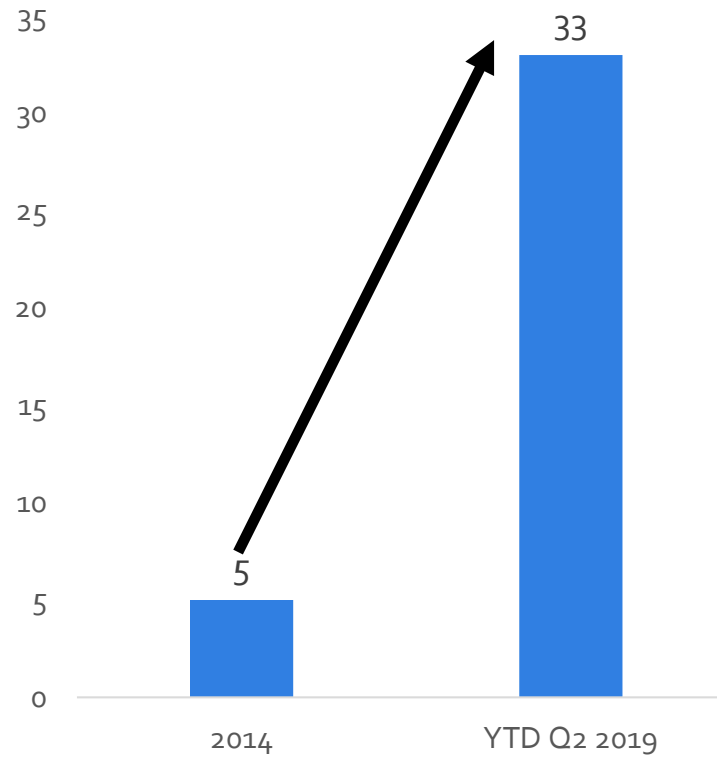
- High levels of predictability to analytics business with 97% customer retention rates YTD 2019
- Loyal customers with high customer satisfaction
- Analytics revenue per Customer has increased by almost 50% from 2014 through Q2 2019 showing the effectiveness of our land & expand strategy

Analytics Customer Adoption

Total # of Customers



of Customers More than 1 Product

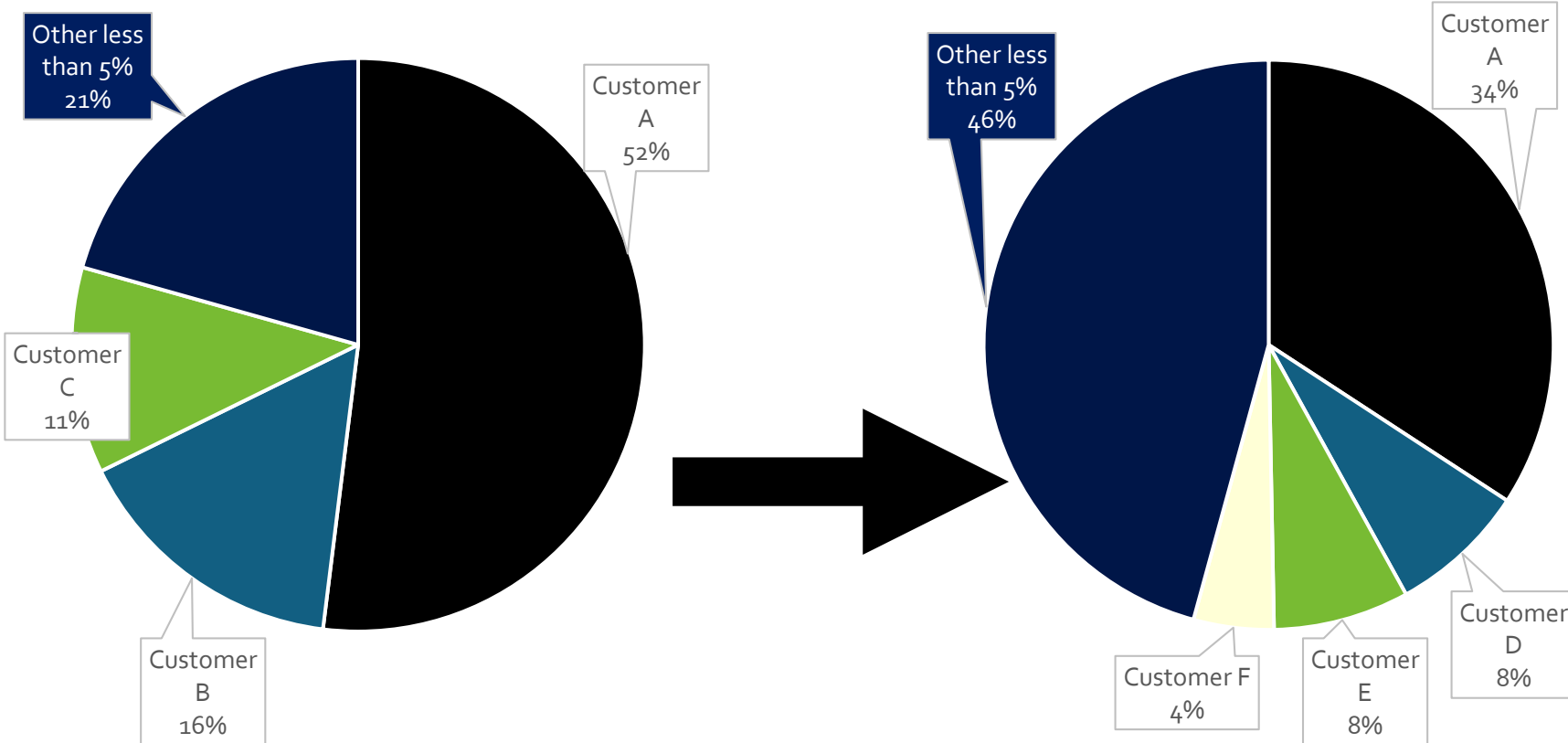


- Added more than 80 new Analytics customers since 2014, an increase of 171%
- 25% of customers utilize more than one product
- Growth in Analytics Revenue per account of 46%
- Multiple product adoption by customers continues to increase as PDF introduces additional products through product development and acquisition

Customer Concentration

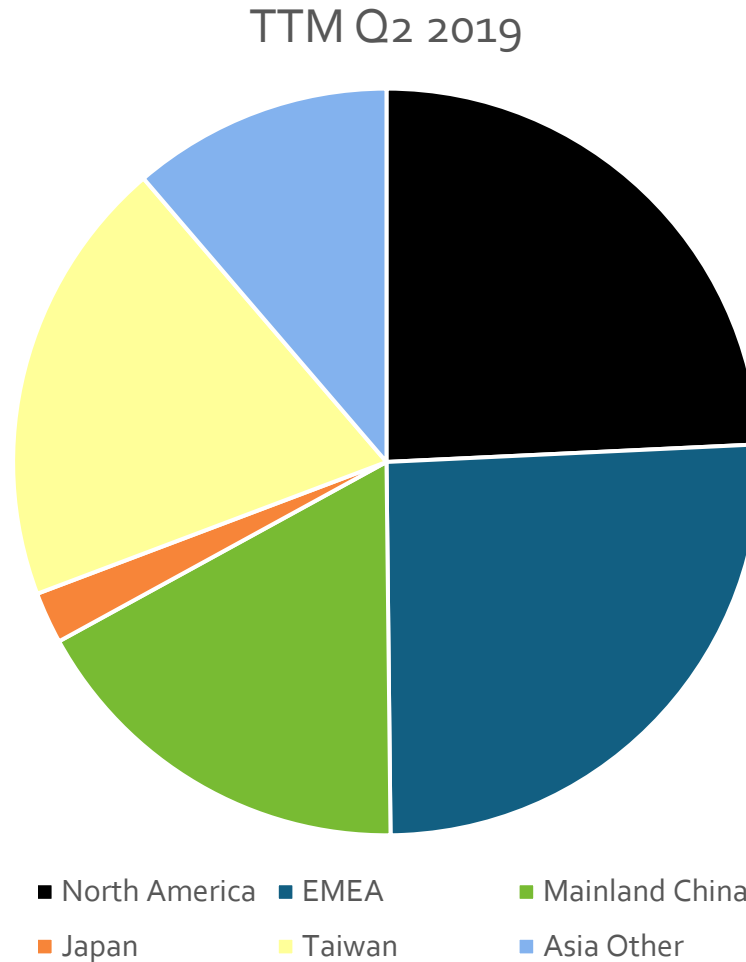
2014

YTD Q2 2019



- Company has significantly diversified its customer base and concentration
- Over 100 different customers account for nearly 50% of YTD Q2 2019 sales
- Largest customer 34% of revenue in YTD Q2 2019 vs 52% in 2014

Global Geographic Distribution



- Globally diverse geographic distribution
- No more than 25% of sales come from any one country

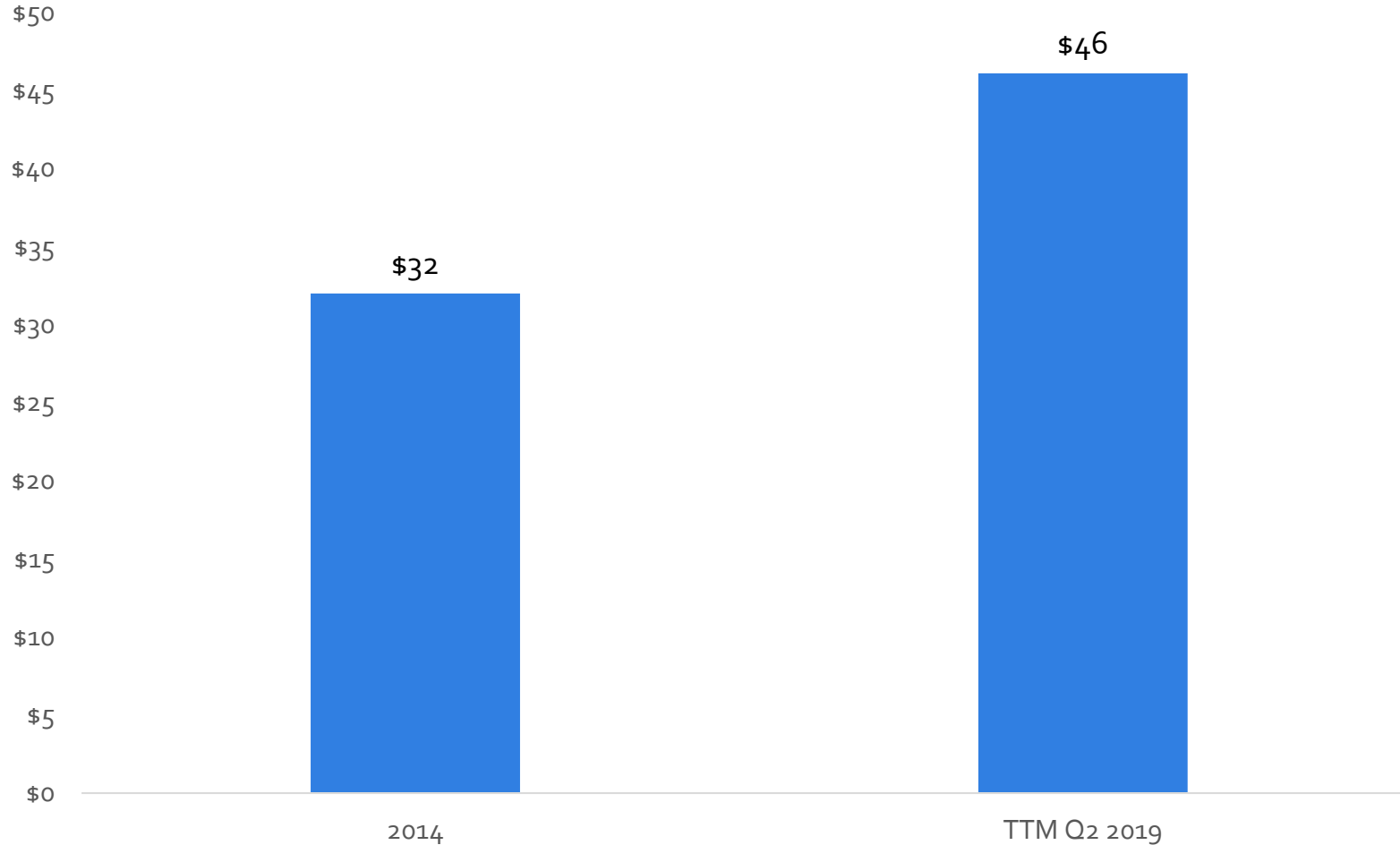
Balance Sheet Strength

	(\$ Million)
○ Cash and cash equivalents (end of Q2 2019)	\$86.8
○ Debt	\$0
○ Gainshare royalties expected to continue for several years	

- Existing balance sheet strength provides foundation for investment in growth of analytics business both organically and inorganically
- Successful initiatives taken to improve DSOs with expectation of strong cash increase in Q3 2019

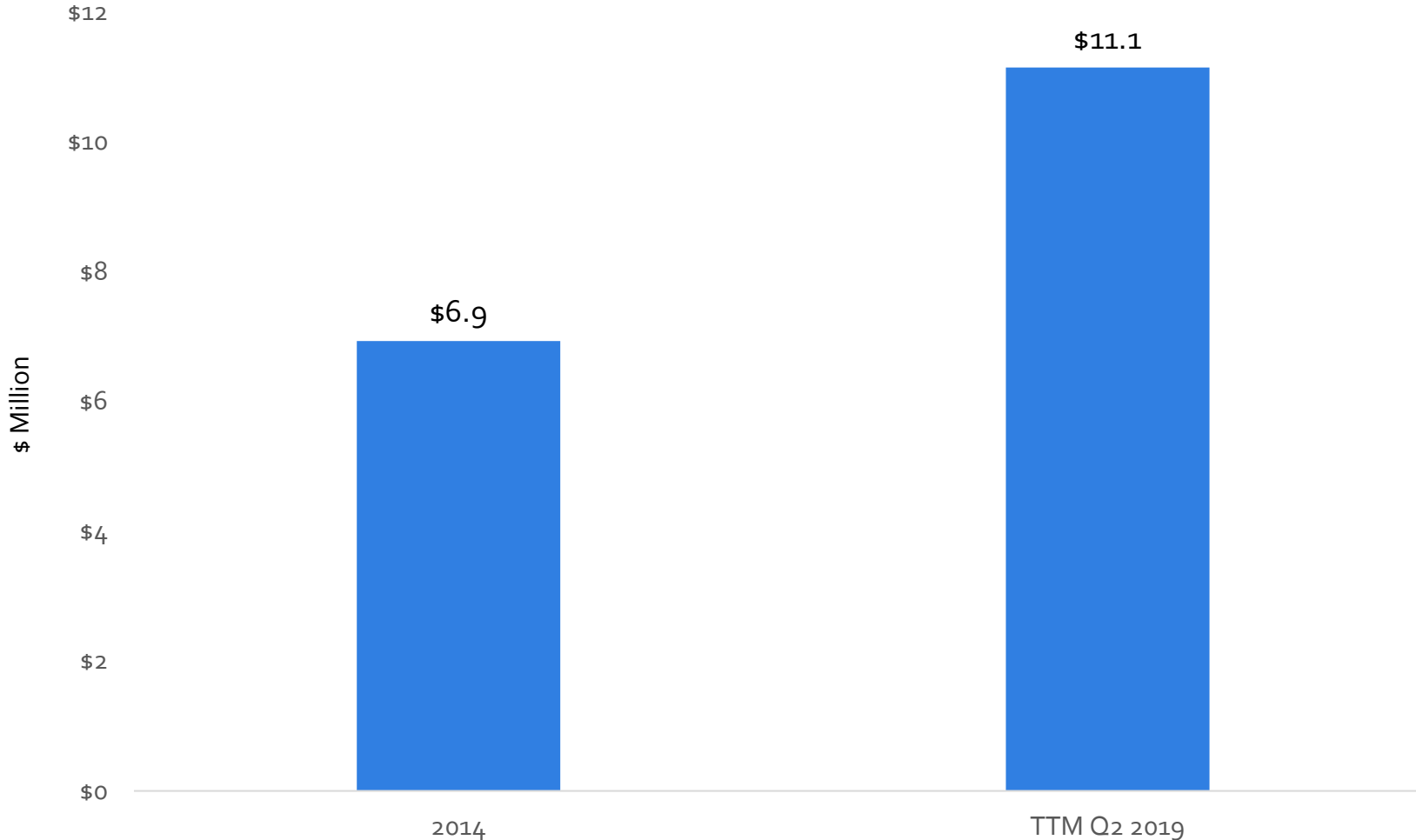
Expanding Investment in Engineering Technology

INVESTMENT



- Company continues to invest greater than 50% of operating expenses into new product development and deployment
- PDF investments in engineering larger than our largest independent software competitor's entire revenue
- Investment has transitioned towards Analytics and away from IYR

Increasing Investment in Sales & Marketing



- Investment in sales and marketing driving adoption of Analytics business
- Expanded commissioned sales force, hired Marketing Director, hired Business Development Director

Long-Term Targets

	Target	Comparables
Annual Analytics Revenue Growth	20%	14%*
Non-GAAP Gross Margins	>70%	85%**
Non-GAAP Operating Margin	20%	22%**

Comparables: Cadence, Splunk and Synopsys

*Based on Analyst Estimates

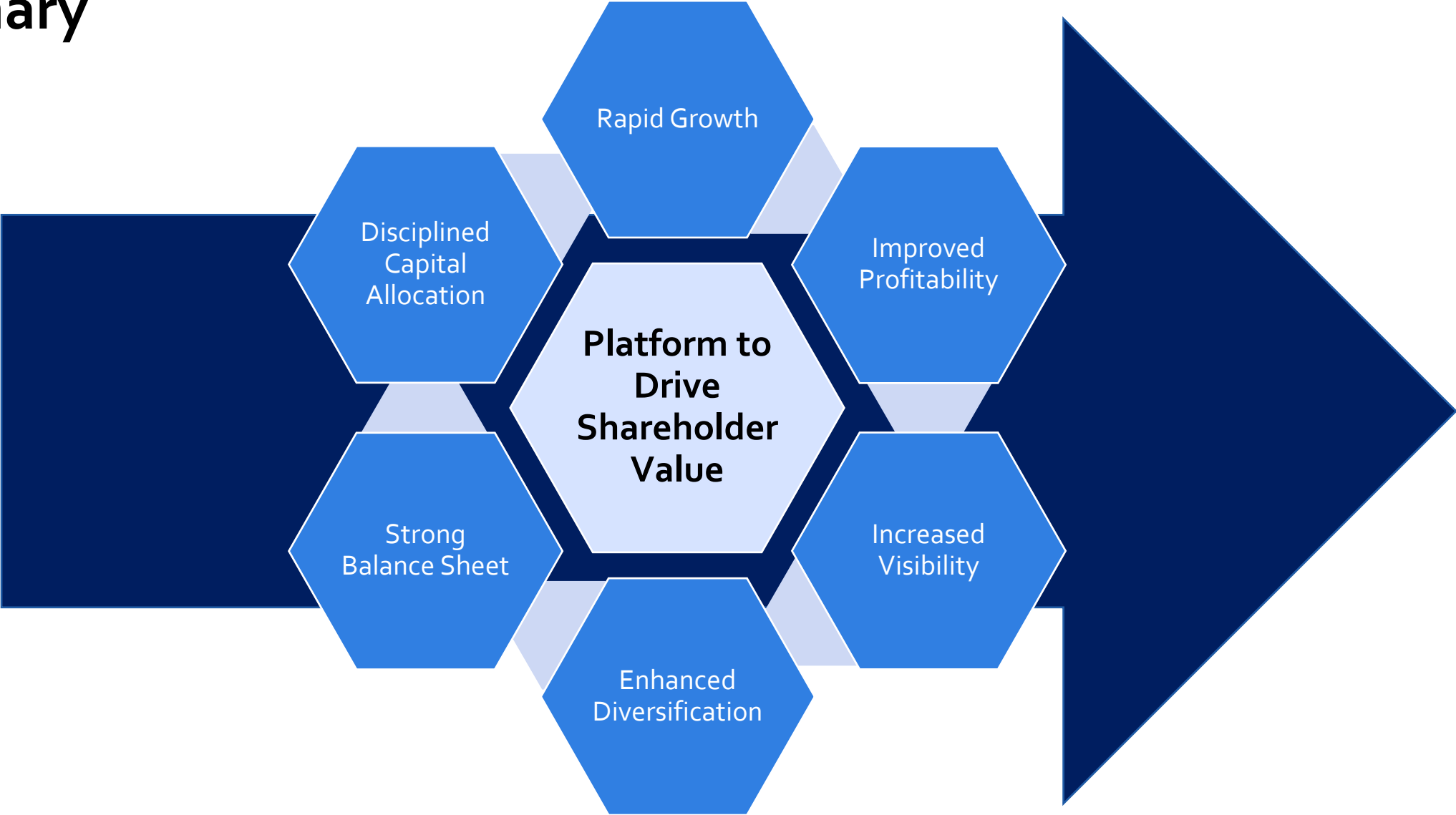
**Comparable data supplied by Zacks Research System and based on TTM Q2 2019

Trading at Discount to Comparables

	PDFS	Comparables	(Discount)/Premium
Enterprise Value/Sales (TTM)	4.03	7.44	(46%)
Enterprise Value/Sales (FY 20) *	3.15	6.86	(54%)
Non-GAAP P/E Ratio (FY19)*	57.8	49.4	17%
Non-GAAP P/E Ratio (FY 20)*	23.4	43.3	(46%)

*Comparables: Cadence, Splunk and Synopsys; Multiples determined as of October 1, 2019
Comparable and PDFS data supplied by Zacks Research System and based on analyst estimates

Summary



Non-GAAP Presentation

In addition to providing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), the Company also provides certain non-GAAP financial measures. Non-GAAP net income excludes the effects of non-recurring items (including severance payments), stock-based compensation expenses, amortization of acquired technology and other acquired intangible assets, and their related income tax effects, as applicable, as well as adjusts for the non-cash portion of income taxes. These non-GAAP financial measures are used by management internally to measure the Company's profitability and performance. PDF Solutions' management believes that these non-GAAP measures provide useful supplemental measures to investors regarding the Company's ongoing operations in light of the fact that none of these categories of expense has a current effect on the future uses of cash (with the exception of certain non-recurring items) nor do they impact the generation of current or future revenues. These non-GAAP results should not be considered an alternative to, or a substitute for, GAAP financial information, and may be different from similarly titled non-GAAP measures used by other companies. In particular, these non-GAAP financial measures are not a substitute for GAAP measures of income or loss as a measure of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity. Management uses these non-GAAP financial measures internally to measure profitability and performance; these non-GAAP measures are presented here to give investors an opportunity to see the Company's financial results as viewed by management. A detailed reconciliation of the adjustments made to comparable GAAP measures is included herein.

GAAP to Non-GAAP Income Reconciliation (Annual)

in thousands (except share amounts, percent of revenue, and EPS)

	2014	2015	2016	2017	2018	2019 YTD thru Q2	Trailing 12 months thru Q2-19
GAAP net income (loss)	\$ 18,462	\$ 12,407	\$ 9,103	\$ (1,337)	\$ (7,716)	\$ (3,401)	\$ (8,597)
Adjustments to reconcile GAAP net income (loss) to non-GAAP net income (loss):							
Stock-based compensation expense	8,547	9,756	11,002	11,810	10,295	5,910	10,647
Impaired deferred costs	1,892	-	-	-	-	-	-
Previously impaired deferred costs	-	(1,892)	-	-	-	-	-
Amortization of acquired technology	-	176	374	471	575	287	574
Amortization of other acquired intangible assets	31	196	432	398	435	262	479
Restructuring charges and severance payments	57	-	-	400	907	92	715
Write-down in value of property and equipment	-	-	-	-	227	-	227
Acquisition costs & adjustment to contingent consideration related to acquisition	-	1,335	-	-	90	-	90
Tax Impact of Adjustments	4,836	2,725	559	1,231	(1,992)	(1,279)	2,428
Non-GAAP net income (loss)	\$ 33,825	\$ 24,703	\$ 21,469	\$ 12,973	\$ 2,821	\$ 1,870	\$ 6,564
GAAP net income (loss) per diluted share	0.58	0.39	0.28	(0.04)	(0.24)	(0.10)	(0.27)
Non-GAAP net income (loss) per diluted share	1.06	0.77	0.66	0.39	0.09	0.06	0.05
Shares used in diluted shares calculation (in millions)	31.9	32.2	32.4	33.2	32.5	33.0	32.7

GAAP to Non-GAAP Gross Margin Reconciliation

in thousands

	2014	2015	2016	2017	2018	2019 YTD thru Q2	Trailing 12 months thru Q2-19
GAAP Gross Margin	\$ 60,449	\$ 58,954	\$ 63,013	\$ 54,350	\$ 42,992	\$ 25,409	\$ 44,944
Adjustments to reconcile GAAP gross margin (loss) to non-GAAP gross margin:							
Stock-based compensation expense	3,419	3,914	4,427	4,606	3,554	1,659	3,232
Impaired deferred costs	1,892	-	-	-	-	-	-
Previously impaired deferred costs	-	(1,892)	-	-	-	-	-
Amortization of acquired technology	-	176	374	471	574	287	574
Restructuring charges and severance payments	-	-	-	151	258	-	48
Non-GAAP gross margin	\$ 65,760	\$ 61,151	\$ 67,814	\$ 59,578	\$ 47,378	\$ 27,356	\$ 48,798

Balance Sheet

<i>(\$ '000)</i>	<u>Q2'19</u>
Cash and short-term investments	\$86,817
Accounts receivable, net	38,949
Unbilled accounts receivable	13,432
Prepays and other current	8,843
Property, plant and equipment, net	35,846
Operating lease right-of-use assets	7,974
Other assets	37,810
TOTAL ASSETS	<u>\$229,671</u>
Accounts payable	\$1,813
Accrued liabilities	7,562
Operating lease liabilities - current portion	1,875
Deferred revenue and billing in excess of revenue	10,114
Non-current operating lease liabilities	8,107
Tax and other long-term liabilities	5,309
Total stockholders' equity	194,892
TOTAL LIABILITIES & EQUITY	<u>\$229,671</u>

Thank You

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