Abhey Lamba:

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our third quarter of fiscal 2019. On the line is Andrew Anagnost, our CEO, and Scott Herren, 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.

As noted in our press release, we have published our prepared remarks on our website in advance of this call. Those remarks are intended to serve in place of extended formal comments and we will not repeat them on this call. We will also post a transcript of management's opening commentary on our website at the end of the call.

During the course of this conference call, we will make forward-looking statements regarding future events and the anticipated future performance of the company, such as our guidance for the fourth quarter and full-year fiscal 2019, our long-term financial model guidance, our revenue and cash flow expectations, our expectations regarding the acquisition of PlanGrid and its anticipated benefits and impact on our short-term and long-term guidance, the factors we used to estimate our guidance, our maintenance to subscription transition, our expectations regarding product mix and pricing, ARPS, customer value, cost structure, our market opportunities and strategies, and trends for various products, geographies and industries.

We caution you that such statements reflect our best judgment based on factors currently known to us and that actual events or results could differ materially. Please refer to the documents we file from time to time with the SEC, specifically our Form 10-K for fiscal year 2018, our Form 10-Q for the period ending July 31, 2018, and our current reports on Form 8-K including the Form 8-K filed with today's press release and prepared remarks. Those documents contain and identify important risks and other factors that may cause our actual results to differ from those contained 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 provide guidance on today's call but will not provide any further guidance or updates on our performance during the quarter unless we do so in a public forum.

During the call, we will also discuss non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of our GAAP and non-GAAP results is provided in today's press release, prepared remarks and on the Investor Relations section of our website. We will quote a number of numeric or growth changes as we discuss our financial performance and unless otherwise noted, each such reference represents a year on year comparison under ASC 606.

And now I would like to turn the call over to Andrew.

Andrew Anagnost:

Thanks Abhey.

I have two exciting things to share with you today. First, we closed another fantastic quarter with strong performance across all key metrics. Second, we are expanding our capabilities in the construction space by acquiring PlanGrid to complement our construction portfolio, as well to enhance our reach within the industry.

Looking first at our Q3 performance, we built upon the strength of our Q2 results by posting accelerated growth driven by strength across all product families and major geographies. We generated 33% growth in total annualized recurring revenue, or ARR, with both product and cloud offerings delivering great performance.

There are several key areas that I want to highlight on the call today:

- We had record growth in total ARR and total ARPS; In fact, this was the highest growth quarter for both since we started our business model transition over four years ago.
- We experienced strong growth in our enterprise business during the quarter, which speaks to the strategic importance of our products and a healthy demand environment.
- We hit a milestone of 4 million total subscriptions;
- The maintenance-to-subscription program continues to perform well and we’re seeing an increase in the adoption of Collections;
- BIM 360 delivered broad based strength driving cloud ARR growth in the quarter;
- And, we are enhancing our construction offerings with the acquisition of PlanGrid;

First, let's look at ARR, which is the best proxy for measuring progress in our business model transition and the overall health of our business.

The strength in ARR was a result of accelerating growth in all geographic regions and across all product families. All geographic regions posted revenue growth of at least 25%. Subscription plan ARR has more than doubled on a year-over-year basis for seven out of the last eight quarters. Growth in ARR was driven by strength across all subscription plan types and once again product subscription led the group while EBAs also accelerated meaningfully.

ARR for our core business, which represents the combination of maintenance, product subscription, and our EBA sales, also grew at 33%, in line with total ARR, as our core business drives the overwhelming majority of our revenue, ARR, and billings growth.

Now, as you know, I've made construction one of the company's critical near-term priorities and that's why I'm incredibly excited to talk about the acquisition of PlanGrid, which expands our expertise, presence, scale, and reach in the construction space. You have heard me say many times that the construction industry is a key focus area for us in becoming a design and make company; its hungry to deploy more technology and we're ready with compelling solutions. At PlanGrid, Tracy Young, Ralph Gootee, and the rest of the management team have built a leading construction tech company and we look forward to welcoming them to the Autodesk family.

PlanGrid has built an innovative mobile SaaS solution that's focused on document-centric workflows for field execution and project management. This is an excellent complement to our focus on model-centric workflows through Revit and BIM 360. On the field side of construction management, PlanGrid enables those working on the site to make informed decisions with real-time information. PlanGrid's solutions also empower project managers to ensure jobs are delivered within scope and on budget. The company currently serves approximately 12,000 customers and has approximately 120,000 paid users. Its products have been used on over one million construction projects.

PlanGrid's quality and value are reflected by the many large customers it serves, like LPR Construction, Devcon, Granite, Nvidia, and Target and we intend to capitalize on its strength to further advance the state of the art in construction technology and better meet the needs of our customers. The combination creates a more comprehensive cloud-based construction platform for general contractors and will expand our relationships with subcontractors and building owners. Over time, we will integrate workflows between PlanGrid's software and our BIM 360 construction management platform for a seamless exchange of 2D and 3D project information. Additionally, we will be able to leverage our global reach to accelerate adoption of PlanGrid's solutions.

There are many GCs who have deployed both solutions. For example, DPR Construction is a commercial GC using Autodesk BIM 360 and PlanGrid software. Atul Khanzode, DPR's CTO, said, and I quote - "One of the biggest challenges in the construction industry is data flow – how you get the most current and accurate information to the right people, at the right time. We're excited about this acquisition because it will improve the way information can be shared on project, and that leads to greater productivity and predictability. Using BIM 360 has made our project planning better; we're able to reliably plan, forecast and measure project tasks that support lean construction practices and reduce waste. And, we're using PlanGrid to help everyone in the field build off the most current data set." End quote.

We're tremendously excited about joining forces with PlanGrid and I believe this will further position us for success as we move further into the $10 billion construction opportunity. Scott will cover financial details of the transaction in a few minutes, but I would like to turn our attention back to Q3 performance.

Particularly, I'd like to highlight the performance of our BIM 360 portfolio. We had a strong showing for the entire offering which helped us post 36% growth in cloud ARR in the quarter. Customers are deploying all modules of the BIM 360 platform, and I am excited to share that large customers like AECOM, Arcadis, Swinerton, and Layton have already started adopting our new platform and we look forward to more customers doing the same.

A great example of the convergence of design and make was a significantly expanded deal we signed with Daiwa House Industries, one of the largest construction companies in Japan. They sell pre-fabricated homes in the region and are working to expand globally. Their processes are a clear example of how manufacturing and construction are converging. They utilize a wide range of our product portfolio from AutoCAD and Revit to BIM 360 and Inventor. Our new EBA with them is one of the largest we have signed and it increases the account value by 16-fold. We now have three of the largest five general contractors in Japan on EBAs and we are not done. These transactions also highlight the progress we have made in Japan as a region where we saw broad-based strength across all customer types.

On the manufacturing side, our growth rate for the product family accelerated to 20% from 10% in the second quarter. During the quarter, we transitioned a major customer, Ford, to an EBA. It is yet another example of how our relationship has expanded with our large enterprise customers where we've evolved from a vendor to a collaborative thought leader. We are partnering with Ford to help them explore new workflows utilizing our most advanced software functionality such as generative design and Fusion, and our flexible token-based EBA, which will allow them to benefit from the breadth of our product portfolio. We expect a 4x increase in subscriptions as a result of our new EBA contract.

In summary, I am extremely pleased with the progress we've made with the transition and I believe we're positioning the company to expand our technology leadership in the construction space. Many of you attended Autodesk University last week and I think you could feel the buzz and excitement in the air around both our core offerings and our cloud technologies like BIM 360 and Fusion. We are making terrific progress while remaining committed to our FY20 goals. In particular, I am also excited to see that we crossed the 30% mark for the sum of revenue growth and free cash flow margin. We look forward to nearly doubling that number in the next few years.

Now I'll turn it over to Scott for more details on the financials.

Scott Herren:

Thanks Andrew.

Digging deeper into the numbers for the third quarter, I'll start with a few more details on our strong ARR performance. ARR benefited from a 17% increase in ARPS, a 14% increase in subscriptions, and a 30% growth in billings for the quarter.

Looking at subscriptions, we added 143,000 subs in the quarter and hit a milestone in total subscriptions as we crossed the 4 million mark, which is nearly twice the number of maintenance seats we had at the peak of the previous business model. Subscription plan subs grew by 252,000, led by product subscriptions. Core sub adds once again increased by 3 percent sequentially. We also added 53,000 cloud subs, which is a nice step-up from the 31,000 we added in Q2 and 18,000 in Q1. Strength in cloud was led by broad-based adoption of the BIM 360 family.

Moving to the Maintenance to Subscription program, we continue to make solid progress. In Q3, customers migrated 71,000 maintenance subs to product subscriptions. While the number of M2S subscriptions is down sequentially, the conversion rate remained strong with approximately one-third of the maintenance renewal opportunities migrating to product subscriptions. Of those that migrated, once again over 30% of eligible subscriptions upgraded from an individual product to an Industry Collection. We expect the number of M2S subs to increase in Q4 as our maintenance renewal opportunity is higher.

The renewal rates for both maintenance and product subscription ticked up slightly from Q2 and were in-line with our planning assumptions. Helping to bolster renewal rates for product subscription are the M2S-related subs, which have – as expected – very high renewal rates because the program was designed to be sticky. We expect the renewal rate for product subscriptions to continue to increase as the product mix shifts towards higher value products.

Now let's talk a little more about annualized revenue per subscription, or ARPS.

Total ARPS posted another quarter of strong growth as it continued to benefit from the same drivers we discussed at Investor Day and that we saw in Q2. These drivers include the growth of the renewal base, the on-going strength of Industry Collections, and various pricing adjustments we made earlier in the year and are now having a greater influence on ARPS. The pricing adjustments include the price increase associated with the M2S program, lower channel discount on AutoCAD LT, and an increase for multi-user subscriptions. Long-term ARPS drivers will continue to be the growing renewal base, which comes at a higher net price to Autodesk; the increase in digital sales, also at a higher net price to Autodesk; the product mix shift to Industry Collections; the maintenance price increase for those customers who don't take advantage of the M2S program; and less discounting and promotional activity.

We expect total ARPS to continue to increase for all the reasons I just discussed as we progress through the transition and well beyond FY20.

Our eStore, which is playing a bigger part in our digital sales, grew by 65% year-on-year. For the past five quarters, our eStore has generated over 20% of the product subscriptions. Q3 also marked the eighth consecutive quarter of greater than 30% growth in our EBAs. In fact, our EBAs posted over 50% growth in the quarter highlighting strong execution as well as adoption and expansion of EBA contracts. What's interesting is that while the growth of our total direct business accelerated even from the record levels in

Q2, our indirect business expanded even faster. We continue to believe that over time the mix of direct business will outpace the growth of indirect leading to a more even split between direct and indirect revenue.

Moving to spend management, our total non-GAAP spend was up 5% and was slightly higher than expected, as we have done a nice job filling the open positions created by last year's resource rebalancing, cloud costs are higher year on year, and due to the impact of ASC 340, which requires us to capitalize sales commissions. If we normalize for ASC 340, the growth in total spend would have been less than 4%.

Looking at the balance sheet, total deferred revenue grew 17%. Unbilled deferred revenue increased by $45 million sequentially to $451 million due to strong EBA performance. We expect unbilled deferred revenue to increase meaningfully next quarter, with seasonally strong enterprise transactions. While we continued to experience an expected decrease in long-term deferred, our short-term deferred revenue grew by 14% due to strong billings in the quarter.

Looking at cash flow, we generated $39 million in operating cash flow, as we benefited from growth in billings and strong cash collections. We expect our cash flow to accelerate in the fourth quarter.

We used $103 million in the quarter to buy back roughly 800,000 shares at an average price of $131.42. Year-to-date we have repurchased 2.1 million shares for $270 million, an average price of $129.86. We continue to be committed to managing dilution and reducing shares outstanding over time.

Before I turn to the outlook, let me run through some details about our acquisition of PlanGrid. As announced this afternoon, we are paying $875 million net of acquired cash. We will finance the deal with cash on hand and a short-term, pre-payable loan. The transaction is expected to close during our fiscal Q4. Since we cannot be sure of the exact timing, we have not included any impact in our guidance. That said, we would expect it to contribute slightly to revenue growth and be modestly negative for profitability and cashflows for the quarter. For fiscal '20, we expect PlanGrid to contribute approximately $100 million in ARR but create a slight headwind to our profitability. The transaction and associated financing costs will have some dilutive effect on our cash flow, but we believe we can achieve our goal of $1.35 billion in free cash flow for the year. There are more details about the company and our rationale behind the acquisition in a slide deck on our investor relations website.

Now I'll turn the discussion to our outlook. I'll start by saying that our view of the global economic conditions remains mostly unchanged from the last few quarters but we're monitoring the potential macroeconomic impact from the various trade and tariff disputes. There has been some foreign exchange volatility, but our hedging program has succeeded in smoothing out the bigger swings.

As we look at our outlook for Q4, we expect to see continued sequential increases in most metrics including ARR, ARPS, billings, revenue, spend, and earnings. We are raising our outlook on all of those key metrics for the year. We expect our hiring ramp to continue as we finish the re-balancing of resources to the most strategic projects, and as such, we expect our spend to increase slightly sequentially. However, the sequential uptick in total operating expense in the fourth quarter will be lower than previous years due to the adoption of ASC 340 that requires capitalization of commissions, which historically had been very heavy during Q4. Even though our full year expenses are moving up modestly, our operating margin for the year will be higher by one percentage point versus our previous target. Also, our new margin forecast for the year represents nearly 17 points of improvement over last year. And we expect a sizable uptick in cash flow in Q4.

Regarding subscriptions, I'll reiterate that next quarter will be the last time we will report on subs and ARPS on a quarterly basis. After that, we will use events like our annual Investor Day to report on important metrics that will help you build your long-term models. For fiscal year '19, we continue to expect subscription additions to end up at the low-end of our guidance range, primarily related to the success we're having with the adoption of Industry Collections and the consolidation we're experiencing with the M2S program.

Before we start the Q&A part of this call, I want to summarize by highlighting the great progress we have made on driving the sum of our revenue growth plus free cash flow margin, which is a key metric for driving shareholder value under the rule of 40 framework. We ended the quarter with the sum of both metrics at 32%, a level we have not seen for four years. As Andrew said, we plan to nearly double this metric in the next few years.

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