AUTODESK

Q323 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the third quarter results of our fiscal 23. On the line with me are Andrew Anagnost, our CEO, and Debbie Clifford, our CFO.

Today's conference call is being broadcast live via webcast. In addition, a replay of the call will be available at autodesk.com/investor. You can find the earnings press release, slide presentation and transcript of today's opening commentary on our investor relations website following this call.

During this call, we may make forward-looking statements about our outlook, future results and related assumptions, acquisitions, products and product capabilities, and strategies. These statements reflect our best judgment based on currently known factors. Actual events or results could differ materially. Please refer to our SEC filings, including our most recent Form 10-Q 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.

During the call, we will quote several numeric or growth changes 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.

We again reported record third-quarter revenue, non-GAAP operating margin, and free cash flow. Encouragingly, the business is performing as we'd expect given secular growth tailwinds and macroeconomic, geopolitical, policy and COVID-19 related headwinds. Subscription renewal rates remain resilient. Our competitive performance remains strong. Outside of Russia and China, new business growth slightly decelerated in the quarter, most notably in Europe, but overall growth remains good. And we've seen less demand for multi-year, up-front and more demand for annual contracts than we expected. We're hopeful this is a positive signal for our transition next year to annual billings for multi-year contracts. Overall, our leading indicators are consistent with these trends. Channel partners remain optimistic but with hints of caution; usage rates continue to grow modestly in the U.S. and APAC, excluding China, but are flat in Europe excluding Russia; and bid activity on BuildingConnected remains robust as the industry continues to work through its backlog.

We are reinforcing the secular tailwinds to our business by accelerating the convergence of workflows within and between the industries we serve, creating broader and deeper partnerships with existing customers and bringing new customers into our ecosystem. Our strategy is underpinned by disciplined and focused investment through the economic cycle, which enables Autodesk to remain well invested to realize the significant benefits of its strategy while mitigating the risk of having to make expensive catch-up investments later.

In September, we hosted more than 10,000 customers and partners at Autodesk University. There was incredible energy, excitement and optimism from being together in person for the first time in three years. There was also palpable momentum behind the digital transformation of the industries we serve. At AU, we announced Fusion, Forma, and Flow, our three industry clouds, which will connect data, teams and workflows in the cloud on our trusted platform. By increasing our engineering velocity, moving data from files to the cloud, and expanding our third-party ecosystem, they will enable Autodesk to further increase customer value by delivering even greater efficiency and sustainability.

I will now turn the call over to Debbie to take you through our third quarter financial performance and guidance for the fourth quarter and full fiscal year. I'll then come back to provide an update on our strategic growth initiatives.

DEBBIE CLIFFORD, CFO

Thanks, Andrew.

In a more challenging macroeconomic environment, Autodesk performed in line with our expectations in the third quarter excluding the impact of in-quarter currency movements on revenue. Resilient subscription renewal rates, healthy new business growth and a strong competitive performance were partly offset by geopolitical, macroeconomic, policy and COVID-19 related headwinds; foreign exchange movements; and less demand for multi-year, up-front and more demand for annual contracts than we expected.

Total revenue grew 14 percent, and 15 percent at constant exchange rates. By product: AutoCAD and AutoCAD LT revenue grew 10 percent, AEC and manufacturing revenue both grew 13 percent, and M&E revenue grew 24 percent, partly driven by up-front revenue growth. By region: revenue grew 17 percent in the Americas, 10 percent in EMEA, and 14 percent in APAC. At constant exchange rates, EMEA and APAC grew 12 and 18 percent respectively. By channel, direct revenue increased 14 percent, representing 35 percent of total revenue, while indirect revenue grew 13 percent.

Our product subscription renewal rates remained strong, and our net revenue retention rate was comfortably within our 100 to 110 percent target range.

Billings increased 16 percent to $1.4 billion, reflecting continued solid underlying demand, partly offset by foreign exchange movements and a shift in mix from multi-year, up-front to annual contracts versus expectations. Total deferred revenue grew 13 percent to $3.8 billion. Total RPO of $4.7 billion and current RPO of $3.1 billion grew 11 and 9 percent, respectively. At constant exchange rates, RPO and current RPO grew approximately 15 and 13 percent, respectively.

Turning to the P&L, non-GAAP gross margin remained broadly level at 93 percent, while non-GAAP operating margin increased by 4 percentage points to approximately 36 percent, reflecting strong revenue growth and ongoing cost discipline. GAAP operating margin increased by 3 percentage points to approximately 20 percent.

We delivered robust third quarter free cash flow of $460 million, up 79 percent year over year, reflecting strong revenue growth, margin improvement and a larger multi-year, up-front billing cohort.

Turning to capital allocation, we continue to actively manage capital within our framework. As Andrew said, our organic and inorganic investments will remain disciplined and focused through the economic cycle. We will continue to offset dilution from our stock-based compensation program and accelerate repurchases opportunistically when it makes sense to do so. Year to date, we purchased 4.4 million shares for $873 million, at an average price of approximately $200 per share, which, compared to last year, contributed to a reduction in our diluted weighted average shares outstanding by approximately 5 million to 217 million shares. We also announced today that the Board has authorized a further $5 billion for share repurchases. And in December, we plan to retire a $350-million bond when it comes due. Recall that we effectively refinanced this bond last October at historically low rates when we issued our first sustainability bond. And related to that new sustainability bond, we published our first Sustainability Bond Impact Report about a month ago, which updates our progress. You can find the report on our investor relations website.

Now, let me finish with guidance.

Andrew gave you a read out on the business and our markets at the beginning of the call. Our renewals business continues to be a highlight reflecting the ongoing importance of our software in helping our customers achieve their goals. New business growth continues to be relatively stronger in North America, with growth in EMEA and APAC outside of Russia and China slightly decelerating but overall growth remains good. And we’ve seen less demand for multi-year, up-front and more demand for annual contracts than we expected. As we look ahead, and as we've done in the past, our Q4 and fiscal 23 guidance assumes that market conditions remain consistent with what we saw as we exited Q3.

The strengthening of the U.S. dollar during the quarter generated slight incremental FX headwinds reducing full-year billings and revenue by approximately $10 million, and $5 million, respectively for the remainder of FY 23.

Bringing these factors together, the overall headline is that our fiscal 23 revenue, margin, and earnings per share guidance remain close to the previous mid-points at constant exchange rates and comfortably within our previous guidance ranges. Our lower fiscal 23 billings and free cash flow guidance primarily reflects less demand for multi-year, up-front and more demand for annual contracts than we expected. We're narrowing the fiscal 23 revenue range to be between $4.99 and $5.005 billion. We continue to expect non-GAAP operating margin to be approximately 36 percent. And we expect free cash flow to be between $1.9 billion and $1.98 billion.

The slide deck and updated Excel financials on our website have more details on modeling assumptions for the full-year fiscal 23.

The challenges our customers face continue to evolve but reinforce the need for digital transformation which gives us confidence in our long-term growth potential. We continue to target double-digit revenue growth, non-GAAP operating margins in the 38 to 40 percent range, and double-digit free cash flow growth on a compound annual basis. These metrics are intended to provide a floor to our long term revenue growth ambitions and a ceiling to our spend growth expectations.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Debbie.

Our strategy is to transform the industries we serve with end-to-end, cloud-based solutions that drive efficiency and sustainability for our customers.

Fusion, Forma, and Flow connect data, teams and workflows in the cloud on our trusted platform, making Autodesk rapidly scalable and extensible into adjacent verticals: from architecture and engineering, through construction and operations; from product engineering, through product data management and product manufacturing. Our platform is also scalable and extensible between verticals, with industrialized construction, and into new workflows, like XR. By accelerating the convergence of workflows within and between the industries we serve, we are also creating broader and deeper partnerships with existing customers and bringing new customers into our ecosystem.

In AEC, our customers continue to digitally transform their workflows to win new business and become more efficient and sustainable. For example, to support the city of Chongqing's smart city ambitions, the Chongqing Architectural Design Institute, which operates across architecture, municipal engineering, and city planning, is standardizing on AEC Collections and developing features through Revit APIs which automate modeling, drawings, and specification inspection. These will leverage the Design Institute's experience in BIM and enable faster and higher-quality designs, reduce error and waste during construction, and build the digital twins for post-construction operation and maintenance. In a challenging market environment, the Design Institute has been able to win new business and capture new markets through digital transformation.

In construction we are seeking to eliminate waste at the source, rather than simply automating the process around it. By seamlessly connecting construction data and workflows both upstream, with preconstruction and design, and downstream, to the handover, operations and maintenance phases through our digital twin, we are enabling a more connected and sustainable way of building.

For example, after a leading mechanical contractor in the United States purchased a competitor's construction management product a few years ago, communication and workflows between the design and field teams were disconnected, resulting in data fragmentation, less insight, more complicated reporting, and, ultimately, low adoption of the product. To resolve these issues, it chose to consolidate all of its design-to-build workflows on the integrated Autodesk platform, turning to Autodesk Build to streamline handoffs between detailing, the fab shop, and the field.

Our momentum in construction continues to grow. Across construction, we added almost a thousand new logos, with Autodesk Build's monthly active users growing more than 60 percent quarter over quarter and becoming Autodesk's largest construction product.

In infrastructure, we see greater appetite from owners to accelerate their digital transformation to connect workflows from design to make on the Autodesk platform. For example, to transform the speed, efficiency and sustainability of its network, one of the leading electricity network operators in Europe is accelerating its transformation from 2D to BIM and digital twins. In the third quarter, it signed its first EBA with Autodesk, adding Revit and Docs to enable it to upgrade the capacity of its substations and incorporate renewable power generation rapidly and safely. To accelerate maintenance workflows and reduce costs, the customer is insourcing the production of maintenance parts and using Fusion 360 as a platform for 3D printing.

Turning to manufacturing, we sustained good momentum in our manufacturing portfolio this quarter as we connected more workflows from design through to the shop floor, developed more on-ramps to our manufacturing platform, and delivered new powerful tools and functionality through Fusion 360 Extensions. We continue to drive efficiency and sustainability for our customers and provide further resilience and competitiveness in uncertain times.

For example, De Nora is an Italian multinational company specializing in electrochemistry and is a leader in sustainable technologies in the industrial green hydrogen production chain. It has been a long-time user of

AutoCAD and Revit. Over the last few years, it accelerated its cloud strategy by replacing a competitor's on-premises PLM solution with an integrated Vault and Fusion 360 Manage solution that improves the security of its data, enables seamless collaboration between product design and manufacturing, and more easily onboards and integrates acquisitions. In Q3, it took another step in its digital transformation by firstly transitioning to named users and adding Premium for better usage reporting, insights, and single sign-on security; and secondly, by adding Flex, to optimize consumption for its occasional users.

HEINEKEN is on a mission to become the Best Connected Brewer as part of its Evergreen Strategy and is undergoing a digital transformation to ensure it is prepared for the unforeseen challenges in an ever-changing world. To help, Autodesk has been supporting HEINEKEN's 3D printing initiative with an expanded adoption of Fusion 360 across a number of breweries. By designing and manufacturing their own equipment parts in-house, HEINEKEN has been able to see a reduction in the replacement times of a number of parts from over 6 weeks to just 4 hours, significantly reducing down-time and lessening the carbon impact of shipping new parts when necessary.

Scanship AS, a Vow group company, is a great example of how our customers are using our Fusion platform to generate sustainable outcomes efficiently and transparently for customers. It has developed technology that processes waste and purifies wastewater providing valuable, sustainable and circular resources and clean energy to a wide range of customers. By consolidating on Fusion 360 Manage with Upchain, Scanship AS will be able to connect data and workflows in the cloud to manage processes and collaborate more easily and efficiently, while also gaining greater transparency on its supply chain to deliver decarbonized products to its customers.

Fusion 360's commercial subscribers grew steadily, ending the quarter with 211,000 subscribers with demand for extensions continuing to grow at an exceptional pace.

Outside of commercial use, a rapidly growing ecosystem of students and hobbyists learning next-generation technology and workflows will take those skills with them into the workforce.

We'd like to congratulate students from over 57 countries who recently competed in the finals of the Worldskills Competition, aptly referred to as the "Olympics for Vocational Skills." Students used the latest workflows and technologies from Fusion 360 and Autodesk Construction Cloud to compete in vocational disciplines such as Mechanical Engineering, Additive Manufacturing and Digital Construction. Sit Shun Le from Singapore, who won the Gold Medal for additive manufacturing, used Fusion 360 to find the optimum structure and then minimized the amount of material used through additive manufacturing. All participants were able to hone their skills using next-generation technology. I'm inspired by their ingenuity and optimistic about the innovation they will bring to the workforce of the future.

And finally, we continue to work with customers to provide access to the most current and secure software through our license compliance initiatives. For example, we worked collaboratively with a large multinational manufacturing company seeking to adhere to the same software standards and ensure access to the latest and safest software for all its employees across the globe. We helped the customer conduct a self-audit that identified gaps in its operations in China and then crafted and optimized a bespoke subscription plan. As a result, we agreed an approximately $5-million contract in Q3, our largest ever license compliance agreement. During the quarter, we closed 8 deals of 500,000 dollars and 4 deals over $1 million dollars.

To close, subscription renewal rates and net revenue retention continue to compound, new business growth remains good, and our competitive performance remains strong. The business is performing as we'd expect given secular growth tailwinds and macroeconomic, geopolitical, policy and COVID-19 headwinds. Our capital allocation will remain disciplined and focused through the cycle, with organic investment and acquisitions accelerating our growth potential and competitive intensity, and share buybacks offsetting dilution. The breadth and depth of the market opportunity ahead of us is substantial and our platform investments will expand that opportunity and our realization of it.

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