

AUTODESK INC.
Q4FY19 OPENING COMMENTARY

Abhey Lamba – VP, Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our fourth quarter and full year of fiscal 19. 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.

As noted in our press release, we have published our prepared remarks and a slide presentation on our website in advance of this call. The prepared remarks document is intended to serve in place of extended formal comments and we will not repeat them on this call. Going forward, we will replace the prepared remarks with the slide presentation. Lastly, we will post a transcript of today's opening commentary on our website following this call.

During the course of this conference call, we will make forward-looking statements regarding future events and the anticipated future performance of the company, such as our guidance for the first quarter and full-year fiscal 20, our long-term financial model guidance, our revenue and cash flow expectations, the factors we used to estimate our guidance, our maintenance to subscription transition, our expectations regarding product mix and pricing, ARPS, customer value, cost structure, our market opportunities and strategies, and trends for various products, geographies and industries.

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 2018, our Form 10-Q for the period ending October 31, 2018, and our current reports on Form 8-K, including the Form 8-K filed with today's press release and prepared remarks. Those 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 also discuss non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of our GAAP and non-GAAP results is provided in today's press release, prepared remarks and on the Investor Relations section of our website. 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 under ASC 606.

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

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Andrew Anagnost – President and Chief Executive Officer

Thanks Abhey. I am excited to share with you our impressive close to fiscal 2019 and the strong momentum we experienced closing the year. Consistent with the prior two quarters, we experienced strong performance across all geographic regions and in all product categories. In fiscal 19, we achieved multiple milestones putting us in an excellent position to deliver on our fiscal 20 targets and advance the company to the next chapter of growth. Here are some of the key accomplishments we achieved this year:

- Recurring revenue was 95% of total revenues for the full year, and has reached steady state,
- Our total revenues of nearly \$2.6 billion were the highest ever in the company's history,
- Our total subscription plan subs are now greater than total maintenance subs were at the peak of the prior model,
- We returned to positive free cash flow and earnings,
- We significantly expanded operating margin, and
- We strengthened our construction portfolio and now have an unrivaled breadth of construction solutions.

Beyond that, I couldn't be prouder of the Autodesk team that delivered these results. They worked hard, and they deserve all the credit, and it's my honor to represent them.

Now before I dig deeper into our successes in the quarter, let me take a step back and revisit the five key priorities I laid out for the company at the beginning of last year.

- Our top priority entering fiscal 2019 was the continued execution of the business model transition. We now have less than 20% of our revenues coming from maintenance agreements, and I am happy to report that we are effectively finished with the model transition and look forward to executing on our growth strategy.
- We continue to invest in digitizing the company to provide our customers with a better experience as they go through their own digital transformations, which is a recurring theme we hear from all of them.
- We have a focus on driving the Building Information Model through the design and make process in AEC. And during the year, we highlighted a number of customer wins that are using BIM to manage their design and make processes in the AEC industry. We look forward to executing on that theme further in fiscal 20 as BIM momentum remains strong.
- We are continuing to invest in automating the process of design to manufacturing.

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- And we are seeing early signs of the convergence of construction and manufacturing processes.

Q4 Highlights

Looking at our Q4 performance, we built upon the broad-based strength of the last couple of quarters by achieving 34% growth in annualized recurring revenue, or ARR, which remains the most important metric for us. We are becoming a more strategic partner for all of our customers, but in particular for our larger customers - a fact reflected in the strong growth of our enterprise business. Within product categories, we continue to see greater adoption of Industry Collections and our BIM 360 solutions. In line with our expectations, our free cash flows accelerated in a meaningful way as our billings topped \$1 billion for the first time in the fourth quarter.

Review of Strategic Initiatives

Scott will walk you through more of the financials, but I want to spend a little bit more time talking about our progress in various areas. Expertise in our products remains in high demand and is growing rapidly. According to Indeed Hiring Lab, AutoCAD expertise is featured among the top 10 fastest growing skills in technology job searches. In addition, according to Upwork's latest quarterly index, Revit expertise is featured among the top 15 hottest skills for freelancers in the US job market. These are important indicators of the on-going opportunity we have to grow our subscription base and to turn more and more of our users into subscribers.

During the year, we strengthened the foundation of our construction business with both organic and inorganic investments. In addition to investing in our BIM 360 portfolio, we purchased Assemble Systems to bolster our preconstruction capabilities, PlanGrid for document-centric workflows and field execution, and BuildingConnected for bidding and risk management. This year, our focus is on integrating these businesses to deliver even greater value to our customers. The broadened product portfolio will help us expand our presence with general contractors, sub-contractors, and building owners. The feedback from our customers regarding these acquisitions has been overwhelmingly positive and they are excited about the expansion of our portfolio.

For instance, Clayco, a leading construction and design firm based in Chicago, has been an Autodesk customer for many years. As users of BIM 360, Assemble, PlanGrid and BuildingConnected, they have fully embraced the digitization of construction. They rely on the breadth of our portfolio to deliver value to their customers by automating their design and make activities throughout the pre-construction and

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construction processes. We look forward to strengthening our relationship with Clayco by investing in solutions that span their workflows. Additionally, we see opportunities to expand our relationships with other leading companies in the space.

Beyond that, BIM adoption remains one of the key drivers of investments in the infrastructure space. Mandates for using BIM drove another seven-figured enterprise agreement with a large European infrastructure provider during the quarter. We doubled our contract with the customer as they look to expand their adoption of BIM for building and managing their infrastructure projects. Our unique portfolio of design tools is allowing them to expand from products like AutoCAD and Inventor into Revit, the world's leading BIM design tool, BIM 360 for site execution, and other advanced analysis tools. We look forward to strengthening our partnership with them and many other organizations that are looking to rely on advanced technologies to drive efficiencies.

On the manufacturing side, generative design and our investments in Fusion continue to attract global manufacturing leaders to partner with us. During the quarter, we signed an enterprise agreement with Hyundai Motor Group who plans to leverage our technologies to create innovative designs. Hyundai is very interested in utilizing our capabilities in generative design and we look forward to partnering with them to drive innovation in the automotive space.

Reiterate FY20 and FY23 guidance

In summary, I am extremely pleased with our fiscal 19 performance and I'm excited about the future. We are entering fiscal 20 with strong momentum in every geographic region and across all product categories. This sets us up well to achieve our target of \$1.35 billion of free cash flow this year. We also expect to see acceleration in our construction business this year and beyond, when combined with continued execution in the core, this will drive strong ARR growth into the future and help us reach our FY23 goals.

Now I'll turn it over to Scott for more details on the financials.

Scott Herren – Chief Financial Officer

Review 2019 Milestones

Thanks Andrew. Before digging into the numbers, I would echo Andrew's excitement entering fiscal 20 as we are experiencing great momentum in our business, driven by strong execution. Record billings of just over \$1 billion in the quarter, coupled with better than expected cash collections, drove free cash flow

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of \$294 million. For the year, we ended up generating free cash flow of \$310 million. This kind of powerful leverage in the model drives our confidence in achieving our fiscal 20 cash flow target.

Financial Impact of Acquisitions

Before discussing more detailed financial metrics for the quarter, let me highlight the impact of the fourth quarter acquisitions on our results. The acquisitions contributed \$27 million to ARR, \$7 million to total revenue, and \$43 million to billings for the quarter. Recall that we calculate billings by adding the change in deferred revenues from the balance sheet to our reported revenues. The acquisitions contributed \$36 million to deferred revenue on the balance sheet and \$61 million to unbilled deferred, for a combined contribution of \$97 million to total deferred revenue.

The acquisitions also increased our total expenses by \$12 million, resulting in a negative impact of \$5 million to our operating income, or 85 basis points to our non-GAAP margin for the quarter. The acquisitions negatively impacted our non-GAAP Earnings Per Share by \$0.03. Lastly, they contributed 127,000 subscriptions that are included within our reported Cloud and total subs numbers. Please refer to the earnings slide deck on our website for more information on the contribution from acquisitions and our adjusted results for the quarter. Now, I will discuss the remaining financial metrics excluding acquisitions as our fourth quarter 2019 guidance did not include their contributions.

ARR

Our 4Q ARR growth of 33% benefited from a 17% increase in total ARPS, and a 13% increase in subscriptions. Our strong performance across all product lines and geographic regions drove the results for the quarter. There was approximately 1 percentage point of benefit to the ARR growth related to upfront revenue recognition of some products, such as VRED and Vault that do not incorporate substantial cloud services and are recognized up front. Before I go into more details about our subs and ARPS, let me reiterate that this is the last time we will be disclosing subs and ARPS on a quarterly basis. Going forward, we will use events like our annual Investor Day to report on these metrics that will help you build your long-term models.

Subscriptions

Looking at subscriptions, we grew total subscriptions by 13% to 4.2 million. In the quarter, our subscription plan subs grew by 291,000 organically, led by growth in product subscriptions. We added 51,000 cloud subs driven by the continued adoption of our BIM 360 solutions. For core subscriptions, our

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net additions of 74,000 were driven by strong adoption of our Industry Collections, which continue to grow as a percentage of net new product subscriptions sold. Industry Collections now represent approximately 28% of our total product subscription installed base.

M2S Program

Moving to the Maintenance to Subscription program, or M2S, we continue to make solid progress. In Q4, 110,000 customers migrated from maintenance to product subscriptions. We now have converted nearly 800,000 maintenance customers to subscription since the inception of the program. Similar to the last few quarters, the conversion rate remained strong with approximately one-third of the 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%. We expect the number of M2S migrations to moderate in fiscal 20 as we have less than 800,000 maintenance subs remaining.

Renewal Rates

Maintenance renewal rates experienced a modest decline versus a year ago, which is as expected. Product subscription renewal rates ticked up year-over-year. Overall, we continue to experience very high renewal rates for M2S-related subs. And, Industry Collections continue to command high renewal rates. We expect the renewal rate for product subs to keep increasing as the product mix shifts towards higher value products.

ARPS

Now let's talk a little more about annualized revenue per subscription, or ARPS.

Total ARPS posted another quarter of strong growth as it continues to benefit from the same drivers we discussed at last year's Investor Day and that have manifested in the previous few quarters. These drivers include continued growth of the renewal base, which comes at a higher net price to Autodesk; the increase in digital sales, also at a higher net price to Autodesk; the product mix shift to Industry Collections; the maintenance price increase for those customers who don't take advantage of the M2S program; and less discounting and promotional activity.

Direct and eStore Revenue

Contributions from our direct business rose by 2 points sequentially to 30%. Our eStore, which is playing a bigger part in our digital sales, grew by more than 50% in fiscal 2019. For the past six quarters, our

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eStore has generated over 20% of the new product subscriptions. Q4 also marked the ninth consecutive quarter of more than 30% growth in our enterprise business, demonstrating greater adoption within our largest customers. In fact, our EBAs posted over 60% revenue growth in the quarter.

Balance Sheet / Share Repurchase

Looking at the balance sheet, total deferred revenue grew by 13%, which also includes the unbilled amount. Unbilled deferred revenue increased by \$80 million sequentially to \$530 million due to strong EBA performance. Our long term deferred revenue posted sequential growth for the first time in seven quarters driven by multi-year subscriptions, which we expect to normalize back towards historical norms during fiscal 20 and beyond.

While our stock repurchases slowed down in Q4 as we were conserving cash for the acquisitions, we used \$293 million in fiscal year 19 to repurchase 2.2 million shares at an average price of \$130.15. We remain committed to managing dilution and reducing shares outstanding over time.

Business Outlook

Now I'll turn the discussion to our outlook. I'll start by saying that our view of the global economic conditions remains unchanged from the last few quarters and we continue to monitor the potential macroeconomic impact from Brexit and the various trade and tariff disputes. There has been some foreign exchange volatility, but our hedging program has succeeded in smoothing out the bigger swings.

We are reiterating our fiscal 20 free cash flow outlook of approximately \$1.35 billion. Our across the board strength and momentum exiting fiscal 19 will help us drive ARR growth in the range of 27 to 29%. On an organic basis, we expect our total non-GAAP expenses to grow by only 2% while the acquisitions will drive another seven points of growth. In-line with our initial plans, we expect billings growth to accelerate to about 50% due to continued normalization of our multi-year billings, flow through from unbilled deferred revenue, strength in our renewals, new subscription growth, and acquisitions. Recall that our fiscal 19 billings were negatively impacted due to the adoption of ASC 606 accounting standard, which combined with the recent acquisitions is offering a little over 10 percentage point tailwind to our billings growth in fiscal 20.

When looking at the quarterization of free cash flow for fiscal 20, given normal seasonality and strength of payment collections and large deals signed in the fourth quarter, we expect about three-fourths of our

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free cash flow to be generated in the second half of the year. Lastly, the non-GAAP tax rate for fiscal 20 is expected to be 18%, or a point lower than fiscal 19.

Looking at our guidance for the first quarter, our strength in the fourth quarter presents a tough sequential compare. Given normal software seasonality, Other revenue in Q1 is expected to be about half as much as we experienced in Q4. Normalizing for the upfront revenue recognition in the fourth quarter subscriptions and contributions from recent acquisitions, our expected sequential change for the first quarter revenue growth is inline with our historical trends. The slide deck on our website has more details on modeling assumptions for the fiscal first quarter and full year 2020.

Before we start the Q&A part of this call, I want to summarize by highlighting that fiscal 19 was a year of milestones for us. We exited the year with strong momentum in our free cash flow that drove our revenue growth plus free cash flow margin to 37% for the year. Going forward, we continue to focus on growing our free cash flows driven by ARR growth and margin expansion. I could not be prouder of the accomplishments of the Autodesk team and I want to acknowledge our fantastic employees, customers and partners around the world.

We look forward to seeing most of you at our analyst day on March 28th where we will discuss our plans in more details.

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

[end]