ABHEY LAMBA, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our first 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-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 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 open, I want to thank all of the medical professionals and other essential workers who are confronting the impacts of the COVID-19 pandemic on the front lines. Their efforts are not only saving lives but allowing many other people around the world to protect themselves, their families, and their communities. Their efforts are truly heroic. Thank you for everything you do. Our thoughts are also with everyone affected by this pandemic, and our priorities remain the safety and well-being of our employees, and the continued support of our customers, partners and communities. Many of us, myself included, are adopting multiple roles as we seek to juggle the demands of our professional and family lives in a world that has suddenly become both more complex and more constrained. Personally, I've had to learn how to home school my youngest child and – while I've always had a healthy respect for the work teachers do – I have developed an even deeper appreciation for the role teachers play in our societies. It takes a lot of patience and skill to help a young mind learn what it needs to learn.

From a business operations standpoint, the transition to working remotely has been smooth. I am proud of how our employees and partners have balanced their personal lives with many commitments during these unprecedented times. Many significant product upgrades were successfully released thanks to our cloud-based operating infrastructure.

One of the metrics we have been tracking closely is the weekly active average users of our products and since the pandemic started usage of our products dipped slightly, but overall remained relatively steady. In China, usage dropped rapidly in February but rebounded above pre-COVID levels by end of March as businesses started re-opening in the region. And it's no surprise we saw a major surge in usage of our cloud collaboration products as people worked from home throughout the quarter.

During the quarter and into May, renewal rates held relatively steady. Among our target markets, AEC revenue held up well while we experienced a slowdown in the Manufacturing space. The resiliency of our business is anchored by the diversity of our geographic regions and product offerings, our subscription business model and our indirect distribution model, which allows us to operate and adapt locally as economic conditions evolve in different geographic regions.

During the quarter we helped our customers accelerate their migration to the cloud and ease their transition to working from home. We also offered extended payment terms to alleviate their liquidity concerns. Please refer to the slide deck on our investor relations website for more details on these actions.

I am incredibly proud of not only the way our employees rallied to support each other and the company, but also how they rallied to support our customers, our partners, and the communities they live in. Without their resiliency, the resiliency of our business model wouldn't matter.

With that, I'd like to turn it over to Scott now to take you through details of our performance and guidance before I come back to provide insights into our strategic growth drivers.

SCOTT HERREN, CFO

Thanks, Andrew.

Before I offer more details on our first quarter, I want to echo Andrew's comments thanking our heroes battling the pandemic on the front lines. Our products, partnerships and expertise helped many front-line organizations combat the pandemic—from the quick build of hospitals to manufacturing personal protective equipment, PPE, and the philanthropic support of global, national and local communities. My own daughter has just graduated with her nursing degree and will be on the frontline next month. Availability of proper PPE for her and all the other superheroes in scrubs has been my biggest concern, and so I'm particularly proud Autodesk has played a role in addressing that need.

Our Q1 performance was strong with total revenue growing by 20 percent, subscription plan revenue growing by 35 percent, and operating margin expanding by 10 percentage points. Total remaining performance obligations grew 27 percent and current remaining performance obligations grew 18 percent to $2.4 billion in the quarter. We delivered free cash flow of $307 million and continued to repurchase our shares to offset dilution. Typically, I would go through our results from the quarter in more detail but today I am going to focus on the COVID-19 impacts on our business and guidance. You can find additional details on our Q1 performance on our Investor Relations website.

I do quickly want to mention that we have renamed what we previously called Core business to Design and what we previously called Cloud to Make. The prior labels caused some confusion, as almost all our products have cloud enabled functionality. There is no change to the products that fit into each of these two categories.

During the quarter, renewal rates held relatively steady whereas new business not surprisingly slowed down in the second half of Q1. However, the impact on our business has not been uniform by geography or industry. Our business is not only diverse from a geographic standpoint, but our products and customers are diverse as well. Many of you have asked about our exposure to small businesses. We generate approximately 10 to 15 percent of our revenues from small businesses, defined as customers with less than 20 employees and with less than 15 seats.

Our net revenue retention rate was within the 110 to 120 percent range. One of the other metrics we track for customer stickiness is partial renewals, which is a measure of subscription renewals where some, but not all, seats in a contract are renewed. Our partial renewal rate remained relatively steady as well.

In prior downturns, AutoCAD LT was a leading indicator for demand. However, during the current slowdown, our mix of AutoCAD LT moved higher as some customers apparently chose to optimize their purchases. Lastly, we saw a modest decrease in multi-year deals towards the end of the quarter although many customers continued to move forward with multi-year commitments even in the current environment.

Given the evolving business environment as a result of COVID-19, we are actively managing our spending, reducing travel and entertainment expense, monitoring our hiring rate, shifting to virtual events across the board, and rationalizing our marketing spend. We will continue to invest in critical areas such as R&D, construction, and digitizing the company to ensure our future success as we come out of the pandemic.

Now let me turn to our expectations for the remainder of the year. Our investment in cloud products and a subscription business model, backed by a strong balance sheet, gives us a robust foundation to successfully navigate the economic challenges. Our full-year guidance range is wider than normal due to ongoing uncertainty in the economic environment that will have a more pronounced impact on our new business. Regarding trends during the year, we expect the second quarter's new business activity to be the most impacted by the pandemic. Our pipeline entering the second quarter is strong and growing, but we are cautious about new business close-rates. The upper end of our range assumes a swift recovery in new business in the third quarter and continued improvement in the fourth quarter, with full-year new unit volume growing modestly. At the low-end of the range, we are modeling deeper impact on second quarter sales followed by a slower recovery in the third quarter and further improvement in the fourth, with full-year new units posting a modest year-over-year decline.

On the other hand, the majority of our business is renewals and we have not experienced a meaningful change in our renewal rates, which offers us resilience in an uncertain environment. Still, we are modeling a decline in renewal rates in the second quarter out of an abundance of caution. Our low-end and high-end guidance scenarios differ in the extent of the drop in the second quarter and the pace of recovery later in the year. Given our strong renewal rates, we expect our net revenue retention rate to remain above 100 percent but move below the current range of 110 to 120 percent for the rest of the year.

In addition to reduced new product demand, we anticipate our billings will be impacted by fewer multi-year transactions. The lower end of our billings guidance assumes a steeper decline in multi-year contracts whereas the upper end is based on a more modest decline. The reduction in billings and timing of large transactions are impacting our free cash flow expectations. Fiscal 21 will be a significantly more back-end loaded year, which will move some of the free cash flow from this year to next.

We expect our full-year operating margin to expand by approximately 2 to 4 percentage points.

Looking at the second quarter forecast, we expect the pandemic to meaningfully impact our billings, which can be sequentially down by low double-digit percent. Additionally, our decision to offer extended payment terms to our customers for sales up through early August, combined with a more back-end loaded quarter will impact our Q2 free cash flow, which could end up being break-even to slightly negative before accelerating in the second half of the year.

Although our fiscal year 21 results are being impacted by COVID-19, we are confident in our fiscal 23 free cash flow target of $2.4 billion, assuming the recovery starts by the end of this fiscal year. We have built a resilient business model that will allow us to capitalize on multiple tailwinds once we exit the current pandemic.

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

ANDREW ANAGNOST, CEO

Thank you, Scott.

We expect all secular trends that we have been investing in for years to be accelerated during and beyond this pandemic. People are being forced to change the way they work and in turn are experiencing the benefits that our cloud and subscription solutions have to offer. These companies are not going to go back to how they worked before, and digitization will be accelerated as businesses take all steps necessary to ensure they are more resilient. Our investments over the last few years combined with our on-going focus on cloud-based offerings leave us with a competitive advantage and well positioned to help our customers not only during this pandemic, but also in the new world that they will be working in when it is over. In fact, some of our biggest customers are already altering the mix of our products to lean more heavily into the cloud and digitization.

Although AEC spending has held up well and work is continuing, some customers are seeing project delays, cancellations and in some cases job sites temporarily shut down. However, despite these realities, we have seen continued adoption of our construction offerings.

For example, MEJA Construction, a general contractor in the southeastern United States, selected our products over a competitive construction management solution at their time of renewal. Their business is growing rapidly and price was becoming a concern with their current vendor. They needed a comprehensive solution that was fast and easy to implement. The multi-year deal started with PlanGrid for the field, evolved to include BIM 360 for the office and field connectivity, and ultimately included BuildingConnected for project bidding.

Many construction sites were shut down temporarily, impacting our new business for field focused solutions like PlanGrid. However, our products span the complete construction value chain and our collaboration products like BIM 360 Design and Docs experienced solid growth. Our Extended Access Program allows customers to try out and experience the value of the cloud collaboration products at no cost for a limited period of time. We are seeing customers who were in the process of adoption accelerate their timelines. We are also seeing customers purchase additional seats directly through our digital store. Since early March, cumulative new commercial projects grew over 200 percent in BIM 360 Design and over 100 percent in BIM 360 Docs. This surge in usage has been a great test for our cloud product infrastructure which has scaled up seamlessly. As you might recall, BIM 360 Design is the cloud collaboration tool that allows our customers to use our design products anytime and anywhere with data stored in the cloud. Now that customers are experiencing cloud-based solutions that allow them to work effectively from anywhere, we do not think they will revert to previous ways of working.

One of our largest customers, AECOM, significantly increased their adoption of BIM 360 and reached out to us beforehand to ensure we were set-up to support the increased usage. AECOM is the world’s premier infrastructure firm. David Felker, CIO, Americas and Construction, recently commented, "We're shifting rapidly to remote working, which is absolutely essential for the continuity of our business. Our strategic partnership with Autodesk and the BIM 360 cloud platform along with substantial investments in digital solutions and technology have enabled our successful pivot to this new way of working. We forecast that our use of BIM 360 will continue to grow dramatically in the short term and will become our new baseline for projects in the long term."

We are not only helping our customers work remotely, we are also doing so quickly. When New Zealand went into lockdown overnight, we helped Warren and Mahoney architects successfully mobilize their entire business to work from home in five days. In the process they doubled their number of BIM 360 Design subscriptions. They told us they would not have been able to so successfully continue their business operations while working from home without our support, and they also noted that all projects will be delivered using our platform going forward.

We believe the current pandemic will accelerate digitization and automation in the AEC industry as customers look to make their businesses more resilient. At the end of every downturn there is an upturn and businesses will need our products more than ever to stay competitive on the other side of this.

One segment that has historically done well as governments seek to provide stimulus is infrastructure. During the quarter we announced an alliance with Aurigo to better serve public and private owners. Capital project owners at departments of transportation, cities, counties and enterprises will benefit from this alliance and we are already receiving positive feedback from customers.

This quarter we had a top architecture firm, and a subsidiary of one of the largest state-owned enterprises in China, choose our products over Bentley's. Their typical projects for domestic and international clients include healthcare infrastructure, stadiums, airports and skyscrapers. Autodesk's streamlined workflows and data compatibility allow them to collaborate across teams and bring digital design down to the construction service phase. Beyond that, they have already taken advantage of our products for generating optimized design schemes and are excited to use Generative Design in Revit, as we recently announced Generative Design is available in Revit 2021. As our customers plan to return to work safely, they need help redesigning space layouts in buildings and this is one of the things Generative Design enables people to do effectively.

Although Manufacturing has been impacted by supply chain disruptions and temporary factory shutdowns, our products are enabling customers to operate under evolving conditions. Customers use our solutions to develop new products and R&D continues even when production floors experience disruption. Automation and flexible supply chains will be vital to competitiveness in the future. Our products help customers work remotely in the distributed environment, and collaborate among their divisions, customers and supply chains in the cloud. Fusion 360 is the leading comprehensive multi-tenant cloud CAD, CAM and PLM solution, and continued to gain traction during this pandemic as customers are reassessing their technology portfolio's readiness to cope with the demands of distributed work. In fact, April was the fastest growing month for new user acquisition.

A good example of this is that we closed a large standalone Fusion 360 deal with a big semi-conductor company. Currently they use the electronics design capabilities in Fusion for their printed circuit board design work, and we expect to further expand our presence with them due to the integrated functionality offered by our products at a more attractive price point. In addition, BASF, the largest chemical producer in the world, increased their EBA users of Fusion 360 to 2,000 during the quarter. They look forward to using Fusion 360 as a collaboration platform to improve the efficiency of communication between several teams, starting with equipment design and maintenance at one of their chemical plants.

Growth remains strong relative to our competition across our manufacturing portfolio. Customers of our on-premise solutions report minimal disruption in the move to remote work, which has been supported by cloud features included in our subscription offering. During the quarter, we signed our first enterprise business agreement with an automobile manufacturer in China. The usage-based model was a good fit for the customer who needs flexible access to our expansive portfolio of products. COVID-19 was a catalyst for them to substantially increase their engagement with us. They made the decision to adopt the most efficient solution to ensure they stay competitive in their industry on the other side of this downturn.

In addition to growing our presence in the commercial space, we continue to maintain our leadership in the education space where future engineers are rapidly adopting our products. Our new user acquisition in the education space, driven by Fusion 360, went up by over 70% in April.

Moving onto another high-priority area for us, we are still making traction monetizing non-compliant users. In terms of sales-led initiatives, we are being sensitive to customer situations and are often deferring the final outreach. But this does not mean progress has stopped. The first deal we closed in Wuhan after the business reopened was a license compliance transaction that we had been working on for many months prior to the pandemic. We closed an additional license compliance deal and competitive win over Bentley in Central America and the customer is now piloting BIM 360 Docs.

In closing, while all of us are impacted by the current pandemic, we are building a stronger Autodesk for next year and beyond. 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 three key areas that make us confident in our fiscal 23 targets and our growth after that:

1 Digitization in AEC is going to accelerate in the coming years as companies seek to adopt not only BIM, but complete design-to-make workflows enabled by the cloud that not only make current processes more resilient and efficient but support new industrial paradigms for the construction site.
2 The evolution of Manufacturing to a more distributed, networked, 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 come with this new paradigm.
3 Finally, 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 aggressively in the future but do so with an eye to both revenue and margin growth.

We look forward to virtually engaging with many of you at Investor Day, on June 3rd, where we will have more time to share our strategic initiatives.

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