ABHEY LAMBA, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our third quarter of fiscal 20. On the line is Andrew Anagnost, our CEO, and Scott Herren, our CFO.

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

During the course of this conference call, we may make forward-looking statements about our outlook, future results and strategies. These statements reflect our best judgment based on factors currently known to us. Actual events or results could differ materially. Please refer to our SEC filings 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 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. All non-GAAP numbers referenced in today's call are reconciled in the press release or slide presentation on our investor relations website.

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

ANDREW ANAGNOST, CEO

Thanks, Abhey.

Building on our strong performance in Q2, we delivered another quarter of solid execution and results with revenue, billings, ARR, earnings and free cash flow coming in ahead of expectations. For the first time, we delivered over $1 billion in quarterly billings outside of a fourth quarter, and our last twelve months free cash flow came in at nearly $1 billion, breaking yet another company record. Broad based strength across our entire product portfolio and all geographic regions drove these results. We have strong momentum in Construction, are gaining share in Manufacturing, and we continue to make strides in converting the non-paying user base.

Before we dig into details from the quarter, I want to recognize the hard work put in by the entire Autodesk team, especially our colleagues in the bay area who ensured that our business did not experience any disruptions despite our San Rafael office, and many employees' homes, being without power due to wildfires in the final days of the quarter. Our business continuity planning was flawless and the entire team went the extra mile to ensure that we did not miss a beat under very difficult circumstances.

Now, let me turn it over to Scott to give you more details on our third quarter results as well as details of our fiscal 20 guidance. I'll then return with insights on key drivers of our business and provide an update on the progress of our strategic initiatives before we open it up for Q&A.

SCOTT HERREN, CFO

Thanks, Andrew.

As Andrew mentioned, revenue, billings, ARR, earnings and free cash flow all performed ahead of expectations during the third quarter. Revenue growth of 28 percent was driven by strength across the board, with subscription revenue as the biggest driver. Acquisitions from the fourth quarter of last year contributed 4 percentage points of growth.

The revenue upside versus guidance was largely driven by deals with up-front revenue recognition, including those with the federal government or that include certain products like Vault and VRED. Some of these transactions were targeted for the fourth quarter and closed early. Overall, we're very pleased with our strong execution in the quarter.

Total ARR grew by 28 percent, which is impressive in light of a tough year-on-year compare. Our Cloud ARR grew164 percent tied to strong performance in Construction. Excluding $113 million of ARR from acquisitions, growth in our organic cloud portfolio came in at 35 percent. BIM 360 Design was once again the biggest driver of our organic Cloud revenue growth, with strength across all regions.

Indirect and direct revenue mix remained at 70 percent and 30 percent respectively. Revenue from our AutoCAD and AutoCAD LT products grew 29 percent in the third quarter. AEC revenue increased 36 percent and Manufacturing rose 15 percent. Geographically, we saw broad-based strength across all regions. Revenue grew 30 percent in Americas and APAC, while EMEA grew by 24 percent.

Our maintenance to subscription program, or M2S, now in its third year, continued to yield great results. The M2S conversion rate increased to an all-time high of 40 percent. The uptick in the conversion rate was expected as our maintenance renewal prices increased by 20 percent in the second quarter, making it more cost-effective for customers to move to subscription. Of those that migrated, upgrade rates came in at 21 percent, in line with expectations.

Net revenue retention rate continued to be within the range of 110-120 percent during the third quarter, and we expect it to be within this range in Q4.

Similar to Q1, some of the deeply discounted three-year subscriptions from a previous promotion came up for renewal. This group of customers renewed closer to list price, and we were pleased to see the total value from the entire cohort grow.

Billings grew 55 percent to more than $1 billion dollars. The growth was driven by our organic business, contributions from Construction, and the return of multi-year contracts closer to historical levels. We believe our customers' willingness to make long-term commitments to our solutions underscores the business criticality of our products. And we are closely monitoring the rate of multi-year buying to ensure it doesn't create a headwind to future cash flows.

Remaining performance obligations, or RPO, which is the sum of billed and unbilled deferred revenues, rose 32 percent and 6 percent sequentially to almost $3 billion dollars. Current RPO, which represents the future revenues under contract expected to be recognized over the next 12 months, was $2.1 billion dollars, an increase of 23 percent. This is a solid leading indicator of the strength of our business.

On the margin front, we realized significant operating leverage as we continue to execute in the growth phase of our journey. Non-GAAP gross margins were very strong at 92 percent, slightly up quarter over quarter and up 2 percentage points versus last year. Revenue growth, combined with our disciplined approach to expense management enabled us to expand our non-GAAP operating margin by 13 percentage points to 27 percent. We are on track to deliver further margin expansion in Q4 and approximately 40 percent non-GAAP operating margin in fiscal 23.

Moving to free cash flow, we generated $267 million in Q3. Over the last twelve months, we generated a record $972 million dollars of free cash flow, demonstrating the power of our subscription model and strength of our products.

Lastly, we continue to repurchase shares with our excess cash, which is consistent with our capital allocation strategy. During the third quarter, we repurchased 856 thousand shares for $124 million at an average price of $144.49 per share. Year to date we have repurchased 1.7 million shares for $264 million at an average price of $156.16 per share. In addition, we paid down another $100 million on the term loan associated with the fourth quarter fiscal 19 acquisitions and intend to repay the remaining $150 million by the end of fiscal 20.

Now I'll turn the discussion to our outlook. Our view of global economic conditions and their impact on our business remains unchanged from last quarter. As you will soon hear from Andrew, customers continue to increase their spending on our products even in segments experiencing some near-term headwinds. Our full-year revenue outlook has been updated for the upside we experienced in the third quarter, partially offset by the early signing of some transactions initially targeted for the fourth quarter. At the mid-point of our updated guidance, we are calling for revenue and ARR growth to be approximately 27 percent and 25 percent, respectively. Additionally, currency is now expected to drive an incremental headwind of about $5 million dollars to our full year revenue. We are adjusting our ARR outlook as some of the expected Q4 upfront subscription revenue was recognized in the third quarter. Additionally, fourth quarter ARR is being impacted modestly by greater currency headwind. As a reminder, we calculate ARR by multiplying our reported quarterly subscription and maintenance revenues times four.

Our billings forecast has been updated to reflect our strong performance and the momentum behind multi-year deals. We expect long term deferred revenue to be in the mid twenty percent range of total deferred revenue at the end of the year. Strong billings and operational execution are driving the upside to our free cash flow outlook for fiscal 20, which is now expected to be $1.30 to $1.34 billion.

Looking at our guidance for the fourth quarter, we expect total revenue to be in the range of $880 to $895 million, and we expect non-GAAP EPS of $0.86 to $0.91. The earnings slide deck on the investor relations section of our website has more details as well as modeling assumptions.

Looking out to fiscal 21, we expect continued strength, with revenue and free cash flow growing in the low 20 percent range. In line with our normal practice, we will provide a more detailed fiscal 21 forecast on our next earnings call.

In summary, I want to remind everyone that since our business model shift, we have moved to a much more resilient business model that generates a very steady stream of revenues, less exposed to macro swings than when we were selling perpetual licenses. We are committed to driving revenue growth while expanding operating margins. We delivered revenue growth plus free cash flow margin of 62% in the last twelve months and plan to end the year at around 67%. Overall, we are proud of our performance and are confident of delivering on our near-term and long-term targets.

Now, I'd like to turn it back to Andrew.

ANDREW ANAGNOST

Thanks, Scott.

As you heard, resiliency of our business model combined with strong momentum in our products and great execution by the team helped deliver another outstanding quarter despite continued uncertainty in some parts of the world. In terms of the macro conditions, demand remained relatively in line with the second quarter. The business environment and our results improved slightly in the UK and central Europe, and our commercial business in China continues to perform well despite a slow down in state owned enterprises.

During the quarter Robertson Group, one of the largest independently owned construction companies in the UK to cover the entire construction lifecycle, significantly increased their adoption of our BIM 360 portfolio. The company deployed our software on over 60 projects over the last three years and estimates a 28 percent increase in productivity. This is an incredible return on investment. We are thrilled to be partnering with a company prioritizing such impressive continuous improvement. In another example, one of the largest automotive parts suppliers in central Europe, nearly doubled their EBA commitment with us this quarter. With the move to electric vehicles, the customer knows innovation is needed to stay ahead of the competition. So they are investing in retooling their factory and migrating from 2D to 3D. Our customers understand the benefits of investing in growth opportunities under all kinds of economic conditions. These examples underscore the importance of our products regardless of the macro environment as well as our customers commitment to investing in technology to stay ahead of competitors.

Last week, we hosted 12 thousand people at Autodesk University and customers walked away excited about our current products and our vision for their industries. In fact, 32% more customers attended the conference this year than in the previous year. Across the board, customers are looking to Autodesk to help them digitally transform their businesses and make them more competitive. Before I go into strategic updates from the quarter, let me also acknowledge that, for the fifth consecutive year, AU Las Vegas was a carbon neutral event. This sustainable effort is reinforced and expanded by Autodesk's commitment to achieve company carbon neutrality in 2020. We're also delivering and continuing to investigate ways to help customers realize their sustainability goals through automation and insights in our technology. In fact, over the next few years, we intend to ramp up our financial commitment to this work by investing approximately 1 percent of operating profits in the Autodesk Foundation.

Now, let me give you an update on some of the key initiatives, specifically our continued traction within Construction, gains in Manufacturing, and successes in monetizing our non-paying user base. These are the initiatives that continue to be key drivers of our business.

In Construction, the breadth and depth of our product portfolio continues to make our offerings more compelling for our customers. In the last two years, the number of participants from the Construction industry at Autodesk University increased over seven-fold to approximately 3,500. At AU this year, we announced Autodesk Construction Cloud, which combines our advanced technology with the industry's largest network of builders and powerful predictive insights to drive more productivity, predictability and profitability for companies across the construction lifecycle. Autodesk Construction Cloud is comprised of our best-of-breed construction solutions, Assemble, BuildingConnected, BIM 360 and PlanGrid, and connects these solutions with Autodesk's unmatched design technology, such as AutoCAD, and our 3D modeling solutions Revit and Civil 3D. The announcement included more than 50 new product enhancements across the portfolio and deeper integrations, including powerful new artificial intelligence that helps construction teams identify and mitigate design risks before problems occur. Autodesk Construction Cloud is being well received by customers and supports our long-term plan.

PlanGrid and BuildingConnected continued their momentum, delivering $113 million in ARR with growth coming from new customers as well as adoption by existing Autodesk customers. During the quarter, one of Australia's largest construction and infrastructure companies expanded its relationship with us by adding PlanGrid and BIM 360 to its existing product set. The transaction resulted in the largest new product agreement for PlanGrid globally and the largest regional enterprise deal to date. We are helping the company adopt cloud-based technologies to improve project delivery and safety.

The depth and breadth of our solutions, that many other vendors in the space cannot deliver, is very appealing to our customers. For example, we enhanced our relationship with EBC, one of Canada's leading construction companies focused on infrastructure, buildings and natural resources, by adding BuildingConnected to their existing portfolio of Assemble and BIM 360 solutions. Our sales team demonstrated how we could help manage their systems more effectively and prepare them better for the future. We were able to meet their needs for the design and construction phases of the building lifecycle for both the commercial and infrastructure industry segments.

We continue to focus our investments on infrastructure, which has performed well in prior downturns. This focus could offer us greater resiliency should the macro environment weaken. We recently announced availability of Collaboration for Civil 3D, which is now included with BIM 360 Design, and enables teams to collaborate on complex infrastructure projects. We also continue to gain market share in the infrastructure space. This quarter we significantly expanded our relationship with JR Group, made up of 7 companies responsible for operating almost all of Japan's inter-city and commuter rail services. As part of our strategic collaboration, all seven of the group's companies will use our tools such as Revit, CIVIL 3D, and AutoCAD, over competitive offerings to develop a nationwide BIM rail standard.

Moving to manufacturing, the business is performing extremely well as we continue to gain share from competitors with steady innovations in generative design and Fusion 360. We believe a large number of small and medium-sized businesses will look to upgrade their vendor stack over the next few years, which is a clear opportunity for us to grow market share. Similar to last quarter, we had a number of competitive displacements of SolidWorks, MasterCAM, and PTC Creo. For instance, a 3D display designer and manufacturer in North America replaced SolidWorks and MasterCAM with Fusion 360 because of its integrated design and CAM capabilities. In another instance, a manufacturer of plastic machined components in the UK displaced SolidWorks and another CAM vendor with Fusion 360 in their design and manufacturing workflow. The company was attracted to Fusion's cloud based collaboration capabilities in addition to the integrated functionality and price point.

Our success in Manufacturing is not limited to small and medium-sized businesses. We are making inroads in larger organizations as well. During the third quarter, Daifuku, chose Autodesk as the best design software partner to move from 2D to 3D solutions. Based in Japan, Daifuku is the worlds leading material handling systems supplier serving a variety of industries, including the manufacturing, distribution, airport, and automotive sectors. With its new EBA the company has standardized on Inventor as its 3D platform and is also considering Revit for future building initiatives.

We continue to invest in our Manufacturing solutions, in fact, some of you might have seen the exciting news coming out of Autodesk University last week. We announced a partnership with ANSYS and our customers will soon have an option to use ANSYS' simulation solutions while running our industry leading generative design workflows in Fusion 360. We also announced the introduction of a new end to end, design-through-make workflow for electronics in Fusion 360; providing key capabilities such as integrated PCB design and thermal simulation. This is something our customers have been asking for as the market for smart products continues to grow. With Fusion 360, users can take those electronic ideas and physically produce them in the same product development environment, bypassing the current disconnects between design, simulation and manufacturing that make data importing and translation necessary. Lastly, we are looking forward to meeting some of you at our Manufacturing event at the Autodesk Technology Center in Birmingham UK on Monday, December 2nd. At that time, youll learn even more about our solutions and strategy in the space.

Now, let's close with an update on our progress with digital transformation and how it is allowing us to monetize the non-compliant user base. Our investments in our digital infrastructure have given us unprecedented access to non-compliant users' product usage patterns. We continue to learn more about these users and are in the process of expanding our compliance programs in additional regions. During the quarter, we signed 19 license compliance deals over $500 thousand, including 3 over $1 million. The mix of deals over $500 thousand was equally distributed by region and one of the million dollar plus transactions was with a commercial entity in China.

Our approach to creating positive experiences for our customers as they become compliant is paying dividends. For instance, one large manufacturer in central Europe was paying for less than 10 manufacturing collections and had some old perpetual licenses. Our data indicated much higher usage. We worked closely with our partner and senior management at the company to identify and fix the non-compliant usage, resulting in almost a million-dollar contract. The experience provided during the process has opened the door for us to discuss competitive displacement to further expand their usage as they now view us as a true partner rather than a software vendor.

I am excited about our year to date performance and looking forward to a strong close to the year. We continue to execute well in Construction, and are making competitive inroads in Manufacturing with our innovative solutions. I am also proud of the strides we are making in converting the current non-paying users into subscribers. Twenty years ago, Autodesk was known as the AutoCAD company, today - through the rapidly growing install base of 3D products like Revit, Inventor, Maya, and Fusion 360 - we lead the market in bringing the power of 3D modeling and the cloud to all the industries we serve. We are highly confident in Autodesk's ability to capitalize on not only our near term market opportunity, but also our long term opportunity connected to the rise of AI driven 3D modeling in the cloud. Because of this, we remain committed to delivering on our fiscal 23 goals.

With that, Operator, wed now like to open the call up for questions.