Abhey Lamba – VP, Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our first quarter of fiscal 20. On the line is Andrew Anagnost, our CEO, and Scott Herren, 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 also find our earnings press release and a slide presentation on our website. We will also post a transcript of today's opening commentary on our website following this call.

During the course of this conference call, we may make forward-looking statements. These statements reflect our best judgment based on factors currently known to us. Actual events or results could differ materially. Please refer to our SEC filings 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 a number of numeric or growth changes as we discuss our financial performance and unless otherwise noted, each such reference represents a year on year comparison.

And now I would like to turn the call over to Andrew.

ANDREW ANAGNOST, CEO

Thanks, Abhey.

We started off fiscal 20 with great momentum, accentuated by continued acceleration of recent Construction acquisitions and strong growth across all geographic regions. Our billings and free cash flow came in at or above expectations and reflect the strength of our business. We are on track with the integration of PlanGrid and BuildingConnected and have exciting achievements to share with you. Although our first quarter revenue came in at the low end of our guidance range, we are on track to achieve our fiscal 20 ARR and free cash flow guidance and are reaffirming our fiscal 23 targets. Our pipeline for the rest of the year is strong and growing, and the underlying demand strength we've seen in prior quarters continues to drive growth in our business. There is no change to our view of the strength of the business or the current spending environment in our end markets.

Before I offer you more color on strategic highlights during the quarter, let me turn it over to Scott to give you more details on our first quarter results as well as our guidance. I'll then return with further insights into some of the key drivers of our business, including Construction, Manufacturing and Digital Transformation, before we open it up to Q&A.

SCOTT HERREN, CFO

Thanks Andrew.

As Andrew mentioned, our leading indicators, billings and free cash flow, performed well. Total revenue of $735 million was up 31% and 28% excluding our recent acquisitions. It was within our planning assumptions, although at the low end of our guidance range. This was primarily driven by linearity, as we closed more business later in the quarter than anticipated, which affected the amount of ratable revenue recognized in the quarter.

Overall demand in our end markets was robust, as indicated by our strong billings and revenue growth. Our subscription volume also grew steadily across the board. Sales volume of AutoCAD LT remained strong. And this has historically been a leading indicator of potential demand slowdown. And as you can see, revenue from our AutoCAD and AutoCAD LT products grew 37% in the first quarter, slightly better the 36% growth rate in Q4. AEC and Manufacturing also rose 37% and 24%, respectively.

Geographically, we saw broad based strength across all regions. Revenue grew 35% in EMEA and APAC, and 27% in the Americas, with strength across almost all countries.

We also saw strength in direct revenue, which rose 36% and represented 30% of our total sales, consistent with last year. Within direct, our eStore grew 45%.

Looking at ARR, total ARR continued to grow quickly, up 33% versus last year to $2.8 billion. Adjusting for our recent acquisitions, total ARR was up 29%. Core ARR growth was in line with our total organic growth, while Cloud ARR grew 164%, propelled by strong performance in Construction. Excluding $83mm of ARR from our fourth quarter acquisitions, organic Cloud ARR, which is primarily made up of BIM 360 and Fusion 360, grew a record 43%.

We continue to make progress with our maintenance to subscription, or M2S, program. The M2S conversion rate in Q1 was consistent with prior quarters, with approximately one-third of maintenance renewal opportunities migrating to product subscriptions. Of those that migrated, upgrade rates among eligible subscriptions remained within the historical range of 25 to 35 percent. As a reminder, this is the last year of the M2S program, and we are continuing to incentivize customers to convert.

In addition to strong new customer billings, the growth in ARR was supported by continued expansion of our renewal base. And as we introduced at our investor day in March, the net revenue retention rate is a key metric to monitor the health of our renewal base. Net revenue retention rate measures the year-over-year change in ARR for the population of customers that existed one year ago, or base customers. It is calculated by dividing the current period ARR related to those base customers by the total ARR from one year ago. During Q1, the net revenue retention rate was within the fiscal 19 range of approximately 110-120% and we expect it to be in this range throughout fiscal 20.

In Q1, some of the deeply discounted subscriptions from a global field promotion we ran three years ago came up for renewal. We were very pleased with the renewal rates of this group of customers as they renewed closer to list price, and the total value from the entire cohort grew.

Moving to billings, we had $798 million of billings during the quarter. On a normalized basis, billings rose about 40%. Recall that last year we adopted ASC 606, which resulted in adjustments of approximately $160 million to our deferred revenue balance and impacted billings, since billings are calculated by taking the sum of revenue plus the change in deferred revenue.

The growth in billings was driven by strong renewals and continued momentum in our core products. We also benefitted from some customers renewing early in the quarter due to upcoming price increases. Our recently acquired construction assets contributed nicely to the billings increase. And in line with our plans, multi-year contracts moved higher, helping our total billings. Recall that multi-year payments are good for our customers as they benefit from stable pricing and a single approval process. Our partners like them as they can sign higher contract value and maximize their cash flow. And we benefit from a more predictable revenue stream and upfront cash payments. The second and third year of those multiyear agreements are recorded in our long term deferred revenue, which grew by 12 percent and ended the quarter at 17 percent of the total deferred balance. As we indicated at our analyst day, we expect to end the year with our long term balance in the low 20 percent range of total deferred revenue, inline with the historical range.

On the margin front, we realized significant operating leverage as we have entered the growth phase of our journey. Non-GAAP gross margins of 91% were up 140 basis points versus last year. Our disciplined approach to expense management combined with revenue growth enabled us to expand our non-GAAP operating margin by 13 percentage points to 18% despite absorbing two significant acquisitions.

Moving to free cash flow, we generated $207 million in Q1. Over the last twelve months, we have generated $550 million of free cash flow, positioning us well to hit our full year target of $1.35 billion. Note that Q1 benefited from the very strong Q419 that we had. As you may recall, we had over $1 billion of billings during Q4, some of which was collected in the first quarter of fiscal 20. As such, I expect our free cash flow in Q2 to be down sequentially.

We continue to repurchase shares with our excess cash, which is consistent with our capital allocation strategy. During the quarter, we repurchased 582,000 shares for $100 million at an average price of $171.84 per share.

Now I'll turn the discussion to our outlook. I'll start by saying that our view of global economic conditions and their impact on our business is unchanged from the last several quarters. We are not seeing any noticeable impact from Brexit and the various trade and tariff disputes.

For the full year, we are reiterating our fiscal 20 free cash flow outlook of approximately $1.35 billion as well as our outlook for ARR of about $3.5 billion, up 27 to 29%. In-line with our initial plans, we expect billings of about $4.1 billion at the midpoint, driven by the strength of our renewal base, new subscription growth, continued normalization of multi-year billings, the flow through from unbilled deferred revenue, and our acquisitions.

When looking at the quarterization of free cash flow for fiscal 20, we continue to expect about three-fourths of the free cash flow to be generated in the second half of the year.

Looking at our guidance for the second quarter, we expect total revenue to be in the range of $782-$792 million and we expect non-GAAP EPS of $0.59-$0.63. The earnings slide deck on the investor relations section of our website has more details as well as modeling assumptions for the fiscal second quarter and for full year 2020.

Now I'd like to turn it back to Andrew.

ANDREW ANAGNOST, CEO

Thanks Scott.

Now, let me give you an update on some of the key growth initiatives we highlighted at investor day, specifically progress made in Construction, Manufacturing and Digital Transformation. These initiatives are key drivers of our business both near and long term.

First, in Construction, we are seeing continued strength across the portfolio as we execute on our strategy to deliver a comprehensive, integrated platform that seamlessly connects the office, the trailer, and the field. We had significant accomplishments during the quarter as we integrated PlanGrid and BuildingConnected into Autodesk. Both acquired companies showed impressive growth, which is important to call out considering that acquisitions typically see a slow down during the integration phase whereas we experienced accelerating momentum. Post-close, we have won fifteen head-to-head bids against leading competitors in this space. Other milestones included the launch of our first product integration and the realization of revenue synergies.

Q1 was the first full quarter where we had the entire Construction portfolio in place, as we closed PlanGrid in December 2018 and BuildingConnected in January of this year. Feedback from customers has been very positive regarding the addition of these best in class solutions to our comprehensive Construction portfolio, which now includes BIM 360, PlanGrid, Assemble Systems and BuildingConnected, in addition to the design tools we have always sold into that market.

On the technology development front, we were able to accelerate the product roadmap for PlanGrid, which resulted in the introduction of PlanGrid BIM last month. This is a new product integration between Revit and PlanGrid that allows customers to immediately access BIM data in either 2D or 3D directly within PlanGrid on their mobile devices. We were able to deliver this frequently requested feature at an accelerated pace now that PlanGrid is part of Autodesk. In fact, when PlanGrid BIM was launched we hosted a webcast and the demand was 5x what PlanGrid had normally seen for prior product launches, and the number of customers who requested to be contacted by a sales person following the webinar was also more than 5x what they normally experience following a product-focused webinar.

We've also seen synergies begin to develop on the sales front. For example, APTIM, a leading construction services vendor and joint customer of Autodesk and PlanGrid, tripled its PlanGrid users as part of the Enterprise Business Agreement for its "Digital Foreman Initiative." Other Autodesk products they use include AutoCAD, Civil 3D, Plant 3D, Map 3D and Revit. And because we have been clear with our customers that PlanGrid will be focused on field execution and BIM 360 on project management, there are a lot of synergies between the two offerings that our customers have yet to realize.

We are also seeing BuildingConnected thrive within the Autodesk Construction ecosystem. Since the acquisition they have grown their user base from about 700 thousand to over 800 thousand.

Now, I'd like to elaborate on the impressive growth comment made earlier. When we made the acquisitions, I said that we were focused on keeping the strong sales momentum going, and that is exactly what happened.

At PlanGrid, the sales teams are continuing to perform strongly with both new and existing customers. For example, they expanded their relationship with Rosendin Electric, a long standing PlanGrid customer with 6,000 employees and annual revenue of about $1.5 billion. The company recently extended its contract for three years and significantly expanded it, in part due to Autodesk's long-term vision.

PlanGrid sales have also started to benefit from being part of the Autodesk family. During the quarter, Jacobs, a global leader in the professional services sector and a long-standing Autodesk customer, decided to further enhance its relationship with us by adding PlanGrid to one of its divisions. In making this decision, Jacobs pointed to its current speed in the field, ease of use, and integration with the rest of the Autodesk suite as determining factors in adopting the software. The company is currently utilizing PlanGrid on a billion-dollar infrastructure project. PlanGrid also ended Q1 with its largest ever pipeline of deals.

And the momentum continued at BuildingConnected too. BuildingConnected has introduced new features that continue to make its platform more and more valuable to larger and larger portions of the market. In fact, they had their best quarter ever in Q1 in terms of new business and are seeing their flywheel continue to drive new business on both the general contractor and subcontractor side.

BIM 360 also continues to demonstrate strong growth. In fact, our organic Cloud ARR, of which BIM 360 is the largest component, was up 43% in Q1. This was driven by strength across the entire BIM 360 portfolio, especially BIM 360 Design, which is our real time collaboration tool for Revit users. We also saw both existing and new customers increase adoption of BIM 360. A good example here is WeWork. With 485 locations and 466,000 members around the world, WeWork provides spaces and services to help people work, learn and collaborate in more meaningful ways. They expanded their subscription with

Autodesk this quarter and are one of our largest BIM 360 Design customers. We are excited to work with them and look forward to further enhancing our relationship over the coming years.

Overall, all parts of our Construction portfolio are performing at or above plan and showing strong growth. I am extremely proud of all the teams involved. They remain focused and dedicated to helping Autodesk grow and drive positive change in the Construction industry.

And lastly, I wanted to note that for those looking to get a more in-depth view of our Construction business, we are hosting an event on June 4 here in San Francisco, where you'll have the opportunity to hear directly from AECOM, Webcor and DPR in addition to our construction team regarding our portfolio and go to market opportunity. I hope to see you all there.

On the manufacturing front, revenue grew 24% as customers see the benefits of our differentiated solution. We are gaining share and displacing competitive offerings in the space. For example, a large manufacturer of locomotives and rail equipment further expanded its relationship with us. They are in the process of deploying our manufacturing solutions across their various divisions and are relying on Inventor, our CAM solutions and factory design utilities to automate their workflows. Our solutions displaced competing products due to our simplicity and short implementation cycles, which is in line with their rapid product introduction requirements.

Our investments in generative design and Fusion 360 have resulted in more than 100% year over year growth in Monthly Active Userss for our commercial customers. Users love the cloud based, comprehensive solution of Fusion 360 and it is disrupting the industry. Fusion 360 offers unprecedented value and out-of-the-box productivity for concept to production workflows, and that appeals to a large swath of our customers. A US based specialty pharmaceutical company purchased Fusion 360 to replace SolidWorks for designing and manufacturing auto-injectors. After reviewing various options, they decided that Fusion 360 provided superior collaboration and data management capabilities in the cloud with no setup or maintenance complications. A Midwest metal fabrication company chose Fusion 360 to replace separate instances of CAD and CAM solutions. They were impressed by our integrated CAD/CAM functionality and collaboration features. With Fusion 360, they were able to replace CATIA, Creo, Mastercam, and PTC Windchill, allowing them to rely on fewer platforms and to promote collaboration.

When it comes to digital transformation, we are seeing the positive impact it is having on our business. We are also making progress in using digitization internally as part of our plan to convert the large number of non-compliant users into paying customers. All new single user product subscriptions are already using identity-based authentication and we continue to move existing customers to this new system. We are on track to migrate all eligible single user subscriptions to identity-based authentication by the end of the current fiscal year, which will provide a much better user experience for our customers and help us in combating non-compliant usage of our software.

Beyond that, we are already starting to see results from our efforts to engage directly with customers using non-compliant versions of our software and expect our on-going learning to increase our effectiveness in FY 20 and beyond.

As you heard, there's a lot of activity happening toward the growth initiatives highlighted at investor day across Construction, Manufacturing and Digital Transformation.

These drivers, as well as the large opportunity we see in converting the current 14 million non-paying users into subscribers, should result in an acceleration in profitability and cash flow metrics and sustained growth going forward. We are highly confident in Autodesk's ability to capitalize on this large market opportunity and are committed to delivering our FY20 and FY23 targets.

With that, Operator, we'd now like to open up the call for questions.