ABHEY LAMBA, 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 21. 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. 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, 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 for important risks and other factors including developments in the COVID 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 the press release or the slide presentation on our investor relations website.

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

ANDREW ANAGNOST, CEO

Thank you, Abhey.

To start, I hope everyone is safe and healthy as our world continues to be impacted by the COVID pandemic. Our priorities remain the safety and well-being of our employees, and the continued support of our customers, partners and communities. Before I dive into the quarter, I thank all of our employees for their efforts and persistence during these challenging times.

The resiliency of our business model and solid execution helped us deliver strong Q2 results with revenue, earnings and free cash flow above expectations, even as we continue to operate in uncertain times. The secular trends that we have been investing in and preparing for, such as the adoption of cloud-based solutions, are accelerating and we are excited about our position in the market. While our competitors are just beginning to focus on similar trends, our investments from the last few years are already driving positive results. With the business model changes we have made, we continue to deliver significant value and functionality in the cloud. Because of this, and a few other aspects I'll discuss, we will be stronger on the other side of this pandemic.

As indicated on the last call, we continue to closely monitor the usage patterns of our products across the globe, something we could not do historically. In China, Korea, and Japan, we are seeing usage above pre-COVID levels. In some areas of Europe, we continue to see a recovery as well. In the Americas, we experienced a slight uptick in usage for most key products in July. We are also seeing a positive correlation between usage trends and new business performance, which gives us confidence that the green shoots we see in usage will translate to improved new business performance in subsequent quarters.

In all senses, work is changing, and our cloud collaboration products effectively connect project teams and workflows allowing businesses to thrive even when their employees and partners are working remotely. Usage of BIM 360 Design, our cloud collaboration tool, has accelerated with the adoption by Revit users almost doubling in the past year. We also continued to gain momentum in Manufacturing with Fusion 360 – we had the best quarter ever for subscription net additions with more than ten thousand in the quarter. The value of the cloud is becoming more and more apparent and cloud-based solutions are becoming a necessity.

Our product subscription renewal rates improved steadily throughout Q2 as customers recognize the critical value our offerings bring to their businesses. Our new business was impacted by the current environment but the strength of our pipeline entering the second half of the year, combined with execution in recovering countries, makes us confident in our full-year targets.

Now, I'd like to turn it over to Scott to take you through details of our quarterly performance and guidance for the year before I come back to provide insights into our strategic growth drivers.

SCOTT HERREN, CFO

Thanks Andrew.

As you just heard, despite facing the economic headwinds from COVID we had strong performance across all key metrics in the quarter. Total revenue growth in the quarter came in at 15 percent as reported, 16 percent at constant currency, with subscription plan revenue growing by 27 percent, and operating margin expanding by 5 percentage points. Despite offering extended payment terms through the quarter, we delivered healthy free cash flow of $64 million. Current RPO, which reflects committed revenue for the next twelve months, is up 15 percent, and total RPO is up 19 percent.

Our ongoing investments in digital sales are yielding results as we saw strong double-digit billings growth through the online channel during the quarter. Our online sales are helping attract new customers to the Autodesk family, as nearly three out of four new customers in the quarter came in through e-commerce. Our run-rate business came in strong during the quarter, while the pace of closing larger transactions slowed modestly.

In Q2, our net revenue retention rate was within the 100 to 110 percent range we laid out in our previous guidance. As Andrew mentioned, we saw resilient renewal rates in the quarter. Digging deeper into our renewal rates, our product subscription renewal rates improved on a sequential basis, which is a strong endorsement of the strategic nature of our products and stickiness of our customer base in the new business model. We experienced a decline in maintenance renewal rates, as expected, since we announced the end of life of our maintenance offerings. With our transition to a subscription business model behind us, maintenance is only about 5 percent of our revenue. Similar to last quarter, more than 40% of the maintenance customers who came up for renewal converted to subscriptions. Our M2S revenue combined with our maintenance revenue this quarter, at $229 million, is close to 80% of our peak quarterly maintenance revenue in Q1 fiscal 16. This speaks to the great success we have had with the program.

In Q2, we also saw industry collections grow sequentially as a share of total new business. While multi-year payments are down year over year, toward the end of the second quarter we saw a slight uptick in multi-year payments as customers continue to make long-term commitments to our products. APAC led the way in share of multi-year deals consistent with the region's relatively strong performance in new business.

As we anticipated, our second quarter new business activity was more impacted than in Q1, with new business declining in the range of mid-teens percent. In line with our commentary on the last call, we think the second quarter will be the most impacted by the pandemic. Our business is recovering in the markets that were impacted by the pandemic earlier on. However, some of our major markets like the US and UK have stabilized but are yet to show meaningful improvement. As such, we continue with a wider-than-normal revenue range for the remainder of the year, while raising the midpoint of our guidance.

Our updated guidance implies continuing improvement in all of our end markets over the next two quarters and we expect the pace of closing larger transactions to improve. In addition to the impact of large-deal activity, the range of our forecast factors in varying degrees of demand environment in the Americas, which includes our largest end market. At the upper end of our guidance range, we are modeling meaningful recovery in the region in the third quarter with continued improvement in the fourth quarter. At the low end of the range, we anticipate a slower recovery in the third quarter, and improvement in Q4.

We are very pleased with the performance of our product subscription renewal rates in the second quarter and expect them to continue improving for the rest of the year. For the remaining maintenance base, we expect churn to further increase, but recall that we are in the final stages of ending our maintenance offering and the number of seats is small versus our total installed base. We expect our net revenue retention rate to remain between 100 and 110 percent for the rest of the year.

Our full-year operating margin should expand by approximately three to four-and-a-half percentage points as we keep exercising our strong discipline around spend management while continuing to invest in strategic priorities.

Despite improving multi-year trends we experienced at the end of the quarter, we are taking a cautious view of their continued uptake in the second half of the year, which is impacting the upper end of our billings forecast range for the year. Our billings adjustment does not affect our free cash flow estimate of $1.3 to $1.4 billion for fiscal 21 as we expect strong cash collections to continue.

Finally, we are confident in our fiscal 23 free cash flow target of $2.4 billion.

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

ANDREW ANAGNOST, CEO

Thank you, Scott.

I am proud of the team for what we accomplished in Q2. With the investments we have made over the last few years and our move to make everyone a named user, we are in the final stages of becoming a true SaaS provider and delivering a significant amount of capabilities in the cloud. We can now deliver enhanced value to our users and administrators. And our named user model enables our customers to operate efficiently in a remote work environment.

Our transition to named users is off to a promising start, with some customers choosing to adopt it ahead of the launch earlier this month. Khatib & Alami, one of the largest construction and engineering consulting firms in the Middle East, saw the value in its ability to accelerate work from home and reached out to transition early. The transition to the named user model is not the only thing ensuring their business continuity while working from home. During the quarter, they increased their seats of BIM 360 Design, breaking silos and enabling their Building and Infrastructure teams to collaborate on Revit and Civil 3D models from different locations.

During the quarter, we also launched our premium subscription plan, which would not have been possible without converting everyone to named users. We can now offer added security with single-sign-on capabilities, ease of administration, and advanced product usage information for administrators.

One of the first to make the investment in the premium plan was one of our long-time customers, Calibre Diona, a leading provider of professional infrastructure and built-environment solutions headquartered in Australia. The most compelling features for them are the single-sign-on capability and the license usage visibility. Calibre Diona has been partnering with Autodesk for 20 years, and our products have enabled them to continue innovating to deliver valuable design and engineering solutions to their customers as both CAD technology and engineering practices have evolved from the drawing board to AutoCAD and now to BIM.

This next phase of our journey will enable us to offer even greater value to our customers as a true cloud technology provider.

Now, let me update you on our three key growth initiatives – accelerating digitization in AEC, convergence of design and make in manufacturing, and monetization of non-compliant and legacy users.

Our AEC business has continued to be resilient. Our products enable more efficient communication and increased oversight as the industry works through additional steps in their processes such as new shift paradigms and optimized site layouts.

We continue to make investments in construction where we expect technology adoption to keep growing, especially as we exit the pandemic. We recently announced three notable investments.

First, we acquired Pype, which closed this month, and will add significant value for Autodesk Construction Cloud users, allowing general contractors, subcontractors and owners to automate workflows such as submittals and project closeouts to increase overall productivity and reduce risk throughout the project lifecycle. Second, we also made a strategic investment in Bridgit. Bridgit offers workforce optimization solutions for contractors. Third, we expanded our existing relationship with Factory_OS. Factory_OS is helping us improve our products to support the convergence of construction and manufacturing, thereby advancing prefabrication, off site, and modular construction practices.

We continue to enhance our project and cost management capabilities by improving connected workflows and cost tracking functionality. As you may recall, a large number of construction sites had shut down when we started the quarter. Sales of our construction solutions targeted at field activities started out slowly, but improved during the quarter as construction sites began to reopen.

During the quarter, Saunders Construction, a top ENR 400 provider of comprehensive construction management and general contracting services, signed a three-year renewal expansion with us, citing their previous success with our products and the on-going value we deliver in terms of productivity gains across the project lifecycle. Saunders has been successfully using Revit in coordination with BIM 360 Field and Glue, and Navisworks for field execution, and BIM coordination for years. This enabled Saunders to centralize their document management, connect their office and field teams, build out their quality and safety programs, minimize rework, and enable company enterprise reporting. With this agreement, they're now positioned to continue growing their deployment of our construction cloud with our dedicated support and we're excited to expand our partnership with them.

Our BIM 360 Design solutions continued to perform strongly throughout the quarter as architects and contractors adjusted to the remote work environment and found immense value in its cloud-based collaboration capabilities.

KPF, one of the largest architecture firms in New York City, with offices and projects all over the world, is also investing in BIM 360 solutions. James Brogan, Principal at KPF, said, "At KPF, collaborating effectively with global clients and design teams is critical to our success. As such, our partnership with Autodesk and the use of BIM 360 in conjunction with Revit, in particular, have become fundamental to our business, enabling us to efficiently manage design data across global teams and deliver world-class outcomes for our clients."

We continue to make progress and provide more value to customers in the infrastructure space. During the quarter, one of the largest infrastructure design firms in the US renewed and expanded their enterprise business agreement, or EBA, with Autodesk. This customer is leveraging the EBA token offering to digitize the company and move traditional file-based workflows to data-driven design leveraging the cloud and displacing competition. With the ever-growing need to work remotely, and in large project teams with multiple stakeholders, this customer is investing in Autodesk BIM 360 as the common data platform for managing project information, collaboration, and model coordination. This design customer also added PlanGrid to manage RFIs and submittals in the field, as well as Assemble for conditioning models for estimating and quantity takeoffs.

As I mentioned earlier, Fusion is continuing to accelerate within our manufacturing portfolio and gaining traction with Generative Design. This quarter, Firefly Aerospace, a rocket and spacecraft company based in Austin, TX, committed to Autodesk over multiple competitors, as their partner of choice for design, analysis, and manufacturing software because of efficiency gains realized in their design-to-make workflows and lightweighting opportunities provided by Generative Design. Their first launch vehicle has been designed and built using the entirety of Autodesk's Design and Make solutions and the team at Firefly is already thinking about how Generative Design can be used to optimize their designs further. In a market where reduction in weight directly correlates to a reduction in cost, Generative Design can not only firmly establish Firefly as a thought leader in their space, but also as the most economical launch platform on the market. Leveraging these advanced tools from Autodesk will enable them to stay one step ahead of the competition.

Today, we announced that our existing advanced manufacturing technologies PowerMill, PowerShape, and PowerInspect will become part of the Fusion 360 platform. This complements our existing offering of Fusion 360 with FeatureCAM for production machining applications, and also allows us to bring new advanced capabilities to our core Fusion 360 cloud-based software. This is a natural progression as we see high interest from customers to use next-generation design and manufacturing workflows in Fusion 360 alongside our advanced manufacturing tools. It is also a key step toward our long-standing vision of seamless collaboration between designers and engineers, uniting design and manufacturing under the power of a single cloud platform.

In Q2, we also signed a deal with Nobel Biocare, which included subscriptions to PowerMill, PowerShape, and Fusion 360 with FeatureCAM. Headquartered in Switzerland, Nobel Biocare manufactures dental implants and CAD/CAM-based individualized prosthetics, and they receive orders for custom single and multiple-unit implant restorations from all over the world. The custom restoration is manufactured from start to finish using Autodesk software, and using our technology, Nobel Biocare has created a fully automated process that allows them to produce completely unique dental restorations meeting the individual needs of their dental patients.

We are the preferred vendor for building product manufacturers who need to design within the context of the building information model. During the quarter, we signed a new Enterprise Business Agreement with one of the largest manufacturers of exterior building products in North America. Even amid an uncertain business landscape, the US-based manufacturer is strategically investing and partnering with Autodesk to support their focus on innovation and industrialized construction. They are looking to Autodesk solutions, such as BIM 360, Revit and Inventor to help them maximize efficiencies by digitally transforming and improving processes across the entire construction ecosystem. We also displaced a local competitor at a Building Product Manufacturer in France due to our deep connection to BIM. The convergence of design and make in manufacturing is happening and our deep connection to BIM will enable us to win.

Moving on to updates on our digital transformation and progress monetizing non-compliant users.

We are confident in our ability to convert the long-term opportunity. However, in the short term, we continue to be mindful of the current environment and importance of working with non-compliant users in respectful and reasonable ways.

In Q2, we closed three deals of more than one million dollars each in the APAC region where business activity has returned to pre-COVID levels. Also during the quarter, we closed a deal with a design-build architecture firm in China, against a local, lower-cost competitor. A few quarters ago, the customer decided to make the switch away from AutoCAD solely based on cost savings, but their engineers continued to use our software due to the necessary functionality. We were able to convert them back to paying users based on the value our solutions provide.

In closing, we are building a stronger Autodesk for the long term. We have a head start over our competition in critical capabilities like cloud computing and cloud-based collaboration, and we will continue to invest in our strategic initiatives.

There are multiple drivers that make us confident in our fiscal 2023 targets and beyond. First, digitization in AEC is going to accelerate in the coming years as companies seek to not only make current processes more resilient and efficient, but to support new industrial paradigms for construction.

Second, the evolution of manufacturing to a more distributed network and cloud-based workflow is also going to accelerate significantly over the next few years and we have the industry's leading multi-tenant cloud-based solution to address the emerging customer needs that will shape demand.

And third, our business model is more robust, adaptable and resilient than in the entire history of the company. This will allow us to not only invest in the future but to do so with an eye to both revenue and margin growth.

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