Q126 Opening Commentary

SIMON MAYS-SMITH, VP INVESTOR RELATIONS

Thanks, operator, and good afternoon. Thank you for joining our conference call to discuss Autodesk's fiscal 26 first quarter results. Andrew Anagnost, our CEO, and Janesh Moorjani, our CFO, are on the line with me.

During this call, we will make forward-looking statements, including outlook and related assumptions, and on products, go-to-market and strategies. Actual events or results could differ materially. Please refer to our SEC filings, including our most recent Form 10-K and the Form 8-K filed with today's press release, for important risks and other factors that may cause our actual results to differ from those in our forward-looking statements.

Forward-looking statements made during the call are being made as of today. If this call is replayed or reviewed after today, the information presented during the call may not contain current or accurate information. Autodesk disclaims any obligation to update or revise any forward-looking statements.

We will quote several numeric or growth changes during this call as we discuss our financial performance. Unless otherwise noted, each such reference represents a year-on-year comparison. All non-GAAP numbers referenced in today's call are reconciled in our press release or Excel financials and other supplemental materials available on our investor relations website.

And now, I will turn the call over to Andrew.

ANDREW ANAGNOST, CEO

Thank you, Simon, and welcome everyone to the call.

Autodesk delivered strong first quarter results. Revenue and non-GAAP earnings per share topped the higher end of our guidance ranges and billings, non-GAAP margins, and free cash flow exceeded our expectations.

Two things are clear against an uncertain geopolitical, macroeconomic, and policy backdrop. First, our strong momentum and performance in the first quarter of fiscal 26 set us up well for the year. And second, we continue to make the right decisions to drive long-term shareholder value. We are focusing our growth investments on our strategic priorities in cloud, platform, and AI. We are optimizing our sales and marketing and investing to enable future optimization that drives higher margins. We are allocating more capital to share repurchases as our free cash flow stack rebuilds from the transition to annual billings for most multi-year contracts. And, with the appointment of John Cahill, Ram Krishnan, Jeff Epstein, and Christie Simons, we are refreshing our board to guide the next decade of growth.

In this uncertain world, Autodesk has three sources of certainty. First, the new transaction model is a proactive plan to integrate more closely with our customers, and drive additional business, while also increasing automation and reducing duplicative workflows with our channel partners. It opens up new growth and margin opportunities for Autodesk. Second, rebuilding our free cash flow stack after the transition to annual billings for most multi-year contracts, increases our capacity to sustainably return cash to shareholders through share repurchases. And third, as we come to the end of those two major business model transitions, Autodesk will be easier to analyze and understand.

I will now turn the call over to Janesh to discuss our quarterly financial performance and guidance for fiscal 26. I'll then come back to update you on our strategic growth initiatives.

JANESH MOORJANI, CFO

Thanks, Andrew.

Q1 was another strong quarter. Overall, the underlying momentum of the business was similar to prior quarters. We saw strength in AECO, in up-front revenue from Enterprise Business Agreements or EBAs, and in the Autodesk store as friction from the new transaction model implementation process continued to ease. Our go-to-market optimization plan is also on-track. Our new Chief Revenue Officer, Andy Elder, joined on May 12th from Microsoft.

Total revenue in the first quarter grew 15 percent as reported and 16 percent in constant currency. The contribution from the new transaction model to revenue was $78 million in the first quarter. Total revenue grew 11 percent in constant currency and excluding the impact of the new transaction model. Please see the tables in our press release, earnings deck and Excel financials for details by product and region.

Billings increased 29 percent as reported and 30 percent at constant currency, reflecting the shift to annual billings for most multi-year contracts and the transition to the new transaction model. The contribution from the new transaction model to billings was $105 million in the first quarter. Billings grew 22 percent at constant currency and excluding the impact of the new transaction model.

RPO of $7.2 billion and current RPO of $4.6 billion grew 21 percent and 16 percent, respectively.

Turning to margins. First-quarter GAAP and non-GAAP operating margins were 14 percent and 37 percent, respectively. GAAP operating margins decreased 7 percentage points primarily due to restructuring charges of $105 million and a one-time non-cash charge of $54 million, reflecting a cumulative adjustment in stock-based compensation since fiscal 1999 related to the Company's Employee Stock Purchase Program. The financial impact of this was immaterial in any of our historical reporting periods. For example, it was a total of $4 million in fiscal 25. There are more details in the earnings deck. This does not affect the trajectory of stock based compensation for future years. We remain very focused on bringing stock based compensation as a percent of revenue to below 10 percent and, in part to reflect that intent, we have incorporated it into our long-term executive incentive plans.

Non-GAAP operating margins were strong, increasing 3 percentage points. This reflected operating leverage from ongoing cost discipline and timing benefits from restructuring, partly offset by the margin drag from the new transaction model.

First-quarter free cash flow was $556 million.

Moving on to capital allocation, we continue to focus organic investment on our strategic priorities. We purchased approximately 1.3 million shares for $353 million, at an average price of approximately $269 per share.

Turning to guidance.

I will again speak to the numbers, excluding the impacts of the new transaction model, and in constant currency, to give you a clearer view on the underlying dynamics of the business. In the earnings deck you'll see that we've again split out the impact of the new transaction model and currency movements for our fiscal 26 guidance.

The underlying momentum of the business in the first quarter of fiscal 26 was consistent with recent quarters. Since February, the US dollar has depreciated against major currencies and macroeconomic uncertainty has increased. The increases in our billings, revenue and free cash flow dollar guidance ranges therefore reflect those foreign exchange rate movements, partly offset by additional caution in our underlying growth assumptions to reflect greater macroeconomic uncertainty. To give you a feel for what this means when compared to our prior guidance, the lower ends of our new billings and free cash flow ranges assume that new business growth for the rest of the year decelerates at roughly the same rate as during the pandemic and that EBA renewal uplift rates deteriorate. Our underlying revenue growth guidance is unchanged because its ratable nature makes it less volatile and our business performance in the first quarter has already incrementally reduced the risk of our guidance for the remainder of the year.

So, the billings guidance range increases to $7.16 billion to $7.31 billion, the revenue guidance range increases to $6.925 billion to $6.995 billion, and the free cash flow guidance range increases to $2.1 billion to $2.2 billion. On margins, the revenue tailwind from exchange rate movements is, in part, balanced by cost headwinds but we've raised the bottom end of our non-GAAP guidance range reflecting operating leverage and ongoing cost discipline. GAAP earnings per share guidance reflects, in part, the one-time charges taken in the first quarter. We've increased our non-GAAP earnings per share guidance, reflecting the non-GAAP operating margin increase.

The slide deck on our website has more details on modeling assumptions for the second quarter and full-year fiscal 26.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Janesh.

Autodesk is focused on the convergence of design and make in the cloud, enabled by platform, industry clouds, and AI. Autodesk is at the forefront of convergence because we've been evolving and investing in the business models, products and platforms, and GTM that capitalize on it. Let me give you a few examples from the quarter.

In AECO, one of the world's leading infrastructure consulting firms closed its sixth EBA with us, the second-largest deal in Autodesk's history. Our partnership is centered around accelerating its transition to BIM, facilitating the adoption of global data standards, and standardizing on Autodesk Construction Cloud as its common data environment for digital delivery. These initiatives will enable automation to replace low-value manual tasks, enhance value-added engineering, reduce errors and rework, and establish a framework for leveraging AI. The ultimate goal is to transform its design and delivery approach and leverage its scale and expertise to accelerate growth, drive efficiency, and improve profitability.

Hitachi Energy provides innovative, sustainable, and efficient solutions that support energy transition. As part of the most recent EBA renewal, it expanded adoption of Autodesk Construction Cloud, Revit, and Fusion to advance renewable energy integration and digitalization. Furthermore, Hitachi Energy invested in asset and data driven capabilities and digital twin solutions in creating a digital foundation throughout the product lifecycle and various disciplines. This includes enabling predictive maintenance through the real-time monitoring and analysis of grid performance.

A leading design-build general contractor, and existing GCPay and BuildingConnected customer, began looking for an integrated solution to manage increasing project complexity and drive efficiency. After thorough evaluation it selected Autodesk, with a platinum implementation partner providing specialized implementation and onboarding plans. By standardizing on Autodesk Construction Cloud this customer will unify project data and workflows, and improve collaboration across design, engineering, and sub-contractors.

These stories have a common theme: converging people, processes and data across the project lifecycle to increase efficiency and sustainability, while decreasing risk. Our comprehensive end-to-end industry clouds and platform drive convergence and extend our footprint further into larger growth segments like infrastructure and construction. And that is reflected in the continued strong revenue and new customer momentum in construction.

Moving on to manufacturing, we made excellent progress on our strategic initiatives. Customers continue to invest in their digital transformations and consolidate on our Design and Make platform to drive growth and increase resilience.

WALDNER is a German-based industrial group specializing in engineering and system solutions across laboratories, process systems, and filling and sealing machines. It was looking to transition from 2D to 3D design solutions to streamline workflows and accelerate sales cycle times and project delivery. In Q1, it purchased our Product Design & Manufacturing Collections and Vault Professional to supercharge its 3D design and data management capabilities. WALDNER expects to enhance collaboration across stakeholders and efficiently manage design iterations through the project lifecycle.

George P Johnson, which creates immersive brand experiences, partnered with Autodesk for its large-scale digital transformation. By breaking down silos and automating workflows, GPJ sought to enhance collaboration, scheduling, capacity planning, and shop floor visibility to avoid late-stage changes that can result in project delivery and financial risk. The team at GPJ will transition engineering, design, and four fabrication facilities from several disparate legacy applications to Fusion Manage and Operations, a modern, consolidated, and connected system. With Fusion Manage and Operations, GPJ will have 3D design tools with integrated process automation powered by a common data environment.

Grain Handler is a global leader in grain handling equipment. Historically, it relied on two competitor solutions, one for design and one for manufacturing. Facing growing inefficiencies from limited process integration, Grain Handler selected Fusion to modernize its entire design and manufacturing workflow. Integrated CAD/CAM capabilities on a unified platform will streamline engineering processes and accelerate production timelines. This story highlights customers' growing desire for unified workflows and Fusion's increasing ability to handle complex, high-stakes manufacturing processes, in multi-seat environments.

Converged data opens up new opportunities for Autodesk. As customers seek to drive efficient innovation, Fusion is driving strong ACV growth with extension attach rates increasing and driving average sales prices higher. And we're delivering meaningful productivity gains to customers where we deploy AI. I talked about our AI-powered AutoConstrain last quarter. This feature has now created over 580,000 constraints for our Fusion users since launch by automating the critical but laborious task of defining sketch geometry. This is a task that is foundational to 3D model generation. Since last quarter, user acceptance rates of the AutoConstrain command have increased to more than 50 percent through our continual AI improvement and UX enhancements. This is indicative of the potential of AutodeskAI as it continuously improves our users' experience with Fusion.

In education, Aston University is preparing future engineers to drive innovation through next-generation design, analysis, and manufacturing by making the entire Autodesk product portfolio available to all students. Additionally it is migrating to Fusion for first-year modules in all engineering-related disciplines, providing a modern platform to foster collaboration and hands-on learning and equip the next generation of engineers and designers with industry-relevant skills.

And lastly, we continue to find new ways for our customers to consume our products and services in ways that work best for them. For example, we helped a major engineering and consulting company in Taiwan remove non-compliant versions of our software and add the necessary licenses to ensure access to the latest and safest software for all its employees. And we enabled Flex consumption for Jones Engineering, a global contractor, so they can manage fluctuating project requirements in its cutting-edge offsite fabrication and modular manufacturing business to enable rapid scaling on new projects and reduce administrative bottlenecks.

Attractive long-term secular growth markets, our focused strategy delivering ever-more valuable and connected solutions to our customers, and a resilient business, are generating strong and sustained momentum both in absolute terms and relative to peers. Our disciplined execution is driving greater operational velocity and efficiency. We are deploying capital to grow the business, further reduce our share count, and enhance value creation over time. In combination, we believe these factors will deliver sustainable shareholder value over many years.

Let me finish with a story. On January 7th wildfires started in Los Angeles in the Eaton Canyon and Pacific Palisades. Driven by hurricane-force winds, the fires burned over 57,000 acres. They displaced over 200,000 residents and tragically took the lives of at least 30 people. More than 16,000 structures were lost with economic damage estimated at over $250 billion. I grew up in Southern California and I lived through major earthquakes and other natural disasters, but the scale and scope of the devastation of this fire makes my heart ache for the people that still live in my childhood home.

But, in the spirit of resilience that defines our country, civic leaders and the community are working together in new ways to rapidly rebuild the city and rebuild it to be more resilient. For example, the Foothill Catalog Foundation, formed by volunteer architects and supported by Autodesk, is creating a pre-approved catalog of home designs that will lower costs, reduce permitting delays that can stretch over a year, and accelerate reconstruction. Hundreds of architects have already signed on.

We've seen the power of approaches like this before. In Singapore, Autodesk supported the government's CORENET X initiative, allowing teams to collaborate in a single digital model, detect issues early, and streamline approvals across agencies. The result: faster, more coordinated building processes that reduce waste and delays.

We strongly support similar initiatives now being proposed at the federal level here in the US. We are not only doing this because there isn't enough labor, money or materials to build and rebuild everything that is needed to support our rapidly changing future—but because this is how we unlock the full potential of communities. This is how we help Los Angeles remain, in every sense, the City of Angels.

Operator, we would now like to open the call up for questions.