Q425 Opening Commentary

SIMON MAYS-SMITH, VP INVESTOR RELATIONS

Thanks, operator, and good afternoon. Thank you for joining our conference call to discuss Autodesk's fiscal 25 fourth quarter and full year results. Andrew Anagnost, our CEO, and Janesh Moorjani, our CFO, are on the line with me.

During this call, we will make forward-looking statements, including outlook and related assumptions, and on products, go-to-market and strategies. Actual events or results could differ materially. Please refer to our SEC filings, including our most recent Form 10-Q and the Form 8-K filed with today's press release, 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.

We will quote several numeric or growth changes during this call as we discuss our financial performance. 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.

Autodesk delivered strong fourth quarter and full-year results. Billings and revenue topped the higher end of our expected range, despite new foreign exchange headwinds, while margins and free cash flow exceeded our expectations.

You will all have seen our restructuring announcement this afternoon, which has two parts: first, we have initiated the optimization phase of our sales and marketing plan, and second, we are reallocating internal resources to accelerate our strategic priorities and strengthen our resilience.

Let me talk about them in turn.

Our go-to-market (GTM) model has evolved significantly and purposefully, from the transition to subscription and multi-year contracts billed annually, through self-service enablement, the adoption of direct billing, and more. We are now beginning the optimization phase, which positions Autodesk to better meet the evolving needs of its customers and channel partners. This comes from faster and less complex processes and more digital self-service and automation that enable tighter channel partnerships and less duplication of effort. Autodesk will continue to evolve its GTM to increase customer satisfaction and Autodesk's productivity. Our current focus is on marketing, customer success, and operations with an emphasis on consolidating teams into centers of excellence and investing in systems and processes that increase sales and marketing (S&M) efficiency at scale. Our future focus will be on tighter channel partner integration, which will drive sales productivity and a greater emphasis on value creation for customers, and the broad deployment of self-service capabilities to further increase sales and marketing efficiency. Through this on-going optimization, we expect operating profit dollars and pre-new transaction model non-GAAP margin improvement in both fiscal

26 and fiscal 27 and, once the optimization phase is complete, we expect to deliver GAAP margins among the best in the industry.

Turning to where we are reallocating internal resources to focus on the long-term. Autodesk is focused on the convergence of design and make in the cloud, enabled by platform, industry clouds, and AI. Our investments in cloud, platform, and AI are ahead of our peers and will drive growth by providing our customers with increasingly valuable and connected solutions and supporting a much broader customer and developer ecosystem. To maintain and extend this leadership, we're shifting resources across the company to accelerate investments in these high-potential strategic priorities. We are also building the capabilities we will need to enable future optimization and ensuring that we distribute critical expertise globally to remain competitive, resilient, and flexible.

As I said last quarter, we are generating strong and sustained momentum in absolute terms and relative to peers. There are three main reasons: attractive long-term secular growth markets, a focused strategy delivering ever-more valuable and connected solutions to our customers, and a resilient business. Disciplined execution is driving greater operational velocity and efficiency. We are deploying capital to grow the business, further reduce our share count, and enhance value creation over time. We believe these factors will deliver sustainable shareholder value over many years.

Janesh is with me here at our annual sales conference today. We're excited to have him at Autodesk and he's already making an impact. I'd like to welcome him and turn the call over to him so he can take you through our results and guidance for the year ahead. I'll then come back to provide an update on our strategic growth initiatives.

JANESH MOORJANI, CFO

Thanks, Andrew.

I'm delighted to be here with all of you. Before I get into our results, I'll touch on two areas of potential that I saw that attracted me to Autodesk. First, we are well-positioned to deliver growth at scale, as we drive the convergence of design and make in the cloud, enabled by platform, industry clouds, and AI. And second, we have significant potential to drive expanded profitability, as we further optimize the level and effectiveness of investments in the business. Having spent the last few months gaining a deeper understanding of our business, I am confident in our ability to do both.

Let's turn to the results.

The fourth quarter and full-year fiscal 25 results were strong. Overall, the broader economic environment and the underlying momentum of the business in the fourth quarter were consistent with the last few quarters with continuing strong renewal rates and headwinds to new business growth.

Total revenue in the fourth quarter grew 12 percent as reported and in constant currency. We generated broad-based growth across products and regions. By product in constant currency: AutoCAD and AutoCAD LT revenue grew 9 percent; AECO revenue grew 15 percent; manufacturing revenue grew 10 percent, and in the low teens excluding up-front revenue; and M&E revenue grew 10 percent. Our Make products continue to enhance growth, driven by ongoing strength in Construction and Fusion. By region in constant currency: revenue grew 11 percent in the Americas, 13 percent in EMEA, and 11 percent in APAC. The contribution from the new transaction model to revenue was $46 million in the fourth quarter and $71 million for the year.

Direct revenue increased 35 percent in constant currency, and represented 47 percent of total revenue, up eight percentage points from last year, benefiting from strong growth in the Autodesk Store, and also from the tailwind to revenue from the new transaction model.

Billings increased 24 percent in the quarter at constant currency, reflecting the shift to annual billings for most multi-year contracts and the transition to the new transaction model. The contribution from the new transaction model to billings was $155 million in the fourth quarter and $262 million for the full year.

RPO of $6.9 billion and current RPO of $4.5 billion grew 14 percent and 12 percent, respectively. As expected, current RPO growth was affected by tailwinds from the new transaction model, and headwinds from the declining contribution of billed and unbilled deferred revenue from larger multi-year and EBA cohorts ahead of renewal in fiscal 26.

Turning to margins. Fourth-quarter GAAP and non-GAAP operating margins were 22 percent and 37 percent, respectively, reflecting year-over-year increases of 90 and 160 basis points. We were pleased that we exceeded our non-GAAP margin expectations, demonstrating strong fiscal discipline. For fiscal 25, GAAP and non-GAAP margins increased approximately 220 and 140 basis points year over year, respectively, excluding the impact of the new transaction model and currency movements.

Free cash flow for fiscal 25 was $1.57 billion, which was ahead of the high end of our guidance.

In the fourth quarter, we purchased approximately 1.4 million shares for $414 million, at an average price of approximately $299 per share. For the full year, we purchased approximately 3.1 million shares for $858 million, at an average price of approximately $279 per share.

Turning to guidance.

To give you a clearer view on the underlying dynamics of the business, I will speak to the numbers excluding the impacts of the new transaction model and in constant currency. You'll also see in today's earnings deck that we've split out the impact of the new transaction model and currency movements for our fiscal 26 guidance. For a thorough review of how the new transaction model works, please see the opening commentary and earnings deck from our Q2 fiscal 2025 earnings call.

Let me start by framing how we are thinking about fiscal 2026.

Our starting position is strong. We hold leadership positions in many of our markets and have a loyal customer base with a high degree of recurring revenue. We are leading in cloud, platform and AI as we help our customers realize the benefits of converged workflows and data in the cloud. In building our guidance, we have not assumed fundamental changes in the broader geopolitical and macroeconomic environment or in the momentum of our markets. Our business model is resilient, and we are seeing strong momentum in our growth businesses like Construction and Fusion. Our focus through fiscal 26 will be on driving growth from new and existing customers while maintaining strong renewal rates.

Our approach to building the guidance for fiscal 26 was similar to that for fiscal 25. Our guidance is based on the range of possible outcomes in our bottom-up sales forecast which is grounded in the momentum of the business. Given our restructuring plans and CRO transition, we believe some disruption is possible. While we have mitigation plans and actions in place for these changes, we believe it is prudent to consider these in our outlook, and our guidance reflects this.

This frames how we are thinking about fiscal 2026. There are more financial details in our earnings press release and earnings deck, but let me give you some color.

We expect constant currency billings growth of 17 percent to 19 percent, excluding the impact of the new transaction model. Billings growth remains elevated this year due to our transition to annual billing for most multi-year contracts.

We expect constant currency revenue growth of between 8 percent and 9 percent, excluding the impact of the new transaction model. This range reflects the assumptions that I mentioned earlier.

We expect GAAP operating margin to be in the range of 21 percent to 22 percent. Excluding the impact of the new transaction model and currency movements, we expect non-GAAP operating margin to be in the range of 39 percent to 40 percent, which is at the higher end of the guidance range we gave 3 years ago.

We expect to generate between $2.075 billion and $2.175 billion of free cash flow in fiscal 26. This is after absorbing approximately $110 million to $120 million of cash outflows related to the actions we announced earlier today, and includes an anticipated discrete cash benefit of $130 million to $150 million from the utilization of US deferred tax assets. We've provided more information on this in the slide deck.

We expect to buy back between approximately $1.1 billion and $1.2 billion of shares in fiscal 26, which is a 30 to 40 percent increase compared to fiscal 25, and the timing of which will depend on market conditions and other factors like debt refinancing.

The slide deck on our website has more details on modeling assumptions for the first quarter and full-year fiscal 26.

Finally, I'll share how we are currently thinking about our longer-term future. Since joining Autodesk last December, my conviction in our market opportunity, our ability to meaningfully expand our operating margin, and our capacity to deliver sustainable shareholder value over many years, has been reaffirmed. That said, our underlying growth has been hovering around the bottom end of the 10 percent to 15 percent revenue growth framework we previously provided, as you've seen over the past couple of years and in our fiscal 26 guidance. While we believe our resilient base, the successful execution of our product strategy, and the benefits of the new transaction model will catalyze sustainable growth in the future, our 10 percent to 15 percent growth framework is no longer appropriate given the consistent momentum of the business today.

On the other hand, it's clear to me that margins can be higher. We've announced today the first phase of our GTM optimization which is primarily in marketing, customer success and operations, and reflects the continued execution of our overall GTM evolution of the past few years. We are focused on executing this plan while minimizing potential disruption. Through this phase, we intend to deliver underlying operating margin expansion in fiscal 26 as reflected in our guidance, while also building capabilities we need for future optimization beyond fiscal 26. These capabilities include tighter channel partnerships with less duplication of effort; and more digital self-service and automation, which increases customer satisfaction and workforce productivity. Once our overall GTM optimization is complete, we expect Autodesk will be able to better serve its customers and deliver GAAP margins among the best in the industry. We will share more on our path to further margin expansion at an investor day in the third quarter of this year.

It's been invigorating getting to work, finalizing our fiscal 26 plans, and preparing for execution. I can already see there's tremendous potential ahead. I look forward to meeting our investors and analysts over the coming weeks.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Janesh.

Autodesk is focused on the convergence of design and make in the cloud, enabled by platform, industry clouds, and AI. Autodesk is at the forefront of convergence because we've been evolving and investing in the business models, products and platforms, and GTM that capitalize on it. With convergence, simulation done in the conceptual design phase can significantly reduce rework and cost during construction. With convergence, the components of a building can be manufactured offsite and assembled on site at lower cost and higher safety. With convergence, universal AI models can make better, and more valuable, inference that power a better world designed for all. Let me give you a few examples from the quarter.

Mott MacDonald, a global engineering, development and management consultancy, known for its work on major projects such as Heathrow Airport Terminal 5 and the Bay Area Rapid Transit (BART) Silicon Valley Phase II extension, renewed its 6th EBA in the quarter. This renewal expands our long-standing partnership to drive better outcomes through digital delivery. In addition to expanding usage of Revit, Civil 3D, Autodesk Build, and Autodesk Water, Mott MacDonald plans to leverage additional capabilities to increase project productivity and workflows for optimized design.

Power Design, the #28 ENR 600 specialty contractor, selected Autodesk Build as an essential link in their construction technology. This strategic choice enhances coordination between design and construction, ensuring seamless collaboration across teams and systems. By unifying project data from concept to completion, Autodesk helps Power Design protect design integrity, optimize workflows, and drive efficiency at scale.

Cleveland Construction, a national commercial GC, is replacing a competitive solution with Autodesk Construction Cloud to support the next phase of its growth and leveraging our end-to-end solution from preconstruction to cost management and payments with GCPay. I talked earlier about closer integrations with our channel partners and this deal demonstrates that potential. Using its proprietary technology for migrating project data from displaced solutions, an Autodesk platinum partner produced a comprehensive implementation plan that gave Cleveland Construction the confidence to make this transition.

These stories have a common theme: converging people, processes and data across the project lifecycle to increase efficiency and sustainability, while decreasing risk. Our comprehensive end-to-end industry clouds and platform drive convergence and extend our footprint further into larger growth segments like infrastructure and construction. As a sign of our progress, construction revenue growth accelerated in the fourth quarter and we added almost 400 net new logos.

Moving on to manufacturing, we made excellent progress on our strategic initiatives. Customers continue to invest in their digital transformations and consolidate on our Design and Make platform to drive growth and increase resilience.

For example, a global leader in toys is expanding its usage of Autodesk to all three of our industry clouds, Fusion, Forma, and Flow, to meet its profitability goals in Manufacturing, while launching new revenue models into Digital Entertainment. Autodesk's unique industry expertise across AECO, manufacturing and media bridges data across physical and digital product development and between design and make.

Bǚhler a family-owned Swiss multinational plant equipment manufacturer, renewed and expanded its EBA in the quarter. Autodesk will be one of Bǚhler's key strategic partners in the development and execution of their digital strategy, as it moves to optimize for outcomes by connecting data and workflows, from Product and Plant design to project delivery including Installation.

MSC Industrial Supply, one of the largest industrial distributors in North America with the leading position across metalworking product categories, will begin leveraging Autodesk Fusion's connected supply chain capabilities, and unique, all-in-one cloud CAD, CAM, CAE, and PCB platform, to enhance its industry-leading Application Optimization (AP OP®) program. Through this strategic relationship, MSC's team of metalworking specialists will be able to optimize toolpaths and validate cutting parameters more efficiently through enhanced virtual testing capabilities that further strengthen their best-in-class tooling recommendations for manufacturing customers. By combining MSC's suite of solutions and services with Autodesk Fusion's advanced capabilities this partnership creates an unmatched value proposition for manufacturers in North America, resulting in approximately $500 million in savings for MSC's customers in fiscal year 2024.

Converged data opens up new opportunities for Autodesk, in this case with a sales team. As customers seek to drive efficient innovation, Fusion extension attach rates are increasing and driving average sales prices higher. And we're delivering meaningful productivity gains to customers where we deploy AI. For example, our recently launched AutoConstrain tool in Fusion, which leverages AI to simplify the process of defining sketch geometry, has a roughly 50 percent acceptance rate on suggested geometry, saving significant time for higher value work.

In education, universities continue to modernize their courses and curriculum to attract and prepare future engineers. For example, in Q4, Autodesk signed a Memorandum of Understanding with the Indian Institute of Technology Bombay to integrate our industry leading solutions into IIT Bombay's innovative education and research programs to equip the next generation of engineers and designers with industry ready skills.

And lastly, we continue to work with our customers to ensure they are using the latest and most secure versions of our software. For example, while working with an administrator of European railway infrastructure in the process of adopting BIM to optimize its infrastructure development and sustainability practices, we identified gaps in compliance. Working together, we addressed compliance while supporting their digital transformation.

Attractive long-term secular growth markets, a focused strategy delivering ever-more valuable and connected solutions to our customers, and a resilient business, are generating strong and sustained momentum both in absolute terms and relative to peers. Disciplined execution is driving greater operational velocity and efficiency. We are deploying capital to grow the business, further reduce our share count, and enhance value creation over time. In combination, we believe these factors will deliver sustainable shareholder value over many years.

Throughout Autodesk's history, we have taken decisive actions to drive our business forward – even when they are difficult. This commitment has been paramount to our success over the last 40 years and remains true today. To our team members who depart as a result of our restructuring, I extend my sincere appreciation for your contributions to Autodesk. You will always be a part of Autodesk's story, and I am grateful for everything you have done.

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