Q422 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the fourth quarter and full-year results of our fiscal 22. On the line with me are Andrew Anagnost, our CEO, and Debbie Clifford, our Chief Financial Officer.

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 10-Q, for important risks and other factors including developments in the COVID-19 pandemic and the resulting impact on our business and operations 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. 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 fourth quarter and full-year revenue, non-GAAP operating margins and free cash flow. Our strong results and competitive performance were underpinned by some perennial factors: our ability to deliver greater value to our customers and partners through consistent investment in our technology, work force, and business model and customer experience. Let me talk briefly about each of these as they are just as important to our future growth as they have been to our growth in the past.

All of our technology investments – be it in 3D and BIM, enabling workflows in the cloud, in generative design, in make, and in newer verticals like water and construction – all of them connect siloed, adjacent workflows in the cloud and lead our customers to new, more efficient and sustainable ways of working. At Autodesk University, we announced we are moving from products to platforms and capabilities, and bringing those capabilities to any device, anywhere, through the cloud. Fusion 360 is at the leading edge of this transition and our recent acquisitions of Prodsmart and CIMCO will enable us to further digitize and connect shop floor processes in manufacturing to help build connected factories while providing additional on ramps into, and usage of, our manufacturing platform. Similarly, our acquisitions of Moxion and LoUPE enable us to connect

Media & Entertainment workflows and data from post-production to pre-production. With Media & Entertainment signing its largest-ever EBA in the fourth quarter, the ability to connect pre-production workflows further expands our addressable TAM.

We're also continuing to invest in our workforce, attract and retain the best talent in our industries, and cultivate a shared sense of purpose and of diversity and belonging. We recently received recognition for that work with inclusion on the Corporate Knights index of the world's most sustainable companies and the highest possible score on the Human Rights Foundation Corporate Equality Index. We are proud of our purpose and unique culture, one consequence of which is relatively low attrition compared to our technology peers. This is another source of competitive advantage in tight labor markets. It also means that when gifted leaders like Scott Reese and Pascal Di Fronzo decide to climb their next mountain, we have a deep bench of internal talent, like Jeff Kinder and Rebecca Pearce, and alumnae, like Ruth Ann Keene, to step into their shoes.

And finally, business model and customer experience optimization. This includes the shift from perpetual licenses with maintenance to tiered subscriptions; the shift from desktop multi-user licenses to named user subscriptions and consumption; the shift from indirect to direct; the shift from front-end to back-end payments to channel partners; and, most recently, the shift from up-front to annual billing – all of which enable us to better serve more customers in flexible and customized ways. As of February 1, we unified all customer and partner facing activities –Marketing, GTM, Customer Success and Customer Operations – under our COO, Steve Blum, to give us a better end-to-end view of the customer experience and to drive sustainable competitive advantage and growth.

While the pandemic and its aftershocks mean we will fall narrowly short of the financial targets set more than five years ago, we have made tremendous progress through consistent investment in our technology, our workforce, and our business model and customer experience which have added adjacent use cases and usage in our ecosystem, growing our addressable market and our ability to realize it. Importantly, the pandemic has accelerated the structural growth drivers underpinning our future growth. We have robust momentum as we enter fiscal 23 and over the long term.

Now let me 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 provide an update on our strategic growth initiatives.

DEBBIE CLIFFORD, CFO

Thanks, Andrew.

In an extraordinary year, we performed strongly across all metrics, perhaps best summarized by the sum of revenue growth and free cash flow margin for the year, which was 49 percent.

Our fourth quarter results were strong. Several factors contributed to that, including robust renewal rates, strong growth in subscriptions, and rapidly expanding digital sales.

Total revenue grew 17 percent, or about 2 percentage points less in constant currency, with subscription revenue growing by 18 percent. Looking at revenue by product: AutoCAD and AutoCAD LT revenue grew 20 percent, AEC revenue grew 17 percent, and manufacturing revenue grew 4 percent. Recall that Vault became ratable in fiscal 22 and that manufacturing also benefited in Q4 last year from a strong performance in automotive EBAs, which included significant upfront revenue. Excluding these impacts, manufacturing revenue grew in double digits in Q4. M&E revenue grew 38 percent, which included some upfront revenue from its largest-ever EBA. Even if you exclude upfront revenue, M&E grew more than 20 percent in Q4. Across the globe, revenue grew 18 percent in the Americas, and 16 percent in both EMEA and APAC.

Direct revenue increased 27 percent and represented 38 percent of total revenue, up from 34 percent last year, due to strength from both enterprise and eCommerce. We had our best-ever revenue quarter for digital sales, which helped annual eCommerce sales surpass half a billion dollars for the first time.

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

Billings increased 13 percent to $1.7 billion, reflecting robust underlying demand but also a tough EBA comparison from last year. Total deferred revenue grew 13 percent to $3.8 billion. Total RPO of $4.7 billion and current RPO of $3.1 billion grew 12 and 15 percent, respectively and as expected, reflecting billings growth and 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 93 percent, while non-GAAP operating margin increased by 5 percentage points to approximately 35 percent, reflecting strong revenue growth and ongoing cost discipline.

GAAP operating margins declined by 6 percentage points to 12 percent primarily due to lease-related charges of approximately $100 million, which reflects the progress we've made to reduce our real-estate footprint and to further our hybrid workforce strategy, as we announced on our last call.

We delivered record free cash flow in the quarter and for the full year of $716 million and $1.5 billion, respectively.

Having completed our first sustainability bond last quarter at historically attractive rates, we continued to optimize our capital structure in Q4 by accelerating our share repurchase activity. Given the recent pullback in our share price, we opportunistically repurchased shares at a higher rate than previous quarters, which allowed us to offset dilution in fiscal 22 and get ahead of a sizable amount of our estimated dilution in fiscal 23. The net result was a slight reduction in our weighted average shares outstanding at the end of the year. During Q4, we purchased 2.3 million shares for $613 million dollars at an average price of approximately $267 per share. For the full year, we repurchased nearly 4 million shares at an average price of approximately $276 per share, for a total spend of just over $1 billion dollars. You'll see us continue to be opportunistic with share buybacks, but our capital allocation strategy is unchanged: we'll invest organically and inorganically to drive growth, as well as purchase shares to offset dilution from our equity compensation plans over time.

Now, let me finish with guidance.

On our last call, we signaled that we saw FX headwinds and macroeconomic uncertainty due to supply chain challenges, labor shortages, and the ebb and flow of COVID. That perspective hasn't changed, so the risk we highlighted three months ago is now incorporated into our fiscal 23 outlook. Beyond that, we did see further strengthening of the U.S. dollar, resulting in a slight incremental FX headwind to our fiscal 23 expectations. To put it in numerical terms, our fiscal 22 revenue growth reflects a two percentage point currency tailwind, which, with FX movements in the last quarter, becomes a roughly one percentage point headwind to fiscal 23 revenue growth. Similarly, FX moves during the fourth quarter resulted in an approximately $30 million incremental headwind to fiscal 23 free cash flow. Beyond FX, we are obviously keeping a close eye on the geopolitical, macroeconomic and policy environments.

But having said all that, our strong momentum and competitive performance in fiscal 22 set us up well for fiscal 23. And we've assumed that market conditions in fiscal 23 are consistent with what we experienced in the second half of fiscal 22.

We expect fiscal 23 revenue to be between $5.02 and $5.12 billion, with growth of approximately 16 percent at the mid-point and which reflects an incremental 1 percentage point FX headwind as I mentioned earlier. We expect non-GAAP operating margins to be approximately 37 percent and free cash flow to be between $2.13 and $2.21 billion. The mid-point of that range, $2.17 billion, implies 47 percent growth and reflects the incremental $30 million FX headwind that I mentioned earlier.

The slide deck on our website has more details on modeling assumptions for Q1 and full-year fiscal 23.

The pandemic has reinforced the structural growth drivers underpinning our strategy and we remain confident 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 enable our customers to drive efficiency and sustainability. Structural growth drivers underpinning this strategy have been reinforced by the pandemic, including increased workflow convergence and platform standardization; a growing focus on distributed working in the cloud, automation, and workforce productivity; and also the growing importance of sustainability. Our model is scalable and extensible into adjacent verticals: from architecture and engineering, through construction and owners; from product engineering, through product manufacturing and product data management. And, as I stated earlier, with our consistent investment in our technology, our workforce, and our business model and customer experience; we are well positioned to realize these opportunities. And so, by both leading and partnering with our customers on new ways of working, we will grow, too.

For example, Goldbeck is one of Europe's largest commercial design and construction companies, and a leading practitioner of industrialized construction, and they use Inventor, Revit, Forge and generative design on our platform to implement their precast and modular system concept. By standardizing the invisible and customizing the visible, Goldbeck has been able to design and build highly customized and aesthetically pleasing buildings reliably, quickly and efficiently. Having unified around BIM, Goldbeck is now seeking to grow and connect beyond the design process to further improve efficiency and reduce waste through design automation during capital planning, for which it is trialing Spacemaker, and greater collaboration across the design and build phases of construction using Autodesk Construction Cloud.

With the launch of Autodesk Build, the introduction of an account-based pricing business model and distribution through our channel partners, we are extending our reach into the construction market.

For example, Lee Lewis Construction, an ENR 400 general contractor from Texas, has been driving innovation through construction technology for over 45 years. In 2021, it began adopting capabilities of the Autodesk Construction Cloud, beginning with Assemble for Virtual Design and Construction, with the end goal of a full replacement of their project management software with Autodesk Build. By having one platform for the full end-to-end construction workflow, Lee Lewis will be able to more efficiently deliver extraordinary results for their clients, from concept planning to ribbon cutting.

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 quarter and accelerating growth in the fourth quarter, entering FY 23 with strong momentum.

We continue connecting the dots in infrastructure, too, most recently through the acquisition of Innovyze. Sustainable water is an area of opportunity for Autodesk across the globe. For example, Thames Water owns and operates one of the oldest and most complicated water supply networks in Europe, supplying 9 million customers in London and the Thames Valley. With InfoWorks WS Pro, and IWLive Pro from Innovyze, and an ongoing recruitment drive to double the size of their internal hydraulic modeling team, it is building a Modeling Centre of Excellence with a library of hydraulic models that can be run in near real-time. When connected and compared with telemetry, these dynamic digital twins will become powerful planning tools enabling Thames Water's teams to gain near real-time insight into its system performance, leading to improved outcomes for its customers of today and tomorrow. I'm very pleased to report that Innovyze had its best quarter ever.

Turning to manufacturing, we sustained strong momentum in our manufacturing portfolio this quarter as we connect more workflows beyond the design studio and develop more on ramps to our manufacturing platform.

In automotive, we continue to grow our footprint beyond the design studio and into manufacturing and connected factories, as automotive OEMs seek to break down work silos and shorten hand-off and design cycles. For example, a multinational automobile company, which designs and jointly manufactures premium electric cars, operates in 4 countries across the world and is currently in the process of expanding to a further 20. With its new EBA signed in the fourth quarter, it is not only adding additional users of Alias and VRED, it is also partnering with our consulting teams and product experts to both extend its in-house manufacturing capabilities with Autodesk's Moldflow, and working on the roll out of Shotgrid globally, to help seamlessly manage and collaborate across its end-to-end workflows.

Our platform approach gives new customers multiple on ramps into our cloud ecosystem. For example, a European based startup that creates smart charging systems for EVs worldwide, uses a competitor's product in design but was also running into collaboration challenges due to the rapid growth of its business. It chose Upchain as its cloud data management system because it is easy to install, is up and running out of the box, and enables all users anywhere, and on any device, to collaborate on up-to-date data in real time. And it is easy to add new users and scale with the hyper growth of the company. These are also all attributes of Fusion 360 and we hope to earn the right to connect more workflows for Upchain users in the future.

Fusion 360s commercial subscribers grew steadily, ending the quarter with 189,000 subscribers. Early demand for our new extensions, including Machining, Generative Design, and Nesting & Fabrication, has been strong and there has been significant interest in our upcoming simulation and design extensions.

While we often think of education users taking Fusion 360 with them into the workforce, our commercial customers are also taking Fusion 360 into education to help train their future workforce. For example, Lawrence Equipment, as a member of the Pasadena City College advisory board, showed the college how Fusion 360 had helped it innovate and improve its design and manufacturing workflows, resulting in greater operational efficiency, improved productivity, and higher quality production. Upon adoption for its Machine Shop Program, the college immediately found that students using Fusion 360 were spending less time learning how to use the software and more time on the machines, learning important machining skills. The students also better understood how their work affected the company. As a result, Lawrence Equipment can hire from a steady pool of highly qualified Pasadena City College graduates — a win-win.

With sustained demand for compelling content, and growing pressure to produce that content more efficiently, there is increased demand for content creation tools and cloud-enabled production workflows in the media and entertainment industries. As a result, Media & Entertainment finished the year strong as companies emerging from the pandemic sought to connect siloed workflows and remote teams.

For example, Technicolor, a worldwide creative technology leader, has renewed its commitment to Autodesk's content creation and production management tools, such as Maya and ShotGrid. By standardizing on common tools across its global studios, Technicolor can unleash the creative potential of its remote and distributed workforce. By efficiently and securely connecting teams, Technicolor can continue to serve the growing demand for compelling content, redefining what's possible for storytellers and audiences around the globe.

And finally, we continue to enable more users to participate in our ecosystem more productively, through business model innovation and our license compliance initiatives.

With single sign-on for improved security and user-level reporting, our premium plan enables our customers to manage their software usage across distributed sites more safely and efficiently. As we help our customers understand the details of how they use our solutions, the better we can ensure their success by efficiently and effectively implementing them. For example, The ZETA Group, with 17 subsidiaries worldwide, specializes in planning, automation, digitalization and maintenance of customized biopharmaceutical facilities for aseptic process solutions. ZETA was looking for better visibility into its employee software usage and easier administration of subscribers. In Q4, it doubled the number of premium plan subscriptions to gain comprehensive employee-level reporting for better insight and easier administration.

That visibility into employee software usage and easier administration of subscribers also makes premium plans an attractive solution for customers seeking to remain license compliant. For example, after identifying that a multinational consumer products company based in the U.S. had gaps in its account plan, we worked with its team to run a diagnostic scan to ensure it had access to the latest and safest versions of our software. This process identified gaps in software availability and license mix. Our collaborative, helpful approach enabled more users to access the latest versions of our software and upgrading to our premium plan made it easier to administer and manage access in the future. During the quarter, we closed 16 deals over 500,000 dollars with our license compliance initiatives, four of which were over a million dollars.

As I said earlier, by both leading and partnering with our customers on new ways of working, we will grow, too. And while there will certainly be twists and turns on the road ahead, in many ways the pandemic has accelerated the future and increased my confidence in our strategy. Empowering innovators with design-and-make technology to achieve the new possible also enables them to build and manufacture efficiently and sustainably. We continue to execute well in challenging times and look forward to Autodesk’s next 40 years with excitement and optimism.

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