Q325 Opening Commentary

SIMON MAYS-SMITH, VP INVESTOR RELATIONS

Thanks, operator, and good afternoon. Thank you for joining our conference call to discuss the third quarter results of Autodesk's fiscal 25. On the line with me is Andrew Anagnost, our CEO, and Betsy Rafael, our interim CFO.

During this call, we will make forward-looking statements, including outlook and related assumptions, and on products and strategies. Actual events or results could differ materially. Please refer to our SEC filings, including our most recent Form 10-Q 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.

We will quote several numeric or growth changes during this call 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.

We finished the third quarter of the year strongly, delivering 12 percent revenue growth in constant currency, and have again raised full year guidance. This reflects the sustained momentum of the business and successful execution of our strategy, including a smooth implementation of the new transaction model in Western Europe. Once again, opportunity, resilience and discipline underpinned our performance.

Last month, at Autodesk University in San Diego, we hosted 12,000 registered attendees, and another 30,000 online. We showed how granular data in the cloud, organized in data models, and connected to everything through APIs, can deliver ever more valuable and connected solutions for customers and partners, and support a much broader ecosystem and marketplace. Customers and channel partners that I spoke with at AU remained cautiously optimistic, a sentiment consistent with the underlying momentum of our business, our growing product usage, and BuildingConnected bid activity trends over recent quarters. I left AU with a tremendous sense of purpose and optimism in the ingenuity and persistence of our customers, and for the future.

On our earnings call last quarter, I set out our secular growth opportunities and our strategy to capitalize on them. I concluded that Autodesk's investments in cloud, platform, and AI in pursuit of those opportunities were ahead of its peers. AU was a good demonstration of that. But we're also leading the industry in modernizing our go-to-market motion, starting a few years ago with the subscription transition, through consumption and self-service enablement, and more recently to direct billing. These initiatives enable Autodesk to build larger and more durable direct relationships with its customers and to serve them more efficiently. We have already seen significant benefits from initiatives like these and there's more to come in the next optimization phase.

Taking out the effects on margins from FX and the new transaction model, we still expect to be towards the mid-point of our fiscal 26 non-GAAP operating margin target of 38 to 40 percent in fiscal 25, a year ahead of schedule. We are confident we will make further improvement in fiscal 26 on the same basis. The new transaction model will enable tighter channel partnerships with less duplication of effort; and more digital self-service and automation, which increases customer satisfaction and workforce productivity. It will also create new opportunities for partners and Autodesk to earn more, with less emphasis on transaction revenue sharing and a greater emphasis on value creation for customers. Once complete, we expect the new transaction model and subsequent go-to-market optimization to increase sales and marketing efficiency and deliver GAAP margins among the best in the industry.

Attractive long-term secular growth markets, a focused strategy delivering ever-more valuable and connected solutions to our customers, and a resilient business, are generating strong and sustained momentum both in absolute terms and relative to peers. Disciplined execution and capital deployment is driving even greater operational velocity and efficiency within Autodesk and will underpin the mechanical build of revenue and free cash flow over the next few years, and GAAP margins among the best in the industry. We will continue to deploy capital to offset and buy forward dilution as our free cash flow grows from the fiscal 24 trough. This practice has reduced our share count over the last three years. We have significantly increased our share repurchase authorization to extend this momentum flexibly over the medium term, with the precise trajectory remaining dependent on our debt repayment schedule and the ebb and flow of M&A. In combination, we believe these factors will deliver sustainable shareholder value over many years.

Before I conclude, I'd like formally welcome Janesh to Autodesk. We're excited to welcome Janesh, who brings a wealth of experience and will be instrumental in sustaining Autodesk’s growth and enhanced profitability momentum.

Of equal importance, I’d like to thank Betsy for stepping in as interim CFO at an important time in the company’s journey and I'm looking forward to continuing to work closely with her as an Autodesk board member.

I will now turn the call over to Betsy to discuss our quarterly financial performance and guidance for the year. I'll then return to provide an update on our strategic growth initiatives.

BETSY RAFAEL, INTERIM CFO

Thanks, Andrew.

Q3 was another strong quarter. We generated broad-based underlying growth across products and regions. In addition, we saw revenue increases from the new transaction model and M&A which were offset by the absence of enterprise business agreement true ups from Q3 last year and FX. Our Make products continue to enhance growth driven by ongoing strength in construction and Fusion. Overall, macroeconomic, policy, and geopolitical challenges, and the underlying momentum of the business, were consistent with the last few quarters with continued strong renewal rates and headwinds to new business growth.

Total revenue grew 11 percent, and 12 percent in constant currency. By product in constant currency: AutoCAD and AutoCAD LT revenue grew 8 percent; AEC revenue, which was most impacted by the absence of true-up revenues, grew 12 percent; manufacturing revenue grew 16 percent, and still comfortably in double digits excluding up-front revenue; and M&E revenue grew 15 percent, boosted by the Pix acquisition and associated integration adjustments. By region in constant currency: revenue grew 11 percent in the Americas, which was most impacted by the absence of true-up revenues, 13 percent in EMEA, and 14 percent in APAC. The mechanical contribution from the new transaction model to revenue was $17 million in the third quarter and $25 million year to date.

Direct revenue increased 23 percent and represented 42 percent of total revenue, up four percentage points from last year, benefiting from strong growth in both EBAs and the Autodesk Store, and also the mechanical tailwind to revenue from the new transaction model.

Net revenue retention rate remained within the 100 to 110 percent range at constant exchange rates.

Billings increased 28 percent in the quarter, reflecting a tailwind from the prior year's shift to annual billings for most multi-year contracts, early renewals, and the natural tailwind from the transition to the new transaction model. Similar to last quarter, and as expected, co-terming negatively impacted billings ahead of the launch of the new transaction model in Western Europe. The natural contribution from the new transaction model to billings was $72 million in the third quarter and $108 million year to date.

Total deferred revenue decreased 9 percent to $3.7 billion and was again impacted by the transition from up-front to annual billings for multi-year contracts. Total RPO of $6.1 billion and current RPO of $4.0 billion grew 17 percent and 14 percent, respectively, which reflect a tailwind from early renewals and the new transaction model, and a headwind from the declining contribution of billed and unbilled deferred revenue from large multi-year and EBA cohorts ahead of renewal in fiscal 26. Excluding these, cRPO growth was broadly consistent with Q2. We expect the new transaction model and the larger FY 26 renewal cohorts to have a greater impact on both RPO and cRPO growth in Q4 of fiscal 25.

Turning to margins, GAAP and non-GAAP gross margins were broadly level. With Autodesk University shifting back to Q3 this year from Q4 last year, GAAP and non-GAAP operating margins decreased by 2 and 3 percentage points, respectively. The timing effect from AU obviously washes out over the full year.

At current course and speed, the ratio of stock-based compensation as a percent of revenue peaked in fiscal 24, will fall by more than a percentage point in fiscal 25, and will be below 10 percent over time.

Free cash flow for the quarter was $199 million. This benefited from some channel partners in Western Europe booking business earlier in the quarter ahead of the transition to the new transaction model to de-risk month one after the transition. This accelerated free cash flow to the third quarter which was partly offset by the expected negative impact of co-terming in Western Europe.

Turning to capital allocation, we continue to actively manage capital within our framework and deploy it with discipline and focus through the economic cycle to drive long-term shareholder value. As expected, the pace of buybacks picked up in the third quarter. We purchased approximately 1.2 million shares for $319 million, at an average price of approximately $269 per share.

We will continue to deploy capital to offset and buy forward dilution as our free cash flow grows from the fiscal 24 trough. This practice has reduced our share count by about 5 million shares over the last three years with an average percentage reduction of about 70 basis points per year. We increased the amount authorized under our share repurchase program by $5 billion, for a total of approximately $9 billion, this extends our flexibility over the medium term with the precise trajectory remaining dependent on our debt repayment schedule and the ebb and flow of M&A.

Now, let me finish with guidance.

As we said in February, the pace of the roll out of the new transaction model will create noise in billings and the P&L so we think free cash flow is the best measure of our performance. Taking out that noise, the underlying momentum in the business remains consistent with the expectations embedded in our guidance range for the full year with continued strong renewal rates and headwinds to new business growth. Our sustained momentum in the third quarter, and smooth launch of the new transaction model in Western Europe, reduce the likelihood of our more cautious forecast scenarios. Given that, we're raising the mid-points of our billings, revenue, margins, earnings per share, and free cash flow guidance ranges. Let me give you a bit more detail.

The underlying momentum of billings is in line with our expectations. Compared to our modeling at the start of the year, the launch of the new transaction model in Western Europe in Q3 and early renewals have been a tailwind to billings. Whereas more co-terming, more business done under the old buy/sell model before the launch of the new transaction model, and, in recent weeks, FX movements, have been headwinds to billings. We now estimate that the new transaction model will provide between a 5 and 5.5-percentage point tailwind to billings growth in fiscal 25. We've raised the mid-point of our fiscal 25 billings guidance by $10 million to a range of $5.90 to $5.98 billion.

The underlying momentum of revenue is also in line with our expectations. We estimate the new transaction model will provide around a 1 to 1.5-percentage point tailwind to revenue growth in fiscal 25. Up-front revenue contributed 2 percentage points to revenue growth in Q4 of fiscal 24 and this is a headwind in Q4 of fiscal 25. While not large enough to call out at the start of the year, it was already factored into our Q4 and full-year modeling. We've raised the mid-point of our fiscal 25 revenue guidance range by $18 million to a range of $6.12 to $6.13 billion.

We're increasing our GAAP and non-GAAP margin guidance mid-point by 25 basis points by raising the bottom end of both ranges by 50 basis points. The GAAP margin guidance range is now 21.5 to

22 percent. The non-GAAP margin guidance range is now 35.5 to 36 percent which includes a 1 to 1.5-percentage points underlying margin improvement broadly offset by the margin headwinds from the new transaction model and related incremental investment in people, processes, and automation.

The underlying momentum of free cash flow is in line with our expectations. The headwind to billings from co-terming and FX rates, that I mentioned earlier, is being offset by early renewals, faster collections and improved underlying margins. We've raised the mid-point of our fiscal 25 free cash flow guidance by $10 million and tightened the range to $1.47 to $1.5 billion. We expect strong free cash flow growth in fiscal 26 because of the return of our largest multi-year renewal cohort, the natural mechanical stacking of multi-year contracts billed annually, and a larger EBA cohort. With our current trajectory, we still estimate free cash flow in fiscal 26 to be around $2.05 billion at the midpoint.

The slide deck on our website has more details on modeling assumptions for Q4 and full-year fiscal 25.

While this will be my last earnings call for Autodesk, I will stick around for a bit to ensure a smooth transition for Janesh. Thank you, Andrew, and everyone at Autodesk, for your support while I was here, and to the many investors and analysts with whom I’ve had lively discussions over the last few quarters. While the transition to annual billings for multi-year contracts and the deployment of the new transaction model has created noise in billings and the P&L, they do provide a natural near-term tailwind to revenue and free cash flow growth. Combined with a resilient business model and sustained competitive momentum, Autodesk has enviable sources of visibility and certainty in an uncertain world. For all these reasons, I step down from my role as interim CFO with tremendous optimism for the future.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Betsy.

Let me finish by updating you on our strong progress in the third quarter.

We continue to see good momentum in AEC, particularly in infrastructure and construction, fueled by customers consolidating onto our solutions to connect and optimize previously siloed workflows through the cloud. The cornerstone of that growing interest is our comprehensive end-to-end solutions encompassing design, preconstruction, field execution, through handover and into operations. This breadth of connected capability enables us to extend our footprint further into infrastructure and construction and also expand our reach into the mid-market. As a sign of our growing momentum as the benefits of our end-to-end solution become more apparent, our construction business continued to perform robustly, with net-new customers doubling year over year and existing customer renewal and expansion rates remaining strong.

Let me give you a few examples.

Power Construction is #79 on the Engineering News-Record (ENR) top 400 US contractor list. It is a Chicago-based general contractor serving residential and non-residential end markets. After completing a competitive RFP to replace its legacy project management tool, Power selected Autodesk for its unified construction platform across pre-construction, construction, and VDC. By standardizing on Autodesk Construction Cloud, Power will have a single source of truth for project data, enhanced collaboration capabilities, and streamlined workflows on a single platform. Power Construction was one of two ENR 400 top 100 US contractors that standardized enterprise-wide on Autodesk Build during the quarter.

In Europe, Bouygues, a top 10 ENR 250 International contractor based in France, and leader in sustainable building and infrastructure projects, renewed and expanded its EBA in the quarter. Bouygues is continuing to consolidate on Autodesk solutions across the enterprise, including broader adoption of Autodesk Forma, Carbon Insight, and Informed Design to digitize, decarbonize, and industrialize projects. It also significantly increased its commitment to Autodesk Construction Cloud to drive efficiency gains and faster bid response times through better collaboration between design and project teams.

Surbana Jurong is #23 on ENRs top 225 International Design Firms. Based in Singapore, it is an urban, infrastructure, and integrated solutions consulting firm. In Q3, it renewed its third EBA which included increased investment in Autodesk Construction Cloud and Autodesk Water Infrastructure Solutions. ACC is helping to scale its operations through increased automation, integrated design workflows, and enhanced collaboration across time zones. Our Water Infrastructure Solutions will be a core technology supporting its growth ambitions in planning, designing, engineering and managing water projects for customers worldwide.

Again, these stories have a common theme: managing people, processes and data across the project lifecycle to increase efficiency and sustainability, while decreasing risk. Over time, we expect the majority of all projects to be managed this way and we remain focused on enabling that transition through our industry clouds.

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. Fusion remains one of the fastest growing products in the manufacturing industry. As customers seek to drive innovation and growth at lower cost, Fusion Extension attach rates are increasing which is helping to drive the average sales price higher.

For example, in the quarter, a global manufacturer supplying the semiconductor industry selected Fusion Manage and Vault PLM over competitive solutions, to foster greater collaboration across manufacturing sites and improve operating efficiency. Once fully scaled and operational, this customer expects to save 105,000 hours per year by connecting people and data resulting in reduced product development costs and faster time to market.

In the UK, Playdale Playground has been designing, manufacturing, and installing outdoor playground equipment for over 40 years. This quarter, Playdale added Fusion to its existing portfolio of Autodesk solutions, including Inventor, AutoCAD, and Vault, to streamline and digitize workflows, optimize production to reduce lead times, reduce non-conformities, and replace inefficient Excel-driven operations on the shop floor.

A long-time Autodesk customer, and global leader in precision-engineered solutions, renewed and expanded its EBA in the quarter. In addition to Inventor, Vault, and AutoCAD, it is adopting Fusion's generative design capabilities for material waste reduction and fluid flow optimization, and Moldflow, to reduce manufacturing costs and defects while increasing mold yields.

In education, universities continue to modernize their courses and curriculum to attract and prepare future engineers. For example, from this winter, students at the University of Stuttgart’s Institute for Medical Device Technology, will use Fusion across 6 courses. Fusion was selected to replace a competitive solution for its modern platform, ease of use, cloud collaboration capabilities, and unique combination of PCB and Additive manufacturing workflows in a single team environment.

And lastly, we continue to work with our customers to ensure they are using the latest and most secure versions of our software. For example, after a period of rapid scaling and diversification, a large multinational manufacturing company in APAC was looking to align compliance rates across its global employee base. Working collaboratively, we addressed compliance issues while cementing a long-term partnership and completing one of our largest-ever license compliance agreements which included expanded adoption of Alias and VRED for their design studio, and PDMC for mechanical engineering and rail design.

Attractive long-term secular growth markets, a focused strategy delivering ever-more valuable and connected solutions to our customers, and a resilient business, are generating strong and sustained momentum both in absolute terms and relative to peers. Disciplined execution and capital deployment is driving even greater operational velocity and efficiency within Autodesk. And we continue to deploy capital to deliver sustainable shareholder value over many years. I retain a tremendous sense of purpose and optimism in the ingenuity and persistence of our customers, and for the future.

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