Q123 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 our fiscal 23. 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.

Today, we reported record first quarter revenue, non-GAAP operating margin and free cash flow fueled by strong demand and a robust competitive performance. The structural growth drivers for our business that were critical to our performance during the pandemic – such as flexibility and agility – continue to support and propel us during elevated macroeconomic, geopolitical and policy uncertainty. These growth drivers further cement the important role we play in our customers' digital transformations, and increase our confidence in our strategy.

Our steady strategy, industry leading products, platform and business model innovation, sustained and focused investment, and strong execution are creating additional opportunities for Autodesk. By accelerating the convergence of workflows within and between the industries we serve, we create broader and deeper partnerships with existing customers, and bring new customers into our ecosystem.

A prime example of this is infrastructure. The combination of Revit, Civil 3D, Navisworks, Autodesk BIM Collaborate Pro, Infraworks and, more recently, Autodesk Construction Cloud and Innovyze, delivers industry leading end-to-end capabilities in transportation and water from planning and design through construction and operations. And our customers can extend those capabilities through our partnerships with Aurigo, in capital planning, and ESRI, in geospatial mapping. This is important because governments and asset owners across the globe are investing growing amounts in next-generation infrastructure to meet the societal and environmental needs of the next century, and are retooling now to do it. That equals opportunity for Autodesk. For example, in the first quarter, we signed our second-largest EBA ever with a large global infrastructure company, in a deal that included Innovyze and Autodesk Build for the first time.

Across Autodesk, we are focused on unifying more common data, and fluidly connecting more workflows in the cloud, in ways that delight our customers and lead them to new, more efficient, and more sustainable ways of working. And by doing that, we will move beyond carbon neutrality for ourselves to transform our customers' carbon footprint. Together, we can design and make a better world for all that advances equitable access to the in-demand skills of the future.

Before I turn the call over to Debbie to take you through the details of our financial performance and outlook, I want to update you on important decisions we made about our business in Russia. You will recall that the invasion of Ukraine occurred hours before our last earnings call. In light of the conflict, we halted all of our new and *renewal* business in Russia on March 3. We strongly believe this decision was the right thing to do and that it is in our long-term interest, even though it comes at a cost, which Debbie will detail in a moment. Of course, our immediate focus remains on the safety and well being of our employees in the region and we continue to monitor the situation closely. Beyond the immediate impact in Russia, other leading indicators trend positive. For example, usage remained steady in Europe during the quarter and grew in America and the Asia Pacific region. BuildingConnected bid activity again hit record levels. And our channel partners remain optimistic. This strong momentum sets us up well for the remainder of the year.

Debbie, now over to you to take everyone through the details of our quarterly financial performance and guidance for the year. I'll come back afterwards to provide an update on our strategic growth initiatives.

DEBBIE CLIFFORD, CFO

Thanks, Andrew.

Q1 was a strong quarter, driven by broad-based strength across products and regions. If we compare the revenue result versus guidance, the out performance was due to that strength as well as to up-front revenue in a large EBA, which we had forecasted would close later in the year.

Total revenue grew 18 percent, and 17 percent in constant currency. By product: AutoCAD and AutoCAD LT revenue grew 21 percent, AEC revenue grew 17 percent, manufacturing revenue grew 14 percent, and M&E revenue grew 24 percent. By region: revenue grew 24 percent in the Americas, 17 percent in EMEA, and 10 percent in APAC.

Direct revenue increased 22 percent and represented 34 percent of total revenue, up one percentage point from last year, due to strength in both enterprise and e-commerce.

Our product subscription renewal rates remained at record highs, and our net revenue retention rate was comfortably within our 100 to 110 percent target range.

Billings increased 16 percent to $1.1 billion, reflecting robust underlying demand. Total deferred revenue grew 12 percent to $3.7 billion. Total RPO of $4.7 billion and current RPO of $3.1 billion grew 11 and 10 percent, respectively, reflecting strong billings growth and, as I flagged last quarter, the timing and volume of multi-year contracts, which are typically on a three-year cycle.

Turning to the P&L, non-GAAP gross margin remained broadly level at 92 percent, while non-GAAP operating margin increased by 6 percentage points to approximately 34 percent, reflecting strong revenue growth and ongoing cost discipline. GAAP operating margins increased by 4 percentage points to approximately 18 percent.

As Andrew mentioned, we delivered record first quarter free cash flow of $422 million, up 34 percent year over year, reflecting strong billings growth in both Q4 and Q1.

With the broad equity market pullback in Q1 and our strong cash position, we again accelerated our share repurchasing during the quarter. We purchased 2.1 million shares for $436 million dollars, at an average price of approximately $212 per share, which contributed to a reduction in our weighted average shares outstanding of approximately two million. While our capital allocation strategy remains unchanged – you can expect that we will continue to invest organically and inorganically to drive growth – over the last two quarters we've proactively used our strong liquidity to accelerate repurchasing and will continue to be opportunistic in doing so when market conditions allow for it.

Now, let me finish with guidance.

The overall headline is that the underlying business conditions that we've been seeing are unchanged, save for Russia and the continued strengthening of the U.S. dollar. Our business continues to perform well and to post top-line growth ahead of our peers. As you can imagine, we're keeping a close eye on the geopolitical, macroeconomic, and policy environments, but against that backdrop in Q1, renewal rates remained strong, multi-year billings were in line with our expectations, and we exited the quarter with strong momentum. As we look ahead, and as with previous quarters, we're assuming that market conditions in fiscal 23 are consistent with recent quarters.

The decision to halt our new and *renewal* business in Russia had a direct impact on our outlook: billings decreased by approximately $115 million, revenue by $40 million, and free cash flow by $80 million. Of course, we're not satisfied with that outcome and will work hard to mitigate the impact by accelerating our channel evolution, customer retention, and digital growth initiatives, and by doubling down on early successes from recent acquisitions like Innovyze.

Beyond Russia, the U.S. dollar continued to strengthen during Q1. While we benefit from a robust hedging program, the pace of FX volatility has been incredibly rapid and is having an impact on our fiscal 23 outlook, reducing billings, revenue and free cash flow by approximately $80 million, $20 million, and $50 million, respectively.

Bringing these factors together, we expect fiscal 23 revenue to be between $4.96 and $5.06 billion. We expect non-GAAP operating margin to increase 400 basis points year over year to approximately 36 percent, reflecting one point of impact from removing Russia from our forecasts. We expect free cash flow to be between $2.00 and $2.08 billion.

The slide deck on our website has more details on modeling assumptions for Q2 and full-year fiscal 23.

The volatile global environment has reinforced the structural growth drivers underpinning our strategy, which give us confidence in our long-term growth potential. We continue to target double-digit revenue growth, non-GAAP operating margins in the 38 percent to 40 percent range, and double-digit free cash flow growth on a compound annual basis. These metrics are intended to provide a floor to our revenue growth ambitions and a ceiling to our spend growth expectations.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Debbie.

Our strategy is to transform the industries we serve with end-to-end, cloud-based solutions that drive efficiency and sustainability for our customers. Our business is scalable and extensible into adjacent verticals: from architecture and engineering, through construction and owners; from product engineering, through product data management and product manufacturing. It is also scalable and extensible between verticals, with industrialized construction, and into new workflows, like XR. By accelerating the convergence of workflows within and between the industries we serve, we are also creating broader and deeper partnerships with existing customers and bringing new customers into our ecosystem.

For example, in AEC, AECOM is the world's most trusted infrastructure consulting firm that delivers professional services throughout the project lifecycle – from planning, design and engineering to program and construction management. With growing investment in infrastructure, customers are increasingly seeking both efficiency and sustainability to meet ESG goals such as net-zero carbon, resiliency, quality of life, social impact, and safety. This aligns AECOM and its customers closely with Autodesk's values and capabilities. In Q1, AECOM renewed and increased its EBA with Autodesk. The renewal promotes further platform standardization and now extends from design further into build, with the addition of Autodesk Construction Cloud, and from bridges and tunnels to water, with the addition of Innovyze.

Across the globe, our customers are seeking to connect and streamline their workflows. As we enable our partner network to distribute Autodesk Construction Cloud, we serve more of that growing demand.

For example, Bravida, which is based in Sweden, is a leading provider of technical end-to-end consulting, design, installation, and service solutions across the Nordic region focusing on efficiency and sustainability. It is responsible for the installation of fire sprinklers, ventilation, electrics and safety systems in the tunnels of The Stockholm Bypass Project, the largest infrastructure project in

Sweden's history. Having adopted Autodesk's AEC Collections, and realizing 50 percent cost savings and a significant reduction in carbon dioxide using Revit in the design phase of the project, Bravida was looking for a complementary system to seamlessly connect the build phase. Adopting Autodesk Build enables it to connect office and field data and workflows in the cloud; standardize and track projects accurately; and manage procurement and logistics, health and safety, and cost more effectively and efficiently.

With the launch of Autodesk Build, the introduction of an account-based pricing business model, distribution through our channel partners, and giving subcontractors the ability to have their own instance of their data, we are connecting more workflows both within construction and between adjacent workflows in design, preconstruction, and operations and maintenance.

After evaluating various project management solutions for more than a year, Donohoe Construction Company, a top mid-market GC in Washington D.C., chose Autodesk Build to seamlessly connect project, site and cost management workflows. Autodesk's industry leading cost management system, which is integrated into, and included with, Autodesk Build, is anticipated to enable Donohoe to control change order management and reporting much more seamlessly with its project and site management workflows. We're excited to partner with Donohoe to build a sustainable future together.

We're investing in Autodesk Construction Cloud to do even more. For example, we launched Bridge to enable subcontractors to have their own instance of their data, a critical factor in improving their business processes. We're also rapidly integrating ProEst so that estimates can be pushed to the cost module in Autodesk Build enabling it to automatically create a budget.

With strong growth from Autodesk Build, and the benefit of recently launched ACC bundles for pre-construction and construction operations, Autodesk Construction Cloud reported its best-ever new business growth quarter, with an increasing proportion of that growth coming from EMEA and APAC, and growing contract size and renewal rates.

Turning to manufacturing, we sustained strong momentum in our manufacturing portfolio this quarter as we connected more workflows beyond the design studio, developed more on-ramps to our manufacturing platform, and delivered new powerful tools and functionality through Fusion 360 Extensions.

As we connect and develop new workflows in the cloud and provide more ways for customers to use our products, we have the opportunity to renew engagement with some of our legacy customers. For example, a high-tech manufacturer in Germany which has been using Autodesk's software since 1991, was using Inventor software purchased in 2018. By updating from a perpetual license to a Product Design and Manufacturing Collection subscription in Q1, the team will benefit from significant process and performance improvements which alleviate mechanical engineering bottlenecks and better serve its high-demand periods. Because of its familiarity with Autodesk, the customer enabled these improvements immediately and leveraged its existing IP without migration. We are happy to have them back on our latest and most secure software.

In automotive, we continue to grow our footprint, beyond the design studio into manufacturing, as automotive OEMs seek to break down work silos and shorten hand-off and design cycles. Enovate Motors, an electric vehicle manufacturer in China, added Product Design and Manufacturing Collections on top of its Alias and VRED subscriptions to achieve a seamless digital workflow across design and manufacturing. Enovate will be able to build higher-quality cars, more efficiently, by connecting workflows in the cloud that enable more collaboration and better data integrity.

Our Fusion 360 platform approach enables customers to seamlessly connect workflows while also delivering powerful tools and functionality to those that need it through extensions. For example, an educational toy manufacturer based in the US started using Fusion 360 about a year ago and quickly recognized the impact working on the cloud would have on its ability to collaborate across sites between Product Design and Product Engineering. In Q1, it was able to seamlessly activate Manage, Nesting, and Product Design Extensions within the Fusion 360 user interface giving access to even more powerful tools and functionality to those that needed it. For example, the Fusion 360 Manage Extension unlocks additional data management functionality to manage design changes at any stage of production with the click of a button using pre-built workflows.

Fusion 360's commercial subscribers grew steadily, ending the quarter with 198,000 subscribers with demand for our new extensions, including Machining, Generative Design, and Nesting & Fabrication, continuing to grow at an exceptional pace.

Outside of commercial use, our education partnerships are helping students learn the in-demand skills of the future. For example, Government Tool Room & Training Center, or GTTC, is a premier vocational institute in India with 6,000 students across 28 campuses. In Q1, GTTC adopted Fusion 360 in its tool and die making courses because it was easy for students to learn; spanned the entire course from conceptual design through simulation to fabrication; and gave students hands-on experience with next-generation workflows such as generative design, 3D printing for additive manufacturing, and digital simulation and generation of G-code outputs.

And finally, we continue to bring more users into our ecosystem through business model innovation and license compliance initiatives.

BESIX is a multidisciplinary firm whose contracts in construction, infrastructure and machine works often have a high level of complexity. To support its standardization effort across all projects and regions, The BESIX Group uses BIM Collaborate Pro and Docs to collaborate on Revit projects in a secure common data environment. For additional security and efficiency, it now leverages our Premium Plan and Flex. By better understanding its usage through the enhanced reporting function within our Premium Plan, it can provide access to occasional users through Flex, while realizing the additional security benefit of single sign on across its global employee base.

We continue to work with our customers to maximize their access to current and secure versions of our software. For example, an international research institution in Europe, which has both students and employees, was mistakenly using education subscriptions for commercial use cases. By partnering with their leadership, we ensured the relevant departments had access to the necessary tools by combining subscriptions to our industry collections with Flex tokens. The collaborative approached resulted in a compliance deal of over one million euros. During the quarter, we closed eight deals over 500,000 dollars with our license compliance initiatives, two of which were over a million dollars.

Let me finish with a story. I recently visited the FUTURES exhibition at the Smithsonian Institution in Washington D.C. I highly recommend visiting if you are in the area this summer before it closes in mid-July. It is the Smithsonian's first building-wide exploration of the future. Autodesk partnered with the Smithsonian to create an interactive experience called Future Communities that brings visitors together to build a sustainable community block using analytics and goal-driven design with Autodesk generative design technology. Guests collaborate both with each other and A.I., adjusting the inputs they deem most important. Each guest takes on a different persona with specific goals and input factors which include social, ecological and economic considerations, ranging from availability of green space and low-carbon transportation to the reach of public services and employment opportunities. The evolving community block is displayed in real time, and the technology showcases the types of trade-offs necessary to achieve various outcomes. The exhibit structure was generatively designed to be strong and lightweight, using sustainable materials and modular space-frame components that can be easily assembled and disassembled for minimum construction waste.

The exhibit not only represents Autodesk's vision of the future – that of collaborative and connected workflows and data in the cloud that designs and makes a better world for all; that meets the challenges posed by carbon, water, and waste; and that advances equity and access to the in-demand skills of the future – but in addition, the exhibit represents a very diverse set of visions for how the future may unfold. The one thing they share is an unwavering sense of optimism about what we can all accomplish together. Every day, our goal is to empower innovators with design-and-make technology that turns their visions into reality, helping them to achieve the new possible. I share this story because it gives me great confidence in the future of Autodesk and our vision of a better world designed and made for all.

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