# 2009 4Q FINANCIAL RESULTS
# Transcript

**David Gennarelli**

Thanks, Operator. Good afternoon. Thank you for joining our conference call to discuss our fourth quarter of fiscal 2009. With me today are Carl Bass, our Chief Executive Officer; and Sue Pirri, Vice President of Finance.

Today's conference call is being broadcast live via webcast. In addition, a replay of the call will be available at Autodesk.com/investor.

During the course of this conference call, we will make forward-looking statements regarding future events and the future performance of the company, our guidance for the first quarter of fiscal 2010, the factors we used to estimate our guidance, our future business prospects and financial results, our market opportunities and strategies, trends for our products and trends in various geographies, and the anticipated benefits of acquisitions.

We caution you that such statements reflect our best judgment based on factors currently known to us and that actual events or results could differ materially. Please refer to the documents we file from time to time with the SEC, specifically our Form 10-K for fiscal year 2008, our 10-Qs for first three quarters of fiscal 2009, and our periodic 8-K filings, including the 8-K filed with today's press release. These documents contain and identify important risks and other factors that may cause our actual results to differ from those contained 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 provide guidance on today's call but will not provide any further guidance or updates on our performance during the quarter unless we do so in a public forum.

During the call, we will discuss non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the GAAP and non-GAAP results is provided in today's press release and on our website.

In addition, we will quote a number of percentage changes as we discuss our financial performance. Unless otherwise noted, each percentage represents a year-over-year percentage change showing the fourth quarter of fiscal 2009 as compared to the fourth quarter of fiscal 2008.

And now I would like to turn the call over to Carl Bass.

**Opening Remarks: Carl Bass**

Good afternoon everyone and thank you for joining us.

The results that Sue and I will outline today are not what we've been accustomed to over the past several years and we are disappointed by them.

The global economic downturn is now significantly impacting each of our major geographies and all of our business segments. It is evident that the current global economic malaise is unlike any downturn we've experienced in the past. Jobs are being lost across all industries; businesses around the world are still finding it difficult to secure credit financing; construction and media & entertainment projects are being delayed or canceled; and manufacturers are slashing spending in response to lower end-user demand.

As a result, total revenue for the fourth quarter was $490 million, a decrease of 18%. License and other revenue decreased 30% due to a 33% decline in new seat license revenue.

As we look at our business by geography, revenue performance in the Americas declined 17%. Weakness was seen across the entire region. The Americas has experienced weakness for five quarters now and it's not yet clear if it has hit bottom. On the positive side, we continue to make strong inroads with our government sales. Our government business has been on the upswing over the past four quarters and we believe we are positioning ourselves well for increased infrastructure spending that may result from the recently signed economic stimulus package.

Turning to our international business – although we started to experience some economic headwinds in international markets in our third quarter, our overall results during that period were relatively strong. Global conditions have worsened since then and the economic downturn significantly impacted our international business during the fourth quarter, particularly the robust business we had been seeing in emerging countries.

Revenue from Asia Pacific decreased 25% as reported and 28% at constant currency as a result of economic headwinds in large developed markets like Japan, Korea, and Australia. We also experienced significant year-over-year declines in emerging countries, such as China and India. Most of the APAC countries are now facing a decrease in building and manufacturing production resulting from reduced trade with areas like the U.S. and Western Europe.

EMEA revenue decreased 16% as reported and 8% constant currency. Similar to APAC, the growth rates in emerging countries decreased more dramatically than developed economies. We remain confident that emerging countries will be a key growth area for Autodesk once we get past this downturn.

In total, revenue from emerging countries declined 31% and represented 16% of our total revenue for the quarter.

Now let's take a look at performance by product category. Our customers continue to tell us that they need to differentiate their products in order to gain and maintain a competitive advantage. Our design solutions are key to helping them do just that. As a group, our model-based 3D design solutions fared better than our 2D products.

Our model-based 3D design solutions decreased 1% to $144 million, and represented 29% of our total revenue for the quarter. We shipped approximately 30,000 commercial seats of these products in the fourth quarter.

Our 2D horizontal products – AutoCAD and AutoCAD LT declined 29%. Revenue from 2D vertical products decreased 21%.

Clearly, all aspects of our business are being impacted by the slowdown. To address our lower expectations for sales, last month we announced a restructuring plan which will reduce our operating expenses by approximately $130 million annually. Some savings will be generated in the first quarter, but we expect to realize the full quarterly impact of the reductions starting in the second quarter. The savings are being achieved through headcount reduction of approximately 10%, facilities consolidations, a hiring freeze, travel restrictions and a variety of other cost reduction initiatives. In addition, we are making significant adjustments as part of our ongoing effort to size our business correctly.

Before Sue provides a closer look at the financials I'll give you another update on our CFO search as this remains a top priority. As I mentioned last quarter, the pool of potential candidates has grown considerably. We have narrowed the field to several highly qualified candidates and are actively working through the process. I will not compromise simply to fill the vacancy. In the meantime, I cannot stress enough that we have a deep bench of highly skilled and experienced people in our finance organization who are doing a great job bridging this transition.

Now I'll turn the call over to Sue for a more detailed discussion of the results.

**Financial Review: Sue Pirri**

Thanks, Carl.

Net revenue was $490 million, a decrease of 18% as reported and 15% constant currency.

Revenue from new seats decreased 33%. Total upgrade revenue, including cross-grades, decreased 32%.

Maintenance revenue was $180 million, an increase of 17% compared to the fourth quarter of last year. This was a slight decline sequentially due to lower year over year maintenance billings.

Breaking revenue down by segment, Platform Solutions decreased 24% to $201 million.

Revenue from our Manufacturing Solutions division decreased 6% to $115 million.

Revenue from our Inventor family of products decreased 21% as demand was particularly weak in Asia Pacific. During the quarter, we shipped approximately 6,100 commercial seats of our 3D manufacturing products and approximately 39,000 seats of our manufacturing products in total.

Our AEC segment decreased 14% to $118 million. Revenue from our Revit family of products decreased 6%. We shipped approximately 24,000 commercial seats of our AEC 3D products.

Going forward we will no longer provide this level of detail on a regular basis with regards to our seat data.

Revenue from our Media and Entertainment segment was $53 million, a decrease of 26%. Revenue from Advanced Systems decreased 36% to $20 million. Animation revenue decreased 18% to $33 million.

Moving to the rest of income statement, gross margins were 90% on a GAAP basis and 92% non-GAAP.

Our operating margin was significantly impacted by the drop in revenue. Our non-GAAP operating margin was 16%. Our GAAP operating margin was negative 27%. The significant difference between our GAAP and non-GAAP operating margin was principally due to an impairment charge of $129 million related to a write down of goodwill in our media and entertainment segment, as well as a $40 million restructuring charge.

Our tax rate in the quarter was 22% for our GAAP results and 7% for our non-GAAP results. The difference between these rates is primarily due to the impact of the goodwill impairment charge and stock-based compensation expenses. The tax rates were lower than expected due primarily to discrete tax benefits recognized in the fourth quarter and the geographic mix of earnings.

GAAP diluted loss per share was $0.47. This includes a pre-tax impact of $0.56 from the goodwill impairment charge and $0.18 for the restructuring charge. We will incur additional restructuring charges in the first quarter as part of the cost savings initiatives we announced last month.

Non-GAAP diluted earnings per share were $0.31, which is higher than previously expected, primarily due to better than expected cost reductions during the quarter, and a lower tax rate.

The impact of foreign currency exchange rates was $19 million unfavorable on revenue and $17 million favorable on expenses, compared to the fourth quarter last year. The foreign currency impact was $23 million unfavorable on revenue and $15 million favorable on expenses, when compared to our third quarter.

Turning to the balance sheet, cash and investments were $989 million. At the end of the quarter approximately 80% of our cash and investments were offshore.

Deferred revenue grew 9% year-over-year and 11% sequentially to $552 million.

Cash from operating activities was $86 million and was lower primarily due to the decline in revenue.

Unshipped product orders, or shippable backlog, increased by $11 million sequentially to $17 million.

Total backlog, including deferred revenue and unshipped product orders was $569 million, an increase of $47 million over last year.

In absolute dollars inventory declined in the quarter and was approximately four weeks.

DSO was 59 days in the fourth quarter. The sequential increase is due primarily to seasonality in subscription billings.

Now let’s talk about our outlook.

The global economic environment has impacted our business visibility and forecasting accuracy over the past two quarters. As a result, we are providing just one quarter of guidance, which is based on our current expectations and the information we have available today, including currency exchange rates. At current exchange rates, the euro is on average 14% weaker than the average rate we used in FY09 and the yen is on average 5% stronger.

For the first quarter, we now expect revenue to be in the range of $400 million to $440 million. GAAP loss per diluted share is expected to be in the range of a $0.20 loss and a $0.08 loss. Non-GAAP EPS is expected to be between zero and $0.12, excluding $0.07 related to restructuring charges, $0.08 related to stock-based compensation expense, and $0.05 for acquisition related charges. The GAAP EPS range assumes a tax rate of 31% and the non-GAAP EPS range assumes a tax rate of 27%.

As Carl mentioned, the full benefit of our restructuring won't be evident until the second quarter. In addition, certain operating expenses in the first quarter experience a natural uptick sequentially as we incur higher expenses related to our annual product launch, as well as higher payroll taxes.

In addition, operating cash flow for the first quarter is expected to be negative as a result of lower revenues combined with cash outlays in the quarter for payments of the annual employee incentive plan and payments relating to the restructuring plan.

While we are not providing revenue or EPS guidance for the full year fiscal 2010, we believe that if the economic environment stays the same, our operating margin will increase through the year as our restructuring actions begin to have a greater impact. In addition, we are taking further actions to reduce our cost structure, which will further benefit our operating margins.

Lastly, we recently made some organizational changes to better align with our customers and accelerate product innovation. As part of this change there will be some product movement between business segments and we will provide revised historical results with our earnings release in May.

Now I will turn it back to Carl.

**Closing Remarks: Carl Bass**
Thanks, Sue.

As I look back on our results for fiscal 2009, it was defined by two very distinct halves. The first half of the year was a continuation of the strong growth we experienced over the past five years. The second half clearly reflects the global economic downturn.

As we look out at the start of our fiscal year 2010, our visibility is severely impaired. It's difficult to gauge how close we are to the bottom and when things will start to turn around. Like you, we are diligently looking for signs. Because we serve a diverse set of markets and industries, we monitor a myriad of data points including AEC and manufacturing data by region, such as the total value of building and construction permits and manufacturing GDP by country. In particular, two items we view as very important to our business are reduced job losses and the increased availability of credit.

During this downturn we remain focused on our structure. We have already removed approximately $130 million in annual operating expenses and we continue to remove additional costs.

Over the years we have invested strategically in R&D and channel development as a means to strengthen our position in the market place. The strength of our technology and our channel will help us maintain our leadership throughout the downturn. We have launched our family of 2010 products over the next couple of months and they are filled with new and innovative features coming from these R&D

efforts. Additionally, as we move forward, we are expanding our portfolio of product suites that will deliver better experiences to the customers we serve.

The overall health of our channel partners remains vitally important to Autodesk. We have an active Partner Assistance Program in place on a global basis and we will continue to work closely with our partners in a collaborative effort to fight through these economic headwinds.

So as we navigate through this environment we remain focused on serving our customers and working with our channel partners. We also remain focused on delivering the world's best design solutions and bringing best-in-class technology to our customers. Autodesk's technological leadership, brand recognition, breadth of product line and large installed base will help us weather this storm and position us well for an eventual recovery. We believe that significant long-term opportunities exist for Autodesk to grow and lead our respective markets.

With that, I'll turn it back over to the operator so we can take your questions.