AUTODESK.

Q222 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our second quarter of fiscal year 2022. On the line with me are Andrew Anagnost, our CEO, and Debbie Clifford, our Chief Financial Officer.

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 the course of 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-K, for important risks and other factors including developments in the COVID-19 pandemic and the resulting impact on our business and operations 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 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. I hope you and your families remain safe and healthy.

As we anticipated when we set out our guidance at the beginning of the year, unwinding uncertainty resulted in increased business confidence, investment, and economic growth during our second quarter. This is reflected in strong product usage, which returned to pre-COVID levels across the globe; increasing bid activity on BuildingConnected, which reached all-time highs; and greater channel partner confidence.

When combined with strong execution, a resilient subscription business model, and the continued secular shift to the cloud, our growth accelerated again in Q2 and generated further momentum. RPO and billings grew 24 percent and 29 percent, respectively, driven by strong new product subscription growth, renewal rates, and revenue retention.

I am proud of what the team has accomplished so far this year. Again, I thank all of our employees, their families, our partners, and customers for their continued dedication, patience, and commitment.

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

DEBBIE CLIFFORD, CFO

Thanks, Andrew.

As Andrew mentioned, second quarter results were strong. Several factors contributed to that strength, including: robust growth in new product subscriptions, accelerating digital sales, and improving subscription renewal rates. In addition, Innovyze and foreign exchange rates provided a modest tail wind to the quarter.

Total revenue growth in the quarter accelerated to 16 percent, and 14 percent in constant currency, with subscription revenue growing by 21 percent. Looking at revenue by product, AutoCAD and AutoCAD LT revenue grew 12 percent, AEC revenue grew 21 percent, and manufacturing revenue grew 12 percent. Excluding the impact of moving our Vault product to ratable revenue recognition, manufacturing revenue grew in the mid-teens percent. M&E revenue grew 10 percent. Across the globe, revenue grew 14 percent in the Americas, 16 percent in EMEA, and 21 percent in APAC.

Direct revenue increased 31 percent and represented 34 percent of our total revenue, up from 30 percent last year, due to strength from both enterprise and eCommerce. As you'll hear more about at our Investor Day next week, about three quarters of new customers to Autodesk are now generated through our digital channels, reflecting our efforts to enable a simplified buying experience.

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

Billings accelerated 29 percent to $1 billion, reflecting strong underlying demand and an easier comparison versus last year. Total deferred revenue grew 15 percent to $3.3 billion. Total RPO of $4.14 billion and current RPO of $2.85 billion both grew 24 percent. Current RPO growth was driven by strong new product sales during the quarter, and the ongoing benefit from the record number of enterprise business agreements (EBAs) signed in the second half of last year. Excluding the contribution from Innovyze, current RPO grew approximately 23 percent.

Non-GAAP gross margin remained broadly level at 92 percent, while operating margin increased more than 2 percentage points to 31 percent, reflecting strong revenue growth and ongoing cost discipline.

We delivered healthy free cash flow of $186 million during the quarter, primarily driven by strong billings growth.

Consistent with our capital allocation strategy, we continued to repurchase shares with excess cash to offset dilution from our equity plans. During the second quarter, we purchased 164,000 shares for $46 million at an average price of approximately $283 per share. Year to date, we have repurchased 679,000 shares at an average price of approximately $278 per share, for a total spend of $189 million dollars.

Now, I'll turn to guidance.

Consistent with previous quarters, we expect that an improving economic environment during the year will result in strong growth in new business over the course of fiscal 22. We expect product subscription volume and renewal rates to continue to be healthy, and our net revenue retention rate to remain between 100 and 110 percent.

With our strong start to the year, we are raising the low end of our full-year revenue guidance to a range of $4.345 to $4.385 billion, with a mid-point growth rate of 15 percent year over year. We are also raising our non-GAAP operating margin outlook to approximately 31 percent, an almost two-point improvement from last year.

Our strong start to the year means we're also shifting more of our EBA customers from multi-year paid up front to annual billings, which is good for them **and** good for Autodesk. Our EBA customers retain price certainty with a multi-year contract term, but annual billings give them a more predictable annual cash outlay. For Autodesk, we generate more predictable cash flow and remove the discounts to generate up-front cash collections. While we had already assumed this change in fiscal 23, it has a modest impact on fiscal 22 billings and free cash flow. However, we expect it to drive more predictable free cash flow growth and better price realization over time, which will make Autodesk a more valuable company.

The shift of more of our EBA customers from multi-year paid up front to annual billings and FX account for the change in our fiscal 22 billings and, with a one-time M&A-related tax charge, free cash flow guidance.

As we look ahead, we're anticipating revenue growth to accelerate in Q3. Strong up-front revenues in Q4 last year and, with Vault now ratable, a smaller pool of non-ratable products, create a tougher comparison in Q4 this year, which will reduce revenue growth a bit when compared to the third quarter. Also, our EBA strength in the second half of last year, including two of our largest ever deals in Q3, will impact RPO growth comparisons in the second half of our fiscal 22. The slide deck on our website has more details on modeling assumptions for the third fiscal quarter and full year fiscal 22.

As I shared last quarter, my initial focus after re-joining Autodesk was digging into our fiscal 22 budget and fiscal 23 financial goals. The strength we've seen in fiscal 22, combined with the significant cohort of multi-year product subscription contracts that we expect will renew in fiscal 23, set us up nicely to achieve our fiscal 23 revenue growth potential and free cash flow goal. This past quarter, I turned my attention to our long-range financial plan, with a particular focus on fiscal 24 and beyond. You'll hear more at our investor day next week but, to set the stage today, our long-term strategic growth drivers and our flexible subscription business model give us confidence we can achieve our goal of sustainable, double-digit revenue and free cash flow growth beyond fiscal 24. Now, once we have achieved our fiscal 23 goals, we will give you more details on our financial ambitions for fiscal 24 and beyond. But on the whole, we believe we have many exciting opportunities to drive growth by further expanding our addressable market into areas like construction and infrastructure as well as by deepening monetization of our user base. And we look forward to sharing more specifics with you at our Investor Day next week.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Debbie.

Now let me turn to our strategic growth initiatives. Sustained and purposeful innovation to enable digital transformation in the industries we serve is changing our relationships with our customers from software vendor to strategic partner. And that is enabling us to create more value through end-to-end, cloud-based solutions that connect data and workflows, and business model evolution. By helping our customers grow, we will grow, too.

In AEC, digitization trends are accelerating the need to connect all phases of design and construction with end-to-end, cloud-based solutions. A great example this quarter was with an Asia Pacific semi-conductor manufacturer which is rapidly expanding its manufacturing capacity around the world and looking for help to drive more efficient collaboration across project stakeholders as well as shorter design and delivery cycles. It invested in AEC Collections to accomplish this goal and is now leveraging the power of BIM and our digital AEC workflows to achieve its expansion plans. This is a prime example of how Autodesk is positioned to help our customers as industries converge with this customer being a long-time user of our manufacturing products and now expanding its footprint with us in AEC.

In construction, we believe the Autodesk Construction Cloud is the best end-to-end offering across all phases of the construction lifecycle. Starting with our industry-leading preconstruction offerings, we help our customers seamlessly convert data into a construction plan, allowing our customers to condition and coordinate models early to aid in clash detection, easily quantify the materials required for future construction, and leverage our BuildingConnected community to power the bidding process. As we turn to the field, Autodesk Build provides a single, integrated solution for project management, field collaboration, quality, safety, and cost control, which is easy to deploy, adopt and use. We just launched it in February, but we've already seen Autodesk Build in use on more than 11,000 customer projects around the world. By connecting project information and teams in one common data environment, it enables efficient collaboration while providing predictive analytics and insights that increase quality and safety while decreasing risk.

As I mentioned earlier, we've transitioned to being a strategic partner to our customers and in construction, that means evolving our business model. We provide customers more choice in how they buy. We offer both user and account-based pricing, which gives our customers the flexibility to decide how they want to engage with us on their digital journey. With our account-based pricing model, we're seeing significant benefits from driving as many users as possible to our construction platform. Once Autodesk Build has been deployed on a project, we've made it friction-less for anyone involved on the project to get access to our platform within minutes. This pattern is not unlike the evolution of Fusion 360 over the last few years – the more users we see on our platform, the more we learn, the better we make our products, and the more value we add to our customers.

This quarter, Messer Construction, a top ENR 400 general contractor in the United States, selected Autodesk Build for project management over competitive offerings, Pype for submittal management and BIM Collaborate for native clash detection. As Andy Burg from Messer Construction said: “Autodesk Build's comprehensive unified platform is industry leading and, by seamlessly connecting design with construction to increase our efficiency, establishes a strong partnership foundation and further enables us to build better lives for our customers, communities and each other.”

Autodesk Build's momentum is growing internationally, too. Stamhuis is a leading retail shop construction and renovation company based in the Netherlands which had already used AEC Collections and Generative Design to optimize client retail space, reduce design and construction errors by 15 percent, and improve its ROI by 10 percent. This quarter, it invested in Autodesk Build to further increase efficiency, reduce waste, and add value for its clients by converging workflows from conceptual design, to engineering and fabrication while seamlessly collaborating with its clients. Our relationship with Stamhuis demonstrates the value that digital construction processes can bring to customers around the world. With our significant international experience and resources, we’re well positioned to capitalize on this large growth opportunity.

And we continue to invest to connect and converge adjacent industries to create value and help our customers achieve greater efficiency. During the quarter, Innovyze's Info360 cloud platform launched a beta version of Info360 Asset, a cloud-based tool for the water industry’s condition and performance monitoring and risk assessment processes. We also launched Autodesk Tandem, our digital twin offering focused on harnessing the data from the design and construction process to create a repeatable and dynamic process with digital handover being the natural output of the project lifecycle.

Turning to manufacturing, we continued to see strong momentum with our manufacturing portfolio this quarter, and also saw the inclusion of Upchain in its first enterprise business agreement, or EBA, with one of our larger enterprise accounts.

The convergence of Design and Make is accelerating, and we are seeing larger companies expand on our platform. For example, after using Fusion 360 and Moldflow to develop accurate digital manufacturing twins for injection molded parts – which is typically a very iterative, time-consuming, and expensive process – one of the largest American multinational medical device and pharmaceutical companies renewed and expanded its EBA with us this quarter. They were able to significantly reduce the time and rework costs because they could anticipate, predict, and correct manufacturing issues before moving into production.

We continue to see subscription growth for Fusion 360, with paying subscriptions now at 165,000, and the Fusion 360 extensions are helping to increase our average revenue per subscriber and capture more potential opportunity. During the quarter, a U.S. based global leader in design, engineering and manufacturing of woven wire mesh products transitioned to Fusion 360 as their main design tool and invested in our manage extension. The combination of Fusion 360 and manage extensions has largely automated their design change workflows and has brought a new level of organization and efficiency from product design all the way through delivery.

Our presence in education continues to expand to address the critical shortage in skilled labor. For example, a growing number of large German companies are replacing competitive solutions and are training their apprentices on Fusion 360 to prepare them for the future of work. In the second quarter, Energie Baden Wuerttemberg AG (ENBW), one of the biggest utility companies in Germany with 25,000 employees, adopted Fusion 360 to train its 600 apprentices. ENBW and its apprentices will benefit from the Fusion 360 cloud collaboration platform serving all their CAD, CAM, and CAE needs while they are either on site or remote. Education remains an important market for us and we continue to broaden our reach, with more than 43 million Tinkercad and Fusion 360 education users.

We continue to make progress transitioning all of our users to named users, giving customers more visibility into their usage data and allowing us to better serve our paying customers while also making it harder for non-compliant users to access our software.

The Level Group is a full-cycle developer which specializes in business-class complexes. During the quarter, it increased its investment with Autodesk by consolidating all of its single- and multi-user subscriptions and permanent licenses to AEC Collections with our Premium Plan and Autodesk Docs to enable more efficient collaboration and license management. And with the help of 24/7 technical support and single sign-on capability, Level Group expects reduced design costs in the future.

As our existing paying customers navigate the complexity of digital transitions, we can help them manage that complexity, improve efficiency and sustainability, and remain license compliant. For example, one of the leading construction, civil, industrial and infrastructure services contractors in Vietnam invested in AEC Collections and Autodesk Build to balance project safety, efficiency and quality while also reducing environmental impact and waste. Our license compliance team helped them identify licensing gaps and ensure installation of compliant software. We estimate that there are about two million non-compliant users within our paying customer base. During the quarter, we closed 11 deals over 500,000 dollars with our license compliance initiatives, six of which were over a million dollars.

At the end of September, we will launch a new pay-as-you-go consumption model, called Flex, that matches a customer's cost with their usage. Flex is an important new way to purchase from us as we evolve our business models to offer more choice and flexibility. It serves the long tail of customers who want an option for occasional users that do not use subscriptions every day. It also lowers the barrier to entry for existing and new users to explore new products with minimal risk and upfront costs.

Back to where I started: Sustained and purposeful innovation to digitally transform the industries we serve is also transforming our relationship with our customers – from software vendor to strategic partner – and enabling us to create more value for them through end-to-end, cloud-based solutions, business model evolution and connected data and workflows. By helping our customers grow, we will grow, too. The pandemic has accelerated these trends, and climate change is increasing the urgency. We will continue to invest to rise to the challenges ahead and seize the opportunities they present. In the meantime, we remain on track to achieve our fiscal 23 goals.

Please join us at our virtual Investor Day next week where we will have more time to share our strategic initiatives with you.

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