

6 December 2019

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2019 Chairman's Address Altium Annual General Meeting

Sydney, Australia, 6 December 2019 - Ladies and gentlemen and fellow shareholders; it is a great pleasure to be with you this afternoon to review the results of the 2019 financial year and to share our plans (and our progress to date) to lead, unify and transform PCB design and the global electronics industry.

It is certainly an exciting time in our industry. Forces such as Cloud Computing, Big Data, Artificial Intelligence (AI) and 5G are redefining everyday experiences. These and the rise of smart, connected devices will drive the proliferation of electronics at a rate never before seen. All of these products have electronics at their heart. Every consumer and industrial product that is connected to the digital world does so through electronics, and electronics are dependent upon the design and manufacture of a printed circuit board.

These driving forces propel your Company, Altium Limited, forward and will do so for the foreseeable future. I am pleased to report that Altium continues to deliver industry-leading results, both in technology and engineering as well as in financial returns for shareholders. Our performance sets us apart from our global competitors and Altium is increasingly recognized as a leader within the broader electronics industry.

As our shareholders know, Altium has committed to achieve market leadership to the point of being the dominant provider of PCB design software by 2025, which we define as 100,000 subscribers and US\$500 million in revenue. This pursuit is supported by:

- Our *Mission*, defined by our vision and strategy to achieve it.
- Our superior product and technology.
- Our growing worldwide user community.
- Our unique direct sales model.
- Our strong financial strategy and disciplined execution.
- Our strategic approach to industry partnership.

Altium sets long-term revenue targets, which are strategic in nature and are designed to maximise shareholder value. Our current strategic revenue target of \$US200 million for the 2020 fiscal year was set in 2016 and we expect to exceed it this year and, significantly, will do so through organic growth.

There is no doubt that Altium has had an incredible journey to 2020 and is in an enviable position. Rather than celebrate this achievement, we intend to focus even more intently on our mission to become the dominant provider of PCB design software and to bring about industry transformation.

To do this, we need to:

- Scale up our transactional sales capacity and expand our market reach in all geographies and to all segments of the market.
- Aggressively grow and drive adoption of our new cloud platform *Altium 365*.
- Move from a mindset of “*features and functions*” to one of “*user experience and productivity*.”

Before speaking further about our plans and our progress to dominate the PCB market and to transform the global electronics industry, I would like to reflect upon what was achieved in fiscal 2019.

FY 2019 Financial Highlights

I am pleased to report that during the financial year ended 30 June 2019, Altium delivered outstanding financial results across all key regions, all business segments and, importantly, all financial metrics.

The company grew revenue by 23% and net profit by 41% compared to financial year 2018. Fiscal 2019 was the eighth consecutive year that Altium has delivered double-digit revenue growth and has expanded its EBITDA profit margin.

We are picking up the pace on our climb to our 100,000 subscriber target for PCB market dominance by 2025. During fiscal 2019, Altium achieved record growth in new Altium Designer seats of 27% and recorded strong growth in our subscription base to more than 43,600 subscribers. As we stated in our full year results, “there is a good chance that we may hit our halfway mark of 50,000 subscribers as early as this financial year”.

What makes our performance during fiscal 2019 more impressive is that it has been achieved while we also have focused on investment to accelerate future growth.

We have laid the foundation to increase the efficiency and reach of our direct transactional sales model and we invested in our new cloud platform *Altium 365*, which we have begun to roll out. These initiatives will underpin the Altium drive to market dominance and the achievement of our 2025 targets.

To share some of the financial highlights over the past year:

- Worldwide revenue increased by 23% to US\$171.8 million.
- Boards and Systems (our core PCB business) revenue grew by 17% to US\$126.8 million.
- Earnings per share (EPS) of US 40.57 cents (up 41%).
- Profit before tax (PBT) increased by 45% to US\$57.6 million.
- Net cash was US \$80.5 million as at 30 June 2019 (up 54%).
- Dividends paid during the year were AU 34 cents, up 26% from AU 27 cents in fiscal 2018.

China was a stand-out performer during fiscal 2019, with over 37% revenue growth compared with the same period one year earlier. Altium is scaling up its operations in China and opened a new office in Beijing in the second half of fiscal 2019. This is in addition to Altium’s regional HQ in Shanghai and sales office in Shenzhen. China improved the conversion of unpaid to paid licences to over 2,400 in fiscal 2019, up from 1,700 licences in fiscal 2018. Altium has an estimated 100,000 users of its software in China providing us with plenty of runway to accelerate our licence compliance effort in the future.

The current trade dispute between China and the United States which has resulted in sanctions and tariffs is front of mind for many of our shareholders. Altium actively manages its compliance with, and reporting to, regulators in multiple markets and this is overseen directly and regularly by your Board. We do not see any material risk to Altium at the present time.

The Americas region delivered a strong performance in fiscal 2019 to achieve 14% revenue growth compared with the same period one year earlier. The US is leading improvements to our transactional sales model to accelerate growth post 2020. This includes the launch of “*Cyberpods*” or ‘man-out-of-loop’ teams to drive efficiency and reach for renewals and to introduce improved customer intelligence. At the start of fiscal 2019, we opened a new office in Frisco, Texas (just north of Dallas) as the home of our *Cyberpods*.

Europe also delivered strong revenue growth over fiscal year 2019 of 20%, in Euros. Altium now sells direct to customers in most key European markets, with the Netherlands, the United Kingdom, Spain and Italy all performing stronger post our move to direct sales.

Our NEXUS product for the agile enterprise market continues to ramp up in line with our expectations. We have moved beyond our initial reference account wins at Autoliv/Veoneer to add new customers whose business models require complex engineering solutions for electronics. This is supported by the deployment of configurable modules (rather than customized ones) and the roll out of implementation services specifically designed for our customers to execute our NEXUS solution.

We have a large number of important reference accounts in development in various industries that are critical for the success of NEXUS and our ability to offer and deliver on ‘solutions sales for Enterprise accounts. When we set our revenue goal for 2020, we had a revenue contribution from NEXUS of \$10-\$20 million and we believe that we will fall within that range. We expect that NEXUS will have a significant revenue contribution to our business from 2021.

In turning to other parts of our business, I am happy to report that TASKING performed strongly over the 2019 fiscal year, growing revenue by 37%. Our TASKING business benefits from being the number one supplier of compiler software for Infineon (the large European semiconductor manufacturer) for its Aurix Tricore chip set for the automotive industry. TASKING has continued to perform well during fiscal 2020.

Octopart is taking its electronic parts search engine to a position of market dominance, and delivered 49% growth in revenue for the year. This growth has slowed down considerably in the current financial year because of a global downturn in the semiconductor and electronics manufacturing industry as well as the temporary impact on Octopart from a change to the Google search algorithm. Over the next few years Octopart will continue to improve the electronic parts search experience and build a next generation parts data platform for a broad range of stakeholders within the electronics industry.

Achieving Industry Transformation Through Market Dominance

Altium’s strategy for industry transformation is based upon the achievement of market dominance. We want to dominate to encourage secondary stakeholders (such as parts makers and distributors as well as board manufacturers) to adopt our *Altium 365* platform for electronic design to realization. A successful cloud-based platform for design, parts sourcing and manufacturing of printed circuit boards is central to our vision to transform the global electronics industry.

This is why Altium has committed to achieving 100,000 subscribers by 2025 and \$500 million in revenue. We want the majority of these 100,000 subscribers to be on our cloud platform *Altium 365* to make industry transformation possible.

Over the past twelve months, Altium has made significant progress toward its goal of 100,000 subscribers:

- We intend to use brand advertising to attract customers to Altium.
- We will increase the efficiency of our transactional sales model with business intelligence, analytics, and automation. We have commenced in-application engagement with our growing customer base to promote usage and to accelerate licence adoption.

- We have pivoted from a marketing strategy based on the pursuit of market leadership to one to achieve market dominance. This has involved the systematization of promotional campaigns on a scale and sophistication never seen before at Altium.
- We have worked hard on our new cloud platform, *Altium 365*, including direct engagement with a number of select reference accounts whose feedback has been positive. While engagement with *Altium 365* by Altium Designer users is expected to be seamless and immediate, the full transition to the cloud and adoption of *Altium 365* methodology for the design to manufacturing process will take some time. This is both a function of users getting comfortable with having their design data on the cloud and also the maturity of *Altium 365* platform itself.

We also have made electronics design and manufacturing more accessible to a wide community of young engineers. In June this year Altium acquired a small hardware company, Gumstix, whose innovative and potentially break-through technology can make electronics accessible to non-electronic engineers. We also completed the first round of re-engineering Upverter as part of our vision of democratization of electronics.

Our new cloud platform *Altium 365* can connect electronic design to electronic parts and PCB manufacturing seamlessly to speed up innovation that is particularly relevant for proto-typing. No longer will design files be sent to manufacturers only to come back as a different design in a different format. The integration of the design stage with the production stage on the *Altium 365* platform will reduce cycle times, reduce the number of design prototypes required for approval and reduce the risk of error in the production of boards and electronics.

For *Altium 365* to be truly ubiquitous in the global electronics market, Altium needs to dominate in all three domains: electronic design, electronic parts search and electronic manufacturing.

Beyond *Altium 365*, the Altium product development team is building Altium software for the next level of PCB design. Under our CTO, Sergey Kostinsky's leadership, Altium products have gone from "good to great" and now are regarded as among the world's best.

Altium Designer 20 which was released last month is considered a 'game-changer' for PCB design. This release includes user-driven improvements and advanced capabilities that leapfrog our competitors.

To give you a sense of this, advancements in the latest release of *Altium Designer 20* include:

- *Best in class interactive routing* - faster and easier routing capability of the PCB board than from any other software available today.
- *New high-speed design capabilities* - that allow users to design high density and high-speed boards.
- *Industry leading multi-board design* - that include supplier search and live part choices for multi-board assemblies.

If I may now turn to the Altium strategic partnership with Dassault Systemes. This is an important partnership for our pursuit of market leadership, market dominance and industry transformation. Let me explain why.

- For *market leadership*, our partnership with Dassault provides a strong endorsement of Altium PCB technology.
- For *market dominance*, our partnership with Dassault takes us into the very high-end of the industry (to passenger aircraft manufacturers and automotive companies, as examples) which would take longer and be more difficult for Altium to penetrate on our own.
- For *industry transformation*, the native integration of Altium ECAD technology onto the Dassault '3D Experience' platform will allow for the world's first model-based systems engineering that includes electronics.

We have worked together with the Dassault CATIA MCAD team for nearly three years and we now have an exciting product. The two R&D teams have conducted a series of what we call “*test flights*” with customers that have been very successful. We will make further announcements about the progress of our partnership with Dassault as we have more material details to share.

Accelerate Our Mission to Transform the Global Electronics Industry

Of the many challenges that face Altium during its transformative journey, the highest and most formidable is the 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, it will become of vital importance.

To this end, in December of last year, Altium rolled-out a five-year *Long-Term Incentive Plan* for our top 50 executives from around the world: from the US to China to Europe. While it is early days, we believe it is having a real impact to bring greater alignment and intensity among our key people, as we seek to accelerate future growth and our mission to transform the global electronics industry.

These fifty executives form the institution of “*Centurions*” at Altium. *Centurions* are charged with the mission to create a unique employee experience at Altium which is at the heart of being able to attract and retain exceptional talent to your Company. Along with my Non-Executive Director colleagues on the Board, I attended the first Altium Century Summit in La Jolla in the United States in mid-October; it was inspirational and left me personally with no doubt that we have the right leadership team, the right strategy and the passion to both dominate and to transform this industry.

At last year’s AGM we introduced the concept of a transformative framework called the “*Altium Ownership Plan*” whose principal objectives are to:

- Underpin the importance of ownership, not reward, for those employees whose impact is most critical for the success of the Company.
- Provide a focus for them on the Company’s significant growth objectives (in both revenue and EBITDA) and goals for industry transformation and market dominance.
- Deliver “life changing” equity grants to attract and retain high performance, high impact employees.
- 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.

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 remind you of our intention to create the AOP because of our belief that it is critical for our executives to think and act as owners of the Company so that all of our interests are aligned. We will keep you apprised of our progress over the next few years.

The introduction of our new cloud platform *Altium 365* is also a catalyst to accelerate our mission to bring about industry transformation. We are focused on what it will take to drive adoption of the platform through three phases:

- Design sharing on *Altium 365* (light-weight collaboration).
- Design hosting on *Altium 365* (structured collaboration).
- Manufacturing on *Altium 365* (Collaboration from parts to assembly)

We intend to report to you in more detail starting in February about our investment plans for our transformative agenda, while at the same time continuing to deliver strong financial results that have become the hallmark of Altium.

Looking Ahead

The proliferation of electronics through the rise of smart connected devices will drive growth for our business for the foreseeable future and we are excited about what lies ahead. We are committed to achieve 100,000 subscribers by 2025 and revenue of US\$500 million in 2025.

Earlier today our CEO, Aram Mirkazemi outlined our commitment to our “line and length” financial strategy especially in regard to organic growth to achieve market dominance, and, at the same time, we will invest in our strategy to transform the electronics industry. This will be framed by a new commitment to what we call the “*Rule of 50*.”

The *Rule of 50* is an extreme version of the *Rule of 40*, “the principle that a software company’s combined growth rate and profit margin should exceed 40%.” The *Rule of 40* has gained momentum as a high-level gauge of performance for software businesses in recent years, especially in venture capital and growth equity.

To reinforce this commitment to the *Rule of 50* (and that our revenue growth and EBITDA margin combined will be at least 50% each year) we believe that we should provide annual revenue and earnings guidance.

We can confirm that for the 2020 financial year we expect to exceed our target set four years ago of US\$200 million in revenue.

For the Full Year of Fiscal 2020, Altium anticipates:

- Revenue in the range of US\$205 million to US\$215 million
- EBITDA margin in the range of 37% to 38% (before the impact of the new leasing standard)

Conclusion

Today Altium employs more than 700 people working in offices all over the world. Each one of them is passionate about, and dedicated to the proposition that through their individual contributions, Altium can change, for the better, the way electronics products are designed and manufactured. There is no way that I can adequately thank nor acknowledge everything that they do on a daily basis. On behalf of my fellow Directors I express both our thanks and our enduring gratitude to each one of them.

Last month Wendy Stops stepped down from our Board after two years of service in which she played a critical role to help us to improve our engagement with our people. I am grateful to her for her service to the Company.

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.

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About Altium

Altium (ASX:ALU) 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® and X2®, XSignals®.

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, Munich, Markelo and Zug, and Asia Pacific locations in Shanghai, 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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