Q424 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks, operator, and good afternoon. Thank you for joining our conference call to discuss the fourth quarter and full-year fiscal 24 results. On the line with me are Andrew Anagnost, our CEO, and Debbie Clifford, our CFO.

During this call, we will make forward-looking statements including outlook and related assumptions, products, 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.

We finished the year strongly, delivering 14 percent constant currency revenue growth in the fourth quarter of fiscal 24. Resilience, discipline, and opportunity again underpinned our robust financial and competitive performance.

Autodesk's resilience comes from its subscription business model and its product and customer diversification, which balances growth across different regions and industries. Renewal rates remained strong, and new business growth and leading indicators were consistent with recent quarters. Despite ongoing macroeconomic, policy and geopolitical headwinds, we saw growing usage, record bid activity on BuildingConnected, and cautious optimism from channel partners.

Disciplined and focused execution and strategic capital deployment through the economic cycle enable Autodesk to realize the significant benefits of its strategy while mitigating the risk of having to make expensive catch-up investments later. With the new transaction model, we are approaching the final phase of modernizing our go-to-market motion, which has involved updating our infrastructure, retiring old systems and business models, and building more durable and direct relationships with our customers and ecosystem. At the same time, we are advancing a multi-year process to develop lifecycle solutions within and between our industry clouds, powered by shared platform services, and with Autodesk's Data Model at its core. Together, these will enable Autodesk, its customers, and partners, to create more valuable, data-driven, and connected products and services. Having led the industry in generative design, we are leading again in 3D generative AI. Autodesk is getting closer to a transformational leap, where Autodesk AI is to 3D design and make what ChatGPT is to language. Our new multimodal foundation models will enable design and make customers to automate low-value and repetitive tasks and generate more high-value, complex designs more rapidly and with much greater consistency. We can already generate 3D representations from images 10 times faster and with vastly higher quality than currently available 3D AI.

We're bolstering our home-grown capabilities and data with partnerships and acquisitions in existing and adjacent verticals. Our recent bi-directional integration of Fusion with Cadence and the acquisition of Payapps are good examples.

Discipline and focus, when executing our strategy and deploying capital, also underpin our opportunity. Our go-to-market and platform initiatives will drive even greater operational velocity and efficiency within Autodesk, which will free up further resources to invest in our industry clouds and capabilities, including AI, and sustain margin improvement. And with a modernized go-to-market motion, lifecycle solutions and platform services, Autodesk will fulfill its potential to break down the silos within and between manufacturing, AEC and M&E, enabling our customers to unleash their data and design a better world, built for all.

I will now turn the call over to Debbie to take you through our quarterly financial performance and guidance for fiscal 25. I'll then come back to update you on our strategic growth initiatives.

DEBBIE CLIFFORD, CFO

Thanks, Andrew.

Our financial performance in the fourth quarter and for the fiscal year was strong, particularly in our enterprise business. Early renewals and strong up-front revenue from Enterprise Business Agreements, or EBAs, and federal governments, drove some of the out performance relative to our expectations in both Q4 billings and revenue. Overall market conditions and the underlying momentum of the business were consistent with the last few quarters.

Total revenue grew 11 percent, and 14 percent in constant currency with up-front revenue driving 2 percentage points of that growth. By product in constant currency: AutoCAD and AutoCAD LT revenue grew 7 percent, AEC revenue grew 18 percent, manufacturing revenue grew 16 percent, and M&E revenue was up 8 percent. AEC and manufacturing benefited from EBA true-up and up-front revenue. By region in constant currency: revenue grew 19 percent in the Americas, 11 percent in EMEA, and 8 percent in APAC.

Direct revenue increased 19 percent and represented 39 percent of total revenue, up three percentage points from last year, benefiting from strong growth in both EBAs and the Autodesk Store.

Net revenue retention rate remained within the 100 to 110 percent range at constant exchange rates.

Billings declined 19 percent in the quarter, resulting from the transition from up-front to annual billings for multi-year contracts, as expected, though slightly offset by some early renewals in North America. As part of our implementation sequencing for the new transaction model, we shifted our North American price increase from the end of March to the beginning of February. This resulted in some renewals moving from Q1 fiscal 25 to Q4 fiscal 24, which modestly boosted billings in January.

Total deferred revenue decreased 7 percent to $4.3 billion, an expected result of the transition from up-front to annual billings for multi-year contracts. Total RPO of $6.1 billion and current RPO of $4 billion grew 9 percent and 13 percent, respectively. Early renewals drove about 1 percentage point of current RPO growth. Total RPO growth decelerated in Q4 when compared to Q3, when we closed our largest-ever EBA. The year-over-year deceleration was due to the lower mix of multi-year contracts in fiscal 24 when compared to fiscal 23, which I mentioned last quarter. In line with recent quarters and our expectations, we again saw some evidence of multi-year customers switching to annual contracts during the quarter.

Turning to the P&L, GAAP and non-GAAP gross margin were broadly level, while operating margin was modestly lower in the fourth quarter primarily due to the timing of Autodesk University costs shifting from Q3 to Q4, which we flagged last quarter. As expected, full year non-GAAP operating margin was level year over year, but up about 1 percentage point at constant exchange rates. Fourth quarter GAAP operating margin was up 40 basis points year over year and about 1 percentage point at constant exchange rates, partly due to a reduction in stock-based compensation as a percent of revenue. At current course and speed, the ratio of stock-based compensation as a percent of revenue peaked in fiscal 24. We expect it to fall to 10 percent or lower over time.

Free cash flow for the quarter and full year was $427 million and $1.28 billion, respectively, with early renewals providing a modest tail wind in the fourth quarter. The most significant free cash flow headwinds from our transition from up-front to annual billings for multi-year contracts are now behind us, which means our free cash flow troughed during fiscal 24 and will mechanically rebuild over the next few years.

Turning to capital allocation, we continue to actively manage capital within our framework, and deploy it with discipline and focus through the economic cycle to drive long-term shareholder value. As you heard from Andrew, we continue to invest organically and through complementary acquisitions to enhance our capabilities, and the industry clouds and platform that underpin them. During the quarter, we purchased approximately 300 thousand shares for $63 million, at an average price of approximately $217 per share. We have now offset estimated dilution from our stock-based compensation program well into fiscal 26. We will continue to repurchase shares opportunistically to offset dilution from stock based compensation when it makes sense to do so.

Now, let me finish with guidance.

Overall end-market demand has remained pretty consistent over the last few quarters. Macroeconomic and one-off factors, like the Hollywood writers' strike, dragged on the new business growth rate during fiscal 24 and will modestly drag on revenue growth in fiscal 25, but Autodesk's resilience and robust underlying demand for its products and services reinforce its long-term growth potential.

Turning to revenue, I want to highlight four key puts and takes impacting growth in fiscal 25.

First, let me talk about the new transaction model. We've added some slides to the earnings deck to help illustrate how to think about this shift, which I'll briefly summarize. The new transaction model enables Autodesk to build closer, more direct relationships with its customers and partners; and to better understand and serve them with more data, more self-service, and greater predictability. It will be a cornerstone of the data services that Andrew talked about earlier. As you can see from slide 11, the transition mechanically drives higher revenue and costs, is broadly neutral to operating profit and free cash flow dollars, and is a headwind to operating profit margin percent.

About $600 million of payments made to resellers in developed markets in fiscal 24 were accounted for as contra revenue. As this business moves to the new transaction model, these payments will shift to marketing and sales expense over the next few years, all else equal, with the timing of cost recognition not materially different from before. The change affects a substantial majority of our business but note that emerging markets and our federal government business will remain on the buy/sell model for the foreseeable future. The pace of that shift will primarily be determined by the mechanical build from ratable subscription revenue accounting and the rate of regional roll out of the new transaction model. While the former is relatively easy to predict given the ratable revenue recognition of our subscription business model which builds over time, the latter will in part be determined by what we learn as we roll out the model further. We gained useful insights from the successful roll out in Australia, and we're expecting to learn more as we roll out with much higher volumes in North America this year. We will be able to apply those learnings when we launch in EMEA. Our fiscal 25 guidance assumes the new transaction model is deployed in North America in Q2 of fiscal 25 and provides about a 1 percentage point tailwind to Autodesk’s revenue growth and a 3- to 4-point tailwind to billings growth.

Second, the acquisition of Payapps, which closed on February 20, is expected to contribute about half a point of revenue growth in fiscal 25.

Third, token consumption for the fiscal 21 EBA cohort exceeded consumption predictions made during the pandemic, which resulted in true-up payments in fiscal 24. Token consumption in the smaller post-pandemic fiscal 22 EBA cohort is tracking more in line with predictions, which means we expect fewer true-up payments in fiscal 25. This pandemic echo effect is about a point of headwind to fiscal 25 revenue growth.

And fourth, our rolling, four quarter foreign exchange hedges means that FX is expected to be about a 1 percentage point headwind to reported revenue growth in fiscal 25.

Bringing this all together, we expect revenue of between $5.99 billion and $6.09 billion in fiscal 25, which translates into revenue growth of about 9 to 11 percent compared to fiscal 24. Adjusting the mid-point of our guidance to exclude noise from the new transaction model, acquisitions, the absence of EBA true-up revenue, and FX, we expect underlying revenue to grow more than 10 percent in fiscal 25.

Moving on to margins, we're going to manage our non-GAAP operating margins between a range of 35 and 36 percent in fiscal 25 with the goal of keeping them roughly level with fiscal 24. This means we expect a roughly 1 point underlying margin improvement will be broadly offset by the margin headwinds from the new transaction model. As we transition to the new transaction model, we'll see operating margin headwinds from the accounting change of moving reseller costs from contra revenue to sales and marketing expense. We'll also have incremental investment in people, processes, and automation. But, over the long term, we expect that this transition to the new transaction model will enable us to further optimize our business, which we anticipate will provide a tailwind to revenue, operating income and free cash flow dollars, even after the incremental costs we expect to incur.

Moving on to free cash flow, we expect to generate between $1.43 billion and $1.5 billion of free cash flow in fiscal 25. In Australia, some channel partners accelerated renewals ahead of the transition to the new transaction model to de-risk month one of the transition. Because the new transaction model will be rolled out in Q2 in North America, it may be that the behavior we saw in Australia occurs also in North America, which may accelerate billings and free cash flow to earlier quarters but should not materially change the outlook for the year. Excluding $200 million from fiscal 24 free cash flow from multi-year up front billings which are now billed annually, in fiscal 25 we expect free cash flow growth of about 35 percent at the mid-point of our guidance. We expect faster free cash flow growth in fiscal 26 because of the return of our largest multi-year renewal cohort, the mechanical stacking of multi-year contracts billed annually, and a larger EBA cohort.

As we navigate the transition, the pace of the roll out will create noise in the P&L so we think free cash flow is the best measure of our performance. At current course and speed, our free cash flow estimate for fiscal 26 at the midpoint is approximately $2.05B, which is in line with consensus estimates. In the context of significant macroeconomic, geopolitical, policy, health and climate uncertainty, the mechanical rebuilding of our free cash flow as we transition to annual billings for multi-year contracts gives Autodesk an enviable source of visibility and certainty.

We continue to manage our business using a rule-of-40 framework with a goal of reaching 45 percent or more over time. We are taking significant steps towards our goal this year and next. We think this balance between compounding growth and strong free cash flow margins, captured in the rule-of-40 framework, is the hallmark of the most valuable companies in the world. And we intend to remain one of them.

The slide deck on our website has more details on modeling assumptions for Q1 and full-year fiscal 25.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Debbie.

Let me finish by updating you on our strong progress in the fourth quarter.

We continue to see good momentum in AEC, particularly in infrastructure and construction, fueled by customers consolidating onto our solutions to connect and optimize previously siloed workflows through the cloud. The cornerstone of that growing interest is our comprehensive end-to-end solutions, encompassing design, preconstruction, field execution, through handover and into operations. This breadth of connected capability enables us to extend our footprint further into infrastructure and construction and also expand our reach into the mid-market. As a sign of that growing momentum, we closed a record number of deals over $100 thousand and $1 million in construction accounts in the United States and worldwide during this quarter. Let me give you a few examples.

First, VINCI, a world leader in concessions, energy, and construction, has been leveraging Autodesk's solutions to streamline its operations and drive international expansion. With a platform approach, Revit customizations, and BIM as a standard practice, VINCI has achieved significant time savings annually, and captured more business abroad. In Q4, VINCI renewed its 4th Enterprise Business Agreement with Autodesk, expanding the deployment of Autodesk Construction Cloud on major projects to further integrate its data and workflows and ensure a seamless transition from design through construction.

Second, after a competitive RFP process early in the year, Fortis Construction, an ENR 400 firm based in Oregon, ran a thorough peer assessment and selected Autodesk Construction Cloud for a 6-month pilot. With the confidence gained during the pilot, and close alignment between its construction technology vision and Autodesk’s roadmap to a connected design-build-operate platform, Fortis committed in Q4 to a multi-year agreement across pre-construction and construction.

And third, the Pennsylvania Department of Transportation recently chose Autodesk Construction Cloud as the primary tool powering its Project Delivery Collaboration Center, which will manage the project delivery of infrastructure projects in the state, in large part due to our software-inclusive, open ecosystem.

Again, these stories have a common theme: managing people, processes and data across the project lifecycle to increase efficiency and sustainability, while decreasing risk. Over time, we expect the majority of all projects to be managed this way and we remain focused on enabling that transition through our industry clouds. With the acquisition of Payapps, Autodesk will embed payment and compliance management into that project lifecycle. It can take an average of 83 days for subcontractors to get paid after putting work in place, and because of the risk, many will not bid on a project if a general contractor or an owner has a reputation for slow payments. Our goal is to leverage technology that eases the burden of construction payment management in a simpler, faster, and more efficient process for all construction project stakeholders.

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 grow their business and make it more resilient.

In automotive, we continue to grow our footprint beyond the design studio into manufacturing and connected factories, as automotive OEMs connect data and shorten hand-offs through the design cycle. In the US, a leading manufacturer leveraged AEC solutions, Fusion and Autodesk Platform Services to develop a connected factory that delivered a much greater ROI through significantly faster design iterations, product prototyping, and data federation. Through its expanded EBA signed in Q4, it is exploring using VR studio tools in customization and increasing its adoption of Autodesk Construction Cloud to bring its new factories to life.

We continue to serve some of the largest manufacturers in the world with the full breadth of our portfolio as they design and make both products and factories. One of the largest, private manufacturers in the US leverages our advanced manufacturing portfolio including Fusion, Powermill and Moldflow, which has helped reduce rework in plastic design by 20 percent. To build clean energy solutions, it utilizes our AEC Collection, including BIM metadata, assembly breakout, and installation instructions for its building products. In Q4, the customer increased its EBA with Autodesk and plans to expand our partnership beyond Revit and Autodesk Construction Cloud to support the digitization of its factories.

Fusion remains one of the fastest growing products in the manufacturing industry and ended the quarter with 255 thousand subscribers, driven by the growing number of customers who recognize the value of cloud-based workflows in enhancing efficiency, sustainability, and resilience within their organizations. As the breadth and depth of Fusion's features and capabilities expand, we're beginning to drive adoption by larger companies and serve higher value segments of the professional market through extensions. As we do this, commercial subscriptions will become a less complete indicator of Fusion's performance relative to the value we can realize and our reporting will change to reflect that.

In education, we are preparing future engineers to drive innovation through next-generation design, analysis, and manufacturing solutions. In the fall, the University of Delaware selected Fusion for more than 600 students to use in its introduction to engineering class, replacing a competitor's solution. Fusion was chosen because it facilitated better team collaboration, was easily adopted thanks to available teaching resources, and provided a single, integrated platform to learn CAD, simulation, and CAM.

And lastly, we continue to work with our customers to ensure they are using the latest and most secure versions of our software. In Q4, an American pharmaceutical company looked to understand its own usage better and ensure it remained compliant as it transitioned to our named user model. In collaboration with our license compliance team, a preventative audit was conducted to identify risk areas and construct a combination of subscriptions and flex tokens for continued access. It is also taking the opportunity Flex enables to trial new products from our portfolio resulting in an annual spend increase of more than 30 percent.

Autodesk remains relentlessly curious with a propensity and desire to evolve and innovate. Time and again, our success in executing strategic transformation has added new growth vectors; built a more diverse and resilient business; forged broader, trusted and more durable partnerships with more customers; and given Autodesk a longer runway of growth and free cash flow generation. We are building the future with focus, purpose, and optimism.

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