Q124 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the first 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, acquisitions, products and product capabilities, 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-K 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.

Autodesk's strong financial and competitive performance in the first quarter of fiscal 2024 is again a testament to three enduring strengths: resilience, discipline, and opportunity.

In a more challenging macroeconomic, policy and geopolitical environment, our resilient business model, and geographic, product and customer diversification, enabled us to deliver 12 percent revenue growth in constant currency, healthy margins, and record first quarter free cash flow. Leading indicators remained consistent with last quarter with product usage growing modestly, bid activity on BuildingConnected again at record levels, and continued cautious optimism from channel partners. Consistent with year-over-year economic momentum, we saw new subscription growth decelerate in North America and accelerate in EMEA. But our customers remain committed to transformation and to Autodesk, leveraging automation more as they see headwinds from the economy and supply chains. That commitment is reflected in larger, broader and more strategic

partnerships, improving renewal rates, consistent net revenue retention, and growing adoption and usage of our products within EBAs; all of which helped drive 12 percent growth in current RPO and 15 percent growth in total RPO.

While macroeconomics are unpredictable in the short-term, we are executing our strategy through the economic cycle with disciplined and focused capital deployment, underpinned by one of the best growth, margin, and balance-sheet profiles in the industry. This enables Autodesk to remain well invested to realize the significant benefits of its strategy, while mitigating the risk of having to make expensive catch-up investments later. Discipline and focus also mean making sure we are investing in the right places. This is a constant process of optimization and improvement with increased vigilance during periods of macroeconomic uncertainty to prioritize investment and recruitment.

As you heard at our recent investor day, we are deploying next-generation technology and services and end-to-end digital transformation within and between the industries we serve and, in so doing, shifting Autodesk from products to capabilities. Our AEC industry cloud, Forma, launched on May 8, is a great example of our vision. During pre-release trials, customers like CUBE 3 clearly saw how Autodesk Forma's intuitive user interface enabled rapid adoption by existing and new users; how bi-directional data flows enhanced the value of other Autodesk products like Revit; and how a single, integrated environment in the cloud, enhanced by AI, accelerated modeling and response times while significantly enhancing the value delivered to its customers. While using

Forma during its trial, CUBE 3 delivered more creative and valuable designs to its customers while reducing the concept design phase by 50 percent or more.

At investor day, I also 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 also enables Autodesk to better serve infrequent users. Not surprisingly, the lion's share of the business has come from new customers or existing customers expanding their relationship with Autodesk. 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. During the quarter, Flex moved up into the top 10 products in our e-store, and we signed our first million-dollar Flex deal.

Autodesk remains relentlessly curious with a propensity and desire to evolve and innovate. Our transformation from products to capabilities will enable us to forge broader, trusted and more durable partnerships with more customers; gives Autodesk a longer runway of growth and free cash flow generation; and enables a better world designed and built for all.

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

Amidst a more challenging macroeconomic environment and ongoing headwinds from currency and Russia, Q1 was strong. The overall momentum of the business was similar to last quarter with new subscriber growth decelerating a bit and renewal rates improving a bit quarter over quarter such that current remaining performance obligation growth was the same as last quarter. Strong renewal rates demonstrate existing customers are committed to, and investing in, their long-term strategic partnerships with Autodesk. Some customers are also elevating their relationships with Autodesk from subsidiaries to companywide. When this happens, it can sometimes cause quarterly timing differences for the renewal as multiple contracts are co-termed to a single renewal date. We saw an instance of that in Q1 and, as a result, some of the up-front revenue we expected to hit in Q1 we now expect later in the year. Q1 revenue would have been toward the top end of our guidance range if adjusted for this up-front revenue.

Total revenue grew 8 percent, and 12 percent in constant currency. By product in constant currency: AutoCAD and AutoCAD LT revenue grew 10 percent, AEC revenue grew 11 percent, manufacturing revenue grew 13 percent, and M&E revenue grew 9 percent. By region in constant currency: revenue grew 14 percent in the Americas, 11 percent in EMEA, and 8 percent in APAC.

Direct revenue increased 15 percent in constant currency and represented 35 percent of total revenue, up one percentage point from last year, due to strength in both enterprise and e-commerce.

Net revenue retention rate remained the same as last quarter and within 100 to 110 percent at constant exchange rates.

As we flagged in our annual guidance given last quarter, our transition from up-front to annual billings for multi-year contracts impacts our billings growth this year. That transition started on March 28, so we had about one month of headwind in the first quarter. Billings increased 4 percent to $1.2 billion, primarily reflecting growing renewal rates and early renewals partly offset by about one month of annual billings for most multi-year contracts. Total deferred revenue increased 20 percent to $4.5 billion. Total RPO of $5.4 billion and current RPO of $3.5 billion grew 15 and 12 percent, respectively.

Turning to the P&L, non-GAAP gross margin remained broadly level at 92 percent, while non-GAAP operating margin decreased by 2 percentage points to approximately 32 percent. This reflects ongoing cost discipline, including the expected Q1 cost of repurposing approximately 250 roles to invest in our strategic priorities, as well as the impact of exchange rate movements. GAAP operating margin decreased by 1 percentage point to approximately 17 percent for the same reasons.

Free cash flow was $714 million in the first quarter, up 69 percent year over year. In addition to the underlying momentum of the business, there were three factors that provided a tailwind in the first quarter: first, cash collections from the last month of billings in fiscal 23 were strong; second, we saw favorable linearity and early renewals in the first quarter driven by the end of our multi-year billed up-front program; and third, after the winter storms in California, we received a federal tax payment extension to the third quarter.

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. As Andrew said, we are being vigilant during this period of macroeconomic uncertainty, paying close attention to attrition and recruitment rates, and the increased upward pressure on costs from a weakening dollar. We will continue to offset dilution from our stock-based compensation program and to opportunistically accelerate repurchases when it makes sense to do so. During Q1, we purchased 2.7 million shares for $534 million, at an average price of approximately $199 per share, reducing total shares outstanding by about 3 million shares.

Now, let me finish with guidance.

The overall headlines are: the expectations embedded in our guidance range for the full year remain consistent with the underlying momentum in the business; and, we expect a tailwind in the second half of the year from a strong cohort of Enterprise Business Agreements. These EBAs last

renewed three years ago at the start of the pandemic, and subsequent adoption and usage has been strong.

Let me summarize some key factors we highlighted last quarter.

First, foreign exchange movements will be a headwind to revenue growth and margins in fiscal 24. Revenue headwinds from Russia and FX peak in the first half of the year. Margin headwinds from FX will persist throughout the year.

Second, switching from up-front to annual billings for most multi-year customers creates a significant headwind for free cash flow in fiscal 24 and a smaller headwind in fiscal 25. Given this transition started on March 28, this will become more apparent from the second quarter onward. Our expectations for the billings transition are unchanged.

And third, it's possible that during the transition to multi-year contracts billed annually, some customers may choose annual contracts instead. We haven't seen much evidence of this in the limited time since the annual billings program started on March 28, but it's early days and we'll keep you updated as the year progresses. All else equal, if this were to occur, it would proportionately reduce the unbilled portion of our total remaining performance obligations and would negatively impact total RPO growth rates. Deferred revenue, billings, current remaining performance obligations, revenue, margins, and free cash flow would remain broadly unchanged in this scenario. Annual renewals create more opportunities for us to drive adoption and upsell, but are without the price lock embedded in multi-year contracts.

We still 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 for the reasons we outlined last quarter. As I mentioned earlier, a federal tax payment extension after the winter storms in California means cash tax payments will shift from the first half of the year to the third quarter, reducing third quarter free cash flow. The tax payment extension will change the first half/second half free cash flow linearity a little bit. But we still think we'll generate roughly half of our free cash flow in the second half of the year, with second half free cash flow generation significantly weighted to the fourth quarter. We still anticipate fiscal 24 to be the free cash flow trough during our transition from up-front to annual billings for multi-year contracts.

Putting that all together, we still expect fiscal 24 revenue to be between $5.36 and $5.46 billion, up about 8 percent at the mid-point, or about 13 percent at constant exchange rates and excluding the impact from Russia. Normal seasonality, peak second quarter currency and Russia headwinds and, as I mentioned earlier, a strong second-half pipeline of enterprise agreements last renewed three years ago in the immediate aftermath of the onset of the pandemic, mean we expect reported revenue growth to accelerate in the second half of the year. We expect non-GAAP operating margins to be similar to fiscal 23 levels with constant currency margin improvement offset by FX headwinds. As I said earlier, in a more challenging macroeconomic environment we are being vigilant and proactive to sustain our margins. We expect free cash flow to be between

$1.15 and $1.25 billion. The mid-point of that range, $1.2 billion, implies a 41 percent reduction in free cash flow compared to fiscal 23, primarily due to the shift to annual billings, a smaller multi-year cohort, FX, and our cash tax rate.

The slide deck on our website has more details on modeling assumptions for Q2 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 last quarter, the rate of improvement will obviously be somewhat determined by the macroeconomic backdrop. 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 on 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 first 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 previously siloed workflows in the cloud.

HNTB, an employee-owned infrastructure solutions firm that serves public and private owners and contractors, expanded its EBA with Autodesk to help achieve its goals around 'design modernization', 'digital transformation' and 'digital infrastructure solutions'. The flexibility provided by our EBA means that HNTB can easily consolidate more workflows to Autodesk. For example, in addition to adopting and integrating Autodesk Build and Innovyze, HNTB has been prototyping Autodesk's immersive collaboration platform. By leveraging VR collaboration, it has been able to help transportation agencies like Florida's Turnpike Enterprise use digital twins to train facility management and first responder teams on real-life scenarios from the safety of their offices instead of on busy interstate highways. HNTB sees the potential of further applications in its work on complex bridges and tunnels, as well as its work with airports and state departments of transportation across the country.

In construction, we continue to benefit from our complete end-to-end solutions which encompass design, preconstruction and field execution, through handover and into operations. DPR is among

the top 10 largest general contractors and construction management firms in the US and specializes in technically complex and sustainable projects. In the first quarter, DPR expanded and extended its partnership with Autodesk and unified on Autodesk Construction Cloud, our construction platform that connects stakeholders throughout the project lifecycle. In moving away from point solutions and onto Autodesk's common data environment and cloud, DPR aims to connect all workflows, centralize communications, and improve project management and operations across the office and job site.

We continue to see significant opportunities to grow our construction platform outside the US, benefiting from our strong international presence and reputation. In Singapore, Autodesk Build was selected over three competitive offerings as the construction management platform for what will be Singapore's tallest skyscraper. When awarding the contract to our partner, China Harbour, the project owners chose Autodesk Build because it connected the design and make processes in the cloud, centralized project schedules, and generated automated clash reports to reduce risk during construction.

Of course, these stories have a common theme: managing across the project lifecycle to increase efficiency and sustainability, while decreasing risk. And this means our customers are renewing and expanding their relationships with us. Over time, we expect the majority of all projects to be managed this way and we're getting ready today to scale to serve that demand. Jim talked at our investor day about how product innovation, go-to-market expansion, and customer success are helping us get ready. In the first quarter, we took another important step by integrating our

construction sales force into our worldwide sales team. While integrations of this scale inevitably cause some short-term disruption, 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 project lifecycle.

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, Rittal is a leading manufacturer of electrical enclosure systems. It uses Inventor, Vault and Moldflow to optimize and manage its product manufacturing to produce thousands of customized and configured switch cabinets daily. Rittal is focused on maximizing internal automation to accelerate its speed to market and respond more nimbly to changes in demand. In Q1, it increased its EBA with Autodesk to include Fusion to serve as its central data management system, build a more resilient supply chain, and drive competitive advantage through quicker turnaround times. Using Fusion, Rittal will be able to automatically route online customer orders through to its engineers and integrated production line and make deliveries in as little as 1 or 2 days.

In the UK, a precision engineering firm was looking to update its CAM workflow to increase engineering efficiency and optimize costs. After a competitive evaluation, the customer migrated from its existing provider to Fusion with the Machining Extension because of Fusion’s intuitive UI,

cloud capabilities, and simple integrations with its existing software and machines. Realizing the opportunities to drive breakthrough efficiency by consolidating all workflows on a single Design and Make Platform, the customer is now also evaluating the migration of its CAD workflows from a competitor to Fusion. Fusion continues to grow strongly, ending the quarter with 231 thousand subscribers, as more customers connect more workflows in the cloud to drive efficiency, sustainability and resilience.

In partnership with higher education providers across the globe, we continue to invest in the workforce of the future. We recently partnered with the Tamil Nadu Skill Development Corporation and Anna University in India to integrate Fusion into its 20 mandatory product engineering courses and launch the Fusion Design Challenge to showcase the skills of 20 thousand students. Fusion's intuitive UI and cloud-based data management make it easy for students to learn and collaborate on class projects. Autodesk is also investing in a new Technology Engagement Center at California State University, Northridge, that will promote interdisciplinary collaboration in engineering and computer academic programs and house the Global Hispanic Serving Institution Equity Innovation Hub, which aims to build a more diverse and inclusive engineering workforce.

And finally, we continue to work with non-compliant users to ensure they are using the latest and most secure versions of our software. In the first quarter, we made substantial progress on two initiatives we outlined at investor day: further hardening our systems by significantly tightening concurrent usage of named user subscriptions, and significantly expanding the precision and

reach of our in-product messaging. We expect both initiatives to drive further conversion and growth in the second half of the year and beyond.

Let me finish where I started. Autodesk remains relentlessly curious with a propensity and desire to evolve and innovate. With our AI infused industry clouds—Fusion, Forma, and Flow—scaled on Autodesk Platform Services, our customers will be able to leverage their large, domain specific, inter- and intra-industry data sets to deliver further breakthrough productivity, operations, and sustainability gains. And with intuitive UIs and the application of multi-modal AI models that move beyond language models to capture sketches and reality directly into accurate 3D models, we will be able to accelerate the transition from products to capabilities that I talked about at our recent investor day. Our transformation from products to capabilities will enable us to forge broader, trusted and more durable partnerships with more customers; give Autodesk a longer runway of growth and free cash flow generation; and enable a better world designed and built for all.

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