Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the second quarter results of Autodesk's fiscal 24. On the line with me are Andrew Anagnost, our CEO, and Debbie Clifford, 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 this call, we may make forward-looking statements about our outlook, future results and related assumptions, products and product capabilities, business models 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-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.

During the call, we will quote several numeric or growth changes 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.

Resilience, discipline, and opportunity again underpinned Autodesk's strong financial and competitive performance, despite continued macroeconomic, policy and geopolitical headwinds. Resilience provided by our subscription business model, and our product and customer diversification; discipline and focus in executing our strategy and deploying capital through the economic cycle; and opportunity from developing next-generation technology and services which deliver end-to-end digital transformation of our Design and Make customers, and enable a better world designed and built for all.

Our leading indicators remained consistent with last quarter, with growing usage and record bid activity on BuildingConnected, and cautious optimism from channel partners. Customers remain committed to transformation, and to Autodesk, leveraging automation more where they are seeing headwinds from the economy, labor shortages, and supply chains. That commitment was reflected in our Q2 performance, growing adoption and token consumption within Enterprise Business Agreements, and strong renewal rates.

Autodesk remains relentlessly curious with a propensity and desire to evolve and innovate.
We were delighted that Autodesk was recently highlighted as a “Best Workplace for Innovators” by Fast Company.

I will now turn the call over to Debbie to take you through 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.

Overall market conditions and the underlying momentum of the business remained similar to the last few quarters. Despite a tough macroeconomic backdrop that continues to drag on the overall rate of new subscriber acquisition and the forward momentum of the business, and may continue to do so, our financial performance in the second quarter was strong.

We said last quarter that we had a strong cohort of EBAs renewing in the second half of the year that last renewed three years ago at the start of the pandemic, and that subsequent adoption and usage has been strong. Some of that strength came through in the second quarter which was earlier than we were expecting and which boosted billings, free cash flow, and subscription revenue.

Total revenue grew 9 percent, and 12 percent in constant currency. By product in constant currency: AutoCAD and AutoCAD LT revenue grew 9 percent, AEC revenue grew 14 percent, manufacturing revenue grew 9 percent (and in double-digits excluding a headwind from variances in up-front revenue) and M&E revenue grew 10 percent. By region in constant currency: revenue grew 15 percent in the Americas, 11 percent in EMEA, and 6 percent in APAC.

Direct revenue increased 18 percent and represented 37 percent of total revenue, up three percentage points from last year, benefiting from strong growth in both EBAs and the estore.

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

The transition from up-front to annual billings for multi-year contracts is proceeding broadly as expected. We had a full-quarter impact in the second quarter, which resulted in billings declining 8 percent. Total deferred revenue increased 14 percent to $4.2 billion. Total RPO of $5.2 billion and current RPO of $3.5 billion grew 11 and 12 percent, respectively.

Turning to the P&L, non-GAAP gross margin remained broadly level at 92 percent. GAAP and Non-GAAP operating margin remained broadly level, with revenue growth and cost discipline offsetting the impact of exchange rate movements.

Free cash flow was $128 million in the second quarter which was a bit better than we’d been expecting, primarily due to the timing of EBAs but also due to some favorable in-quarter linearity.

Turning to capital allocation, we continue to actively manage capital within our framework. Our strategy is underpinned by disciplined and focused capital deployment through the economic cycle. We are being vigilant during this period of macroeconomic uncertainty. During Q2, we purchased approximately 400 thousand shares for $87 million, at an average price of approximately $200 per share. We will continue to offset dilution from our stock-based compensation program and to opportunistically accelerate repurchases when it makes sense to do so.

Now, let me finish with guidance.

The headline is that overall, the underlying momentum in the business remains consistent with the expectations embedded in our guidance range for the full year. Our sustained momentum in the second quarter, and early expansion of some EBAs expected to renew later in the year, reduce the likelihood of our more cautious forecast scenarios. Given that, we're raising the lower end of our guidance ranges.

Let me summarize some key factors we highlighted earlier in the year.

First, we have a strong cohort of EBAs renewing in the second half of the year, although, as I mentioned earlier, some of that benefit was billed in the second quarter.

Second, foreign exchange movements will be a headwind to revenue growth and margins in fiscal 24. The revenue headwind will moderate a bit in the second half of the year.

Third, switching from up-front to annual billings for most multi-year customers creates a significant headwind to free cash flow in fiscal 24 and a smaller headwind in fiscal 25. Our expectations for the billings transition are unchanged.

Fourth, as we thought might happen, we saw some evidence of multi-year customers switching to annual contracts during the second quarter. It wasn’t big enough to be called a trend but we’re keeping an eye on it. It's still early days and we’ll keep you updated as the year progresses. All else equal, if customers switch to annual contracts, it would proportionately reduce the unbilled portion of our total remaining performance obligations and negatively impact total RPO growth rates. Deferred revenue, billings, current remaining performance obligations, revenue, margins, and free cash flow would remain broadly unchanged. Annual renewals create more opportunities for us to drive adoption and upsell, and are without the price lock embedded in multi-year contracts.

And fifth, we expect our cash tax rate will return to a more normalized level of approximately 31 percent of GAAP profit before tax in fiscal 24, up from 25 percent in fiscal 23. The federal tax payment extension after the winter storms in California means cash tax payments shift from the first half of the year to the third quarter, reducing third quarter free cash flow. Second-half free cash flow generation will therefore be significantly weighted to the fourth quarter. We still anticipate fiscal 24 will be the free cash flow trough during our transition from up-front to annual billings for multi-year contracts.

Putting that all together, we now expect fiscal 24 revenue to be between 5.41 and 5.46 billion. We expect non-GAAP operating margins to be similar to fiscal 23 levels with constant currency margin improvement offset by FX headwinds. We expect free cash flow to be between 1.17 and 1.25 billion. We're increasing the guidance range for non-GAAP Earnings Per Share, to be between $7.30 and $7.49, to reflect higher interest income on our cash balances in addition to the reduced likelihood of our more cautious forecast scenarios.

The slide deck on our website has more details on modeling assumptions for Q3 and full-year fiscal 24.

We continue to manage our business using a rule-of-40 framework with a goal of reaching 45 percent or more over time. 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. As we said back in February, the path to 45 percent will not be linear, given the macroeconomic drag on revenue growth from the rate of new subscriptions growth, and the drag to free cash flow as we transition away from multi-year contracts paid upfront. But, let me be clear, we're managing the business to this metric and feel it strikes the right balance between driving top-line growth and delivering disciplined profit and cash flow growth. We intend to make meaningful steps over time toward achieving our 45 percent or more goal, regardless of the macroeconomic backdrop.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Debbie.

Let me finish by updating you on our progress in the second quarter. Our strategy is to transform the industries we serve with end-to-end, cloud-based solutions that drive efficiency and sustainability for our customers.

We continue to see good growth in AEC, fueled by customers consolidating on our solutions to connect and optimize previously siloed workflows through the cloud. And, as we talked about in February, digital momentum is also building among asset owners in infrastructure and other areas. This momentum is expected to accelerate with infrastructure investment programs like the US Advanced Digital Construction Management System program which launched during our second quarter.

Cannon Design is a global design practice encompassing strategy, experience, architecture, engineering, and social impact. It is driving forward its digital transformation and embracing the cloud to increase operational efficiency, enhance security, establish a single point of truth, and enable more seamless end-to-end collaboration. During the quarter, it expanded its investment with Autodesk by leveraging Autodesk Docs as a common data environment, adopting Forma, and is exploring opportunities to integrate Autodesk's XR and asset management capabilities to its design portfolio.

Outside the US, our construction platform is benefiting from our strong international presence and established channel partner network. During the quarter, a property developer and transit network operator based in Asia, needed to simplify operations across its many infrastructure projects with a wide range of contractors and subcontractors. To manage this complexity, it needed a single source of truth for its project data and a way to streamline workflows on a single platform. In Q2, it leveraged support from our local channel partner and standardized on one platform by adding Autodesk Construction Cloud to its existing portfolio of Autodesk AEC design tools to gain visibility into contractors and subcontractors' workflows and the potential to unlock breakthrough productivity gains.

Shook Construction, an ENR 400 general contractor based in Ohio, made the decision to standardize on Autodesk Construction Cloud to better streamline their operational workflows. After evaluating many competitive options, Shook Construction chose Autodesk Construction Cloud as the best fit for driving consistent workflows, creating high-impact collaboration with their construction partners and eliminating cumbersome, manual workflows.

We continue to benefit from our complete end-to-end solutions, which encompass design, preconstruction and field execution, through handover and into operations.

Again, these stories have a common theme: managing people, process 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 digital transformation. We talked last quarter about the short-term disruption from integrating our construction and worldwide sales teams. I’m pleased to report that things began to settle in the second quarter. We believe that combining the two teams will allow us to expand the scale and reach of our construction business, particularly in our design customer base, and our ability to serve our customers across the complete project lifecycle. Encouragingly, Autodesk construction cloud MAUs were up over 100 percent in the quarter.

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.

For example, a multinational manufacturer, which serves the construction industry as both a building product manufacturer and through tools and construction processes, has been leveraging the Autodesk portfolio to connect workflows across the AEC and manufacturing industries. It expanded its commitment to BIM, using Revit, Navisworks and Autodesk Construction Cloud, which has enabled the customer to adopt a collaborative and data-driven approach across design, construction, and maintenance services, which minimizes clashes and rework, and culminates in more efficient and successful building projects. In the second quarter, the customer grew its EBA with Autodesk ahead of its Q4 renewal date to accelerate its adoption of BIM and facilitate the design of its products and materials directly within MEP models.

Fusion continues to provide an easy on-ramp into our cloud ecosystem for existing and new customers. In Europe, an appliance manufacturer, who was already an existing user of our manufacturing collection and AutoCAD mechanical, purchased additional seats of Fusion for PCB design. Its heating systems division will leverage Fusion's electronic design automation capabilities to quickly and seamlessly connect more of its design to manufacturing workflow to drive greater efficiency.

Fusion continues to grow strongly, ending the quarter with 236 thousand subscribers, as more customers connect more workflows in the cloud to drive efficiency, sustainability and resilience.

At investor day, I talked about leveraging our key growth enablers – including business model evolution, customer experience evolution, and convergence between industries – to provide more, and better, choices for our customers. Our Flex consumption model is a good example of this. Flex’s consumption pricing means existing and new customers can try new products with less friction, and enables Autodesk to better serve infrequent users. Not surprisingly, the lion’s share of the business has come from new or existing customers expanding their relationship with Autodesk. During the quarter, we signed three more million-dollar Flex deals. As Steve said at our investor day, we've also introduced a new transaction model for Flex, which will give Autodesk a more direct relationship with our customers and more closely integrate with our channel partners over time. We will begin testing our new transaction model more broadly in Australia later this year.

And finally, we continue to work with non-compliant users to ensure they are using the latest and most secure versions of our software. For example, after identifying and alerting a China-based automobile designer about non-compliant usage, and despite working through ongoing challenges from the pandemic, the customer eventually committed to three-year VRED and Alias subscriptions. As expected, our initiatives to tighten concurrent usage of named user subscriptions and expand the precision and reach of our in-product messaging drove incremental growth during the quarter.

Let me finish with a story. According to the National Oceanic Service, coral reefs are some of the most diverse and valuable ecosystems on Earth. While they take up less than one percent of the ocean floor, their extraordinary biodiversity supports about 25 percent of all marine life. Healthy coral reefs support fisheries as well as jobs and businesses through tourism and recreation. They also buffer shorelines against 97 percent of the energy from waves, storms, and floods, helping to prevent loss of life, property damage, and erosion.

It can take 10,000 to tens-of-millions of years for a coral reef to form, and just weeks for it to die. Rising ocean temperatures can cause coral to bleach and die. Half of living coral reefs have died since the 1950s. Without intervention, we’re on track to lose 70 to 90 percent of the remainder by 2050.

That is, unless we find a faster way to bring coral reefs back from the brink.

With support from Autodesk and the Autodesk Foundation, a company called Coral Maker is using our digital tools, artificial intelligence, and robotics to deliver coral reef restoration at scale, with cloud collaboration to keep the global team connected across oceans and time zones.

As Dr. Taryn Foster, Coral Maker’s founder, says: “The partnership with Autodesk has empowered us to develop new technologies to restore reefs at a rate unimaginable a few years ago. Current restoration projects can deploy about a hectare of coral per year. With Coral Makers’ technology, it’s possible to deploy 100 hectares per year.”

From the oceans to the Earth and the sky, augmented design, powered by Autodesk, will enable our customers to go further, and faster to design and make a better world for all. We've been laying the foundation to build enterprise-level AI for years with connected data, teams and workflows in industry clouds; real-time and immersive experiences; shared, extensible, and trusted platform services; and innovative business models and trusted partnerships. Autodesk remains relentlessly curious, with a propensity and desire to evolve and innovate. We are building the future with focus, purpose, and optimism.

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