

PTC: Where to Place the Next Dollar of Growth?

Internal ID: S&F-STR-462

Topic: Growth Strategy, Customer Strategy, Business Models

Industry: Application Software

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Case

Information cutoff: May 1, 2024, 4:59 p.m. Eastern Time

At 4:59 p.m. on May 1, 2024, PTC's executive team had a new target to work with. The industrial software company had just reported 12% constant-currency growth in annual run rate (ARR) for its second fiscal quarter. It had also lowered its mid-term ARR growth target from the mid-teens to the low double digits. Its free-cash-flow targets for the next two years remained intact.

The timing mattered. PTC had spent several years expanding a subscription business and was now introducing cloud-delivered versions of established products. Its portfolio included CAD and product lifecycle management products used in the design and management of complex industrial products. PTC had announced Creo+ on its Atlas software-as-a-service (SaaS) platform and described Windchill+ as a roadmap for a pure-SaaS product. It also owned cloud-native and adjacent products, including Onshape, Arena, Codebeamer and ServiceMax.

For purposes of this exercise, assume you are advising PTC on a constructed resource-allocation question: where should the next two years of product development and commercial effort go? PTC could deepen the capabilities and expansion of its established product portfolio, devote more investment to cloud delivery and customer migration, or spread resources across its newer cloud and adjacent products. Each path could support growth. Each also carried a cost. PTC did not publicly disclose this as an actual board or management decision.

From software licenses to subscriptions-and then to cloud

PTC had already moved new licenses of its core solutions to subscription globally beginning in 2019. That change altered how customers contracted and paid for new software. It did not make every PTC product a cloud service.

PTC's portfolio included several delivery forms: customers could run software on their own infrastructure under subscription; purchase support for previously licensed software; use PTC-hosted cloud services; or adopt products designed for SaaS. PTC's recently announced Creo+ combined Creo CAD capabilities with cloud-based collaboration and license-administration tools. Windchill+ was presented as a pure-SaaS version of PTC's product lifecycle management software. PTC described cloud delivery as a way to simplify administration and collaboration. Those were company claims; public disclosures did not yet show SaaS adoption rates or economics by product.

For industrial customers, changing delivery may involve more than changing a contract. CAD and PLM systems can sit inside engineering and manufacturing workflows, hold important product data, and connect to customized systems and processes. Moving them can require technical assessment, conversion, validation and changes to how employees and partners work. Some customers may value vendor-managed infrastructure and collaboration. Others may prefer greater control or be unwilling to disrupt a working system.

Competition was moving in more than one direction. Siemens offered Teamcenter X as SaaS PLM. Dassault Systèmes had added cloud services to new SOLIDWORKS desktop subscriptions, linking desktop CAD to its 3DEXPERIENCE platform. These announcements showed alternative cloud and hybrid product designs; they did not establish relative pricing, adoption or customer outcomes.

A portfolio with momentum and competing demands

PTC reported \$2.088 billion in ARR at the end of Q2 FY24, up 11% from the prior-year quarter as reported and 12% in constant currency. Its CAD product group grew from \$748 million to \$814 million; its PLM group grew from \$1.134 billion to \$1.275 billion. Management said growth in CAD was driven primarily by Creo and PLM growth primarily by Windchill.

The categories were broader than the new SaaS offers. PTC's CAD group included Creo, Onshape, Vuforia and Arbortext. PLM included Windchill, Arena, Codebeamer, ServiceMax, ThingWorx and other products. The group totals combined different products and delivery models. PTC did not disclose the ARR attributable specifically to Creo+, Windchill+, or other SaaS deployments.

PTC's financial results showed that subscription-led ARR growth could coexist with substantial cash generation. Q2 revenue was \$603 million, up 11%; operating cash flow was \$251 million, up 19%; and free cash flow was \$247 million, up 19%. The company reported a 30% GAAP operating margin and a 42% non-GAAP operating margin. Management expected full-year FY24 free cash flow of approximately \$725 million and had reiterated FY25 free-cash-flow targets of \$825-875 million and an FY26 target of approximately \$1 billion.

The company also carried \$2.011 billion of gross debt and \$249 million of cash at the end of Q2; its debt-to-EBITDA ratio was 2.3 times. Management said it expected to use substantially all FY24 free cash flow to pay down debt. Its long-term goal was to return approximately half of free cash flow through share repurchases if debt-to-EBITDA remained below 3 times, while considering interest rates and strategic opportunities.

The new growth target

PTC's May 1 update set FY25 and FY26 constant-currency ARR growth expectations at the low double digits, replacing prior mid-teens targets. Management said the lower target was consistent with the company's five-year ARR growth track record. It maintained the cash-flow targets and said it would keep investing in the business. Management also described the selling environment as challenging and expected churn to remain low.

PTC's reported growth figures did not answer how fast cloud adoption was proceeding. The company's ARR measure included active subscription software, cloud, SaaS and support contracts. It annualized active contract value, counted contracts from their start dates, and excluded future increases in ramping contracts until they became active. ARR did not estimate future renewals. PTC warned that ARR was not recognized revenue or unearned revenue. For on-premises license subscriptions, a substantial portion of contract value could be recognized at a point in time under revenue accounting rules.

This distinction left executives without several inputs they might want for a cloud investment decision. PTC did not disclose ARR, bookings, churn, migration rates, hosting costs or margins separately for SaaS products. It did not publish an installed-base denominator by product, delivery method or customer readiness. Company-wide ARR growth could reflect expansion, new sales, acquisitions, contract timing, support and subscription activity, and currency translation.

Customer examples

PTC's Q2 presentation offered two illustrations of how its portfolio might create customer value. One medtech customer expanded Windchill beyond research and development into manufacturing, supply chain, quality, regulatory and marketing functions. PTC reported that the customer had increased its ARR contribution to PTC by more than 200% over three years. The presentation did not provide starting or ending ARR, profit, or a comparison to what would have occurred without the expansion.

A second example concerned an elevator company seeking to grow its service business. PTC said ServiceMax could give service teams a fuller view of equipment and past work, and that the customer's existing relationship with PTC's Creo and Windchill products had been an important factor in winning the ServiceMax business. PTC did not disclose the contract value or economics.

The stories suggested ways that product breadth, installed relationships and digital workflows might support expansion. They were selected customer examples rather than a representative sample. Neither established the returns from cloud migration or the product-level costs to deliver it.

The decision

As PTC set priorities for the next planning cycle, its leaders had to determine how to balance growth, customer adoption and cash generation.

One approach was to prioritize the established portfolio: improve Creo and Windchill, deepen PLM use inside current customers, and keep cloud migration paced by customer readiness. A second was to accelerate SaaS: invest more in Atlas, cloud operations and conversion support so that more customers could adopt Creo+ and Windchill+ sooner. A third was to protect focused capacity for the cloud and newer products while tying additional investment to evidence from customer implementations.

Each path required choices about product engineering, cloud infrastructure, customer migration, sales incentives and partner roles. The public results did not show which path would generate the greatest return or how quickly customers would move. Leaders would have to decide what to learn, where to learn it, and what evidence would justify putting more resources behind a particular approach.

Assignment

You are advising PTC's executive team on its next two years of product and commercial investment. Recommend how the company should allocate effort across its established CAD/PLM products, SaaS delivery and cloud-native/adjacent products.

State the customer segments or use cases you would prioritize, how you would organize the work, what you would protect or defer, and what evidence should trigger a change in investment. Explain how your recommendation balances customer value, growth, execution risk, and cash generation.

Exhibits

Exhibit 1. PTC Q2 FY24 scorecard

Measure	Q2 FY24	Q2 FY23	Change
ARR, reported	\$2,088m	\$1,882m	11%
ARR, constant currency	\$2,075m	\$1,850m	12%
Revenue	\$603m	\$542m	11%
Operating cash flow	\$251m	\$211m	19%
Free cash flow	\$247m	\$207m	19%
GAAP operating margin	30%	23%	-
Non-GAAP operating margin	42%	38%	-

PTC's revenue, GAAP margin and EPS are affected by revenue recognition under ASC 606. Non-GAAP measures exclude stock-based compensation, acquired intangible amortization, acquisition-related and other items. PTC says free cash flow is operating cash flow less capital expenditures and is not a measure of cash available for discretionary expenditures. Dollar figures are rounded.

Exhibit 2. ARR by product group

Product group	Q2 FY23	Q2 FY24	Reported change
CAD	\$748m	\$814m	9%
PLM	\$1,134m	\$1,275m	12%
Total ARR	\$1,882m	\$2,088m	11%

Product groups include multiple offerings and delivery models. CAD includes Creo, Onshape, Vuforia and Arbortext. PLM includes Windchill, Arena, Codebeamer, ServiceMax, ThingWorx and other products. Totals may differ from group sums by \$1 million because of rounding. ARR is a company-defined operating measure, not recognized revenue; the group's growth cannot be read as SaaS-specific growth.

Exhibit 3. Targets and capital allocation at May 1, 2024

Measure	FY24 guidance	FY25 target	FY26 target
Constant-currency ARR growth	11%-13%	Low double digits	Low double digits
Free cash flow	~\$725m	\$825-875m	~\$1,000m

The FY25/FY26 ARR growth target replaced a prior mid-teens target. PTC stated that it expected to use substantially all FY24 FCF to repay debt. Long-term repurchases of approximately 50% of FCF were conditional on leverage and other capital-allocation considerations.

Exhibit 4. Competing offers and customer examples

Company / example	Public description by cutoff	What the disclosure does not establish
PTC Creo+	Creo capabilities with cloud-based collaboration tools and Atlas-powered administration	Adoption, migration rate, hosting economics or customer outcomes
PTC Windchill+	PTC roadmap for a pure-SaaS PLM product	Deployment mix, customer conversion, cost to serve or product-level returns
Siemens Teamcenter X	SaaS PLM offer with preconfigured solutions and capability expansion	Comparable price, adoption or performance versus Windchill+
Dassault SOLIDWORKS Cloud Services	Cloud services bundled with new desktop SOLIDWORKS subscriptions and connected to 3DEXPERIENCE	Comparable scope, adoption or performance versus Creo+
PTC medtech customer	Windchill expanded into functions beyond R&D; PTC cited over 200% ARR growth for this account in three years	Starting/ending ARR, margin, counterfactual or representativeness
PTC elevator customer	Existing Creo/Windchill relationship helped PTC cross-sell ServiceMax	Contract value or financial return

Sources

- PTC, Q2 FY2024 results release and earnings presentation, May 1, 2024.
- PTC, Q1 FY2024 results release, Jan. 31, 2024.
- PTC, Creo+ announcement and Windchill+ roadmap, May 16, 2023.
- Siemens, Teamcenter X SaaS announcement, June 16, 2020.
- Dassault Systèmes/SOLIDWORKS, Cloud Services for SOLIDWORKS announcement, July 10, 2023.

All facts and examples above were public by the cutoff. Any decision role described in the assignment is hypothetical; PTC did not disclose the private resource-allocation discussion presented here.