Simon Mays-Smith, VP Investor Relations

Thanks, operator, and good afternoon. Thank you for joining our conference call to discuss the third 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. Following this call, you can find the earnings press release, slide presentation and transcript of today’s opening commentary on our investor relations website.

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.

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.

Resilience, discipline, and opportunity again underpinned Autodesk's strong financial and competitive performance, despite continued macroeconomic, policy and geopolitical headwinds.

Renewal rates have remained strong and new business trends have been largely consistent for many quarters. Our subscription business model, and our product and customer diversification enable that. It means that accelerating growth in Canada has balanced decelerating growth in the United Kingdom; that growing momentum in construction has balanced deteriorating momentum in Media & Entertainment; and that strength from our enterprise and smaller customers has balanced softness from medium sized customers. Our leading indicators remained consistent with last quarter, with growing usage, record bid activity on BuildingConnected, and cautious optimism from channel partners.

Disciplined and focused execution and strategic deployment of capital through the economic cycle enables Autodesk to realize the significant benefits of its strategy while mitigating the risk of having to make expensive catch-up investments later. As Steve said at investor day, we introduced a new transaction model for Flex, which gives Autodesk a more direct relationship with its customers and more closely integrates with its channel partners. We began testing the new transaction model across our product suite in Australia a couple of weeks ago. Assuming the launch proceeds as expected, in fiscal 25 and fiscal 26 we intend to transition our indirect business to the new transaction model in all our major markets globally. In the new transaction model, partners provide a quote to customers but the actual transaction happens directly between Autodesk and the customer. The new transaction model is an important step on our path to integrate more closely with our customers' workflows, enabled by, among other things, Autodesk Platform Services and our industry clouds: Fusion, Forma, and Flow. Autodesk, its customers, and partners will be able to build more valuable, data-driven, and connected products and services in our industry clouds and on our platform. The new transaction model is consequential. Many of you will have seen other companies adopting agency models and will already understand the math. In the near term, the new transaction model results in a shift from contra revenue to operating costs that provide a tailwind to revenue growth, while being broadly neutral to operating profit and free cash flow dollars, and mechanically results in percent operating margins taking a step or two backwards. Over the long term, optimization enabled by this transition will provide a tailwind to revenue, operating income and free cash flow dollars, even after the costs of setting up our billing platform.

And finally, there is opportunity from developing next-generation technology and services that deliver end-to-end digital transformation of our Design and Make customers, and enable a better world designed and made for all. I was at Autodesk University last week, alongside more than 10,000 attendees, where we announced Autodesk AI, technology we've been working on, and investing in, for years. We showed how our Design and Make Platform will automate non-creative work, help customers analyze their data and surface insights, and augment their work to make them more agile and creative. But there is no AI without actionable data. And that's why we're also investing in Autodesk Platform Services which are accessible, extensible, and open via our APIs. Autodesk Platform Services offer several critical capabilities but data services are the most impactful. These provide the tools that make data actionable. And at the core of our data services is the Autodesk Data Model. Think of the Autodesk Data Model as the knowledge graph that gives customers access to their design, make and project data in granular, bite-sized chunks. The data chunks are the building blocks of new automation, analysis and augmentation that will enable our customers and partners to build more valuable, data-driven, and connected products and services.

Autodesk remains relentlessly curious with a propensity and desire to evolve and innovate. Time and again, well executed transformation – from desktop to the cloud, from perpetual license and maintenance to subscription – 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. With our transformation from files to data and outcomes, from up-front to annual billings, and from indirect to direct go-to-market motions, we are building an even brighter future with focus, purpose, and optimism.

Our customers are also committed to transformation, and Autodesk is deploying automation to increase their success in an environment with on-going headwinds from material scarcity, labor shortages, and supply chain disruption. That commitment was reflected in Autodesk's largest-ever EBA signed during the quarter and record contributions from our construction and water verticals to our overall EBA performance.

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 update you 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. Our financial performance in the third quarter was strong, particularly from our EBA cohort where incremental true-up and up-front revenue from a handful of large customers drove upside. As expected, the co-termed deal we called out in our Q1 results renewed in the third quarter with a significant uplift in deal size.

Total revenue grew 10 percent, and 13 percent in constant currency. By product in constant currency: AutoCAD and AutoCAD LT revenue grew 7 percent, AEC revenue grew 20 percent, manufacturing revenue grew 9 percent, and in double digits excluding variances in up-front revenue, and M&E revenue was down 4 percent, and up high single digits percent excluding variances in up-front revenue. By region in constant currency: revenue grew 19 percent in the Americas, 11 percent in EMEA, and 3 percent in APAC, which still reflects the impact of last year's Covid lock down in China.

Direct revenue increased 19 percent and represented 38 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 the second full-quarter impact in our third fiscal quarter, which resulted in billings declining 11 percent. Total deferred revenue increased 6 percent to $4 billion. Total RPO of $5.2 billion and current RPO of $3.5 billion both grew 12 percent. Excluding the tailwind from our largest-ever EBA, total RPO growth decelerated modestly in Q3, as expected, when compared to Q2, mostly due to the lower mix of multi-year contracts in fiscal 24 when compared to fiscal 23.

Turning to the P&L, non-GAAP gross margin remained broadly level at 93 percent. GAAP and non-GAAP operating margin increased, driven by revenue growth and continued cost discipline. I'd also note that costs associated with Autodesk University have shifted from the third quarter last year to the fourth quarter this year due to the timing of the event.

Free cash flow was $13 million in the third quarter, primarily limited by the transition from up-front to annual billings for multi-year contracts and the payment of federal taxes we discussed earlier this year.

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 remain vigilant during this period of macroeconomic uncertainty. As you heard from Andrew, we continue to invest organically and through acquisitions in our capabilities and services, and the clouds and platform services that underpin them. We purchased approximately 500 thousand shares for $112 million, at an average price of approximately $206 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 overall headline is that our end markets and competitive performance are at the better end of the range of possible outcomes we modeled at the beginning of the year. This means the business is generally trending toward the higher end of our expectations. Incrementally, FX and co-terming have been slightly more of a headwind to billings than we expected. EBA expansions have been slightly more of a tail wind to revenue. And interest income has been slightly more of a tailwind to earnings per share and free cash flow. Against this backdrop, we are keeping our billings guidance constant while raising our revenue, earnings per share, and free cash flow guidance.

I'd like to summarize the key factors we've highlighted so far this year.

The comments I've made in previous quarters regarding the fiscal 2024 EBA cohort, foreign exchange movements, and the impact of the switch from up-front to annual billings for most multi-year customers, are still applicable. We again saw some evidence of multi-year customers switching to annual contracts during the third quarter as you'd expect given the removal of the upfront discount. We're keeping an eye on it as we enter our significant fourth quarter. 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.

Putting that all together, we now expect fiscal 24 revenue to be between $5.45 and $5.47 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 $1.20 and $1.26 billion. To reflect higher revenue guidance, we're increasing the guidance range for non-GAAP Earnings Per Share, to be between $7.43 and $7.49. Our billings guidance remains unchanged given incremental foreign exchange headwinds and the potential for further EBA co-terming in the fourth quarter.

The slide deck on our website has more details on modeling assumptions for Q4 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've been saying all year, the path to 45 percent will not be linear. We've talked about all of the factors behind that over the last three quarters, and I think it's useful to put them all in one place here, particularly as we look into fiscal 25 and 26.

First, the macroeconomic drag on new subscriber growth, a smaller EBA renewal cohort with less up front revenue mix, and the absence of EBA true-up payments are headwinds to revenue growth in fiscal 25. Slightly offsetting that, we expect our new transaction model, which Andrew discussed earlier, to be a tailwind to revenue growth in fiscal 25 and beyond. Assuming no material change in the macroeconomic, geopolitical or policy environment, we'd expect fiscal 25 revenue growth to be about 9 percent or more. In other words, at least around the same or more growth as we are now expecting in fiscal 24.

And second, the transition to annual billings means that about $200 million of free cash flow in Q1 fiscal 24 that came from multi-year contracts billed up front will not recur in fiscal 25. This will reduce reported free cash flow growth in fiscal 25 and make underlying comparisons between the two years harder. If you adjust fiscal 24 free cash flow down by $200 million, to make it more comparable with fiscal 25 and fiscal 26 on an underlying basis, the stacking of multi-year contracts billed annually will mechanically generate significant free cash flow growth in fiscal 25 and fiscal 26. The progression from the adjusted fiscal 24 free cash flow base will be a bit more linear although fiscal 26 free cash flow growth is expected be faster than fiscal 25 as our largest renewal cohort converts to annual billings in that year.

As you build your fiscal 25 quarterly and full year estimates, please pay attention to what we've said each quarter during fiscal 24. As Andrew said, our new transaction model will likely provide a tailwind to revenue growth, be broadly neutral to operating profit and free cash flow dollars, and be a headwind to operating margin percent. The magnitude of each will be dependent on the speed of deployment. Excluding any impact from the new transaction model, we are planning for operating margin improvement in fiscal 25. Overall, we expect first half/second half free cash flow linearity in fiscal 25 to be more normal than in fiscal 24. And 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.

Per usual, we'll give fiscal 25 guidance when we report fiscal 24 results, so I don't intend to parse these comments before then.

As I said at our investor day last March, the new normal is that there is no normal. Macroeconomic uncertainty is being compounded by geopolitical, policy, health and climate uncertainty. I'm thinking here of generational movements in monetary policy, fiscal policy, inflation, exchange rates, politics, geopolitical tension, supply chains, extreme weather events, and, of course, the pandemic. These increase the number of factors outside of our control and the range of possible outcomes, which makes the operating environment harder to navigate both for Autodesk and its customers. In this context, 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.

I hope this gives you a better understanding of why we've consistently said that the path to 45 percent will not be linear. But let me also reiterate this: 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 third quarter.

We continue to see good momentum in AEC, particularly in transportation, water infrastructure, and construction, fueled by customers consolidating on our solutions to connect and optimize previously siloed workflows through the cloud. Market conditions remain similar to previous quarters.

In Q3, WSP, one of the world's leading professional services firms, closed its sixth EBA with Autodesk, a testament to our strong and enduring partnership. Leveraging the breadth of our portfolio, WSP has delivered the comprehensive range of services demanded by its clients, generated millions of dollars in pipeline across the AEC and manufacturing industries, secured bridge and ground-work contracts through automation capabilities, reduced costs through increased efficiency, and, most importantly, delivered impactful results for its customers.

TYPSA, a global engineering and consulting firm which supports all types of infrastructure, is harnessing Autodesk's solutions to bolster its sustainable development goals around clean water and sanitation; industry, innovation, infrastructure; and responsible consumption and production. Utilizing Autodesk's BIM Collaborate Pro, TYPSA plans to improve team collaboration through easier data exchange, fewer clashes, and more effective design reviews. Autodesk's solutions are empowering TYPSA to manage, coordinate, and execute projects more efficiently, thus contributing to a better quality of life through improved infrastructure.

We see growing customer interest in our complete end-to-end construction solutions, which encompass design, preconstruction and field execution, through handover and into operations. Encouragingly, Autodesk construction cloud MAUs were again up well over 100 percent in the quarter.

In Q3, Elford Inc, an ENR top 200 general contractor based in Ohio, selected Autodesk Construction Cloud over directly competitive offerings as its end-to-end construction platform. With our preconstruction and cost capabilities as standout differentiators, it ultimately chose Autodesk based on our level of partnership, our aligned vision and commitment to serve the evolving needs of the construction industry, and the momentum our solution has demonstrated in the marketplace.

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.

Moving on to manufacturing, we made excellent progress on our strategic initiatives. Customers continue to invest in their digital transformations and to consolidate on our Design and Make Platform to grow their business and make it more resilient.

For example, a global industrial company based in the US is partnering with Autodesk to innovate more rapidly in its business. This customer had already standardized on Autodesk Upchain to streamline its data and process management within their molding technology solutions, and modernized its CAM process by adopting Fusion to significantly reduce programming time and eliminate risks from legacy software. During

Q3, it renewed its EBA with Autodesk and plans to broaden its use of Upchain, Vault and Fusion. It is exploring Fusion's ability to enhance process management and its Digital Thread initiatives which focus on product lifecycle management, closed loop quality, sustainability design, service lifecycle management, and supplier insight.

Fusion continues to provide an easy on-ramp into our cloud ecosystem for existing and new customers. For example, a leading manufacturer for the agriculture industry is migrating from network licenses to named users and complementing those subscriptions with Flex tokens to maximize value and access for occasional users. As it digitizes its factories and creates digital twins for its global facilities, it will use Flex to explore Autodesk's most advanced technologies, like Fusion, for CAM tool path automation and generative design. Flex provides the customer with the flexibility to scale its usage based on its needs, making sure its users have access to the right products at the right time.

Fusion continues to grow strongly, ending the quarter with 241 thousand subscribers, as more customers connect more workflows in the cloud to drive efficiency, sustainability and resilience.

In automotive, we continue to grow our footprint beyond the design studio into manufacturing and connected factories. In Q3, a leading automotive manufacturer renewed and expanded its EBA by more than 50 percent. In addition to its existing usage of Alias for concept design, modeling and design evaluation, the customer is replacing an internal tool with VRED for lighting simulation. In the future, it will implement Flow Production Tracking, to improve and accelerate project communication and collaboration across departments, and expand its use of Autodesk Integrated Factory Modeling, to optimize factory layouts and enhance operational performance.

In education, we are preparing future engineers to drive innovation through next-generation design, analysis, and manufacturing solutions. For example, our partnership with Penn State is making a positive impact in design classes and CAM/CNC activities across the Penn State Behrend, Berks, Harrisburg and University Park campuses. PSU Harrisburg has recently adopted Fusion in its core design class and plans to integrate it into its mechanical engineering curriculum. Fusion's accessible platform allows students to seamlessly transition from CAD to CAE and CAM, enabling them to make a difference outside the classroom in industrial applications. They have already collaborated with NASA on a Generative Design project for space flight applications, inspiring numerous similar projects at NASA.

And finally, we continue to work with our customers to ensure they are using the latest and most secure versions of our software. A publicly traded construction company in Japan sought to streamline software management processes and minimize compliance risks by leveraging single sign-on (SSO) and directory sync features available in our Premium Plan. Through a collaborative analysis of the client's software usage logs, we identified instances of non-compliant usage and recommended an appropriate number of subscriptions based on usage frequency and actual requirements. This proactive approach ensured that the client had the necessary access to meet their needs while maintaining compliance.

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.