Q122 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the results of our first quarter of fiscal year 2022. 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 the course of 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, 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 and 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. I hope you and your families remain safe and healthy.

While parts of the world emerge from the pandemic, others are entering the eye of the storm. I especially want to acknowledge our colleagues, family and friends in India. We are thinking about you and are helping wherever we can. Thank you to **all** our employees and their families, our partners, and customers for their continued resilience, patience, and commitment.

Our first quarter marks an important inflection point. While solid execution, a resilient subscription business model, and the continued secular shift to the cloud underpinned our strong first quarter results, waning uncertainty and growing confidence in our end markets generated momentum. Robust growth in new product subscriptions, combined with improving usage and renewal rates, accelerated billings and RPO growth to 10 percent and 22 percent, respectively. Together, these reinforce our confidence that we are through the revenue growth trough and on track to achieve our fiscal 22 and 23 goals.

In mid-May, we completed the acquisition of Upchain, a cloud-native product-data and lifecycle management solution. Combined with existing Autodesk offerings like Fusion 360, Upchain will profoundly simplify data-sharing and collaboration for engineers, manufacturers, suppliers, and other product stakeholders, enabling customers to bring products to market faster and build a stronger supply chain. Its next-generation platform enables it to be rapidly deployed, scaled, maintained and updated without the expensive, inflexible and time-consuming integrations of legacy systems. We will grow Upchain through our enterprise and channel partnerships, and expect it to become a meaningful on-ramp for legacy design tools to the Fusion 360 cloud ecosystem and facilitate further expansion in adjacent verticals.

As we highlighted in our recently published Impact Report, the convergence of design and make brings both greater efficiency and sustainability to buildings, and a broad range of manufactured goods, stretching from EVs and bicycles to high-performance skis and low-cost ventilators. While we are enabling customers to achieve their sustainability targets, we continue to lead by example, reaching our carbon-neutral goal across our business and value chain in fiscal 21. The report also sets out new diversity, equity and inclusion goals. While I am proud that 50 percent of Autodesk's Board, and 45 percent of our executive team, are women, we can, and will, do more both internally and, through partnerships with organizations like JFFLabs, externally.

As we recently announced, Pascal Di Fronzo, Autodesk's executive vice president of corporate affairs and chief legal officer, will be retiring in December after 23 very successful years at the company. He has been a trusted counselor and steward of the company. His contributions to Autodesk are many and have been incredibly impactful, and I want to thank him for his dedication and wish him all the best in retirement.

I am very excited to welcome Debbie back to Autodesk and will now turn the call over to her to take you through the details of our quarterly results and guidance for the year. I will then come back to provide an update on our strategic growth initiatives.

DEBBIE CLIFFORD, CFO

Thanks, Andrew. I am very excited to be back.

Looking at the first quarter's results, several factors contributed to our strong financial performance, including: robust growth in new product subscriptions, accelerating digital sales, stronger than expected upfront revenue and improving subscription renewal rates. In addition, a one-month contribution from Innovyze and foreign exchange rates provided a modest tail wind to the quarter.

Total revenue in the quarter grew 12 percent, and 11 percent in constant currency, with subscription revenue growing by 18 percent. Looking at revenue by product and geography, AutoCAD and AutoCAD

LT revenue grew 9 percent, AEC revenue grew 16 percent, and manufacturing revenue grew 8 percent. Excluding the impact of moving our Vault product to ratable revenue recognition, which we discussed last quarter, manufacturing revenue grew double digits. M&E revenue grew 5 percent. Across the globe, revenue grew 8 percent in the Americas, 11 percent in EMEA, and 20 percent in APAC.

Direct revenue increased 25 percent and represented 33 percent of our total revenue, up from 30 percent last year due to strength from both enterprise and eCommerce. Our eCommerce sites had their highest new billings growth rate in two years driven by strong traffic growth and recent site enhancements.

Reflecting the business-critical nature of our products to our customers, our net revenue retention rate remained within the 100 to 110 percent range and our product subscription renewal rates strengthened.

Our billings accelerated 10 percent to $974 million. Total deferred revenue grew 11 percent to $3.35 billion. Short-term deferred revenue increased 17 percent, primarily reflecting growth in new product subscriptions and increasing renewal rates, but also the inclusion of Innovyze. This was partly offset by a smaller contribution from long-term deferred revenue resulting from fewer multi-year contracts when compared to last year.

Total RPO of $4.23 billion, and current RPO of $2.86 billion, both grew 22 percent. Current RPO growth was primarily driven by the increase in short-term deferred revenue, but also by strong growth in enterprise business agreements and, to a lesser extent, early renewals ahead of anticipated price increases. Excluding the contribution from early renewals and Innovyze, current RPO grew approximately 20 percent.

Non-GAAP gross margin and operating margin remained strong at 92 percent and 28 percent, respectively, broadly level year over year and reflecting the trough in revenue growth relative to cost growth.

We delivered healthy free cash flow of $316 million during the quarter driven by collections of prior quarter billings and strong results in the current quarter.

Consistent with our capital allocation strategy, we continued to repurchase shares with excess cash to offset dilution from our equity plans. During the first quarter, we purchased 515 thousand shares for $143 million at an average price of approximately $277 per share.

Now I'll shift to giving you my initial thoughts as CFO and then finish with our outlook.

Since I re-joined Autodesk about two months ago, I've been focused on 2 things:

First, reacquainting myself with everything Autodesk - the team, our strategy, and how we've evolved during my two years away; and

Second, I've been digging deep to gain a solid understanding of our fiscal 22 budget and fiscal 23 financial goals.

On the first point, while much at Autodesk is familiar to me, I've been pleasantly surprised by how much has changed - for the better - reflecting the enormous progress Autodesk has made over the last two years. Autodesk has undergone a cultural revolution: there's been a powerful shift in the company's values and ways we work and the pace of decision-making has accelerated. As a company, we now benefit not only from the scale of our operation but also from a newfound agility that is enabling our success in newer markets like construction and manufacturing in the cloud. I'm also struck by the compelling and expanding opportunities ahead of us - digital transformation is happening **now**, it is real, and we are well-positioned to capitalize on that trend in the industries we serve. As I begin to turn my attention to our long-range financial plan, these initial learnings give me confidence in our growth potential in fiscal 24 and beyond.

Now I'll turn to our guidance, which now **includes** Innovyze and Upchain.

We still expect that an improving economic environment during the year will result in strong growth in new business over the course of fiscal 22. We expect product subscription renewal rates to continue to be healthy, and our net revenue retention rate to remain between 100 and 110 percent. Given our subscription model, revenue growth will lag the improving sales environment. We continue to expect about three quarters of our free cash flow to again be generated in the second half of the year due to our economic phasing assumptions and normal seasonality.

For fiscal 22, we are raising our full-year revenue guidance to a range of $4.305 to $4.385 billion, or a 14 to 16 percent increase over last year, reflecting a partial-year contribution from acquisitions net of the deferred revenue write downs. Given our results are weighted in the second half, and Q1 is our seasonally smallest quarter, it’s obviously too early to change our view on the underlying trajectory of the year, but we're off to a good start.

We expect non-GAAP operating margin to expand to between 30 and 31 percent, which includes approximately 1 percentage point of negative headwind from acquisitions. Finally, we still expect free cash flow to be around $1.6 billion with a broadly neutral impact from acquisitions.

The slide deck on our website has more details on modeling assumptions for the second fiscal quarter and full year 22.

With improving economic conditions and easier comparables, we still expect our first quarter revenue growth will be the trough. Our accelerating momentum in fiscal 22 will propel us into fiscal 23 and I am therefore confident in our fiscal 23 revenue growth potential and free cash flow target of $2.4 billion.

As I begin to look beyond fiscal 23, the digital transformation of the industries we serve, our sustained investment in the cloud, and our flexible business model, give us a robust platform for double-digit growth.

Andrew, back to you.

ANDREW ANAGNOST, CEO

Thank you, Debbie.

Let me finish by giving you an update on our strategic growth initiatives. The secular trends we have been investing in for years have accelerated during the pandemic. The digitization of AEC, the convergence of design and make, and our expansion into adjacent verticals through organic investment and acquisitions are growing our total addressable market. The evolution of our business model, the value generated by the growing connectivity of our platform for new and legacy customers, and the hardening of our systems to non-compliant users, enable us to attract and retain more of that potential opportunity, growing our ecosystem - and the usage and value we generate from it.

Turning to AEC, our unique vision is to connect all the phases of construction with end-to-end, cloud-based solutions that combine horizontal data flow with best-in-class vertical functionality to enable seamless collaboration from planning, design, pre-construction, construction, asset operations and maintenance. The breadth and depth of our solutions distinguish us in the market and we continue to build on that advantage through industry leading R&D, which we sustained through the pandemic, and acquisitions.

Our latest product releases reflect that. For example, Revit 2022 is a bridge to more open and interoperable ways of working that accelerate our design customers' digital transformation and improve communication of design intent across all disciplines and project phases. For construction teams, we released Autodesk Build, Autodesk Takeoff, and Autodesk BIM Collaborate, as well as product enhancements which further empower construction teams to drive better business outcomes such as winning more business, reducing rework, delivering projects on time and improving safety by connecting data, workflows and teams across the project lifecycle.

As the construction backlog comes back online, and the new project pipeline builds, we are emerging from the pandemic stronger. This is reflected in our success during the quarter.

For example, Burns & McDonnell is a family of companies bringing together an unmatched team of 7,600 engineers, construction professionals, architects, planners, technologists and scientists to design and build critical infrastructure projects. It is at the forefront of technology use and, having invested in Revit and BIM 360 Design some time ago, most of its data is already in the cloud. Monthly Active Users (MAUs) on Autodesk software have grown by 80 percent since 2018. This quarter, Burns & McDonnell renewed its Autodesk EBA and increased its investment with us, adding more cloud-based products from the Autodesk Construction portfolio, including Autodesk Build, Pype, Assemble, and Building Connected. Our unified common data platform enables it to move and collaborate seamlessly from design through construction and to implementation with common workflows across multiple, global practices. 1898 & Co., part of Burns & McDonnell and its future-focused consulting and technology solutions division, is a founding participant in our Tandem digital twin program.

The Boldt Company is a $1 billion professional construction services firm in the U.S., focusing on integrated delivery of complex vertical construction projects that require extremely tight collaboration between stakeholders and integrated workflows between industry partners, the office and field. Boldt was already relying on BIM Collaborate Pro and PlanGrid when, this quarter, it selected Autodesk Build over a directly competitive construction project management solution and also invested in Pype. Autodesk Construction Cloud's unified data platform connects previously siloed data, reduces rework and saves time for Boldt across the company, enabling teams to easily manage projects from planning and design through to the field and handover.

And MultiGreen, a real-estate development and operating company specializing in sustainable and tech-enabled multifamily housing in high-growth and supply-constrained markets, standardized on Autodesk Construction Cloud. In order to build more efficiently and sustainably, they knew they had to standardize on a single platform to connect their teams from concept and design through project completion and day-to-day operations. In addition to Revit, Inventor, BuildingConnected, Autodesk Takeoff and Autodesk Build, they will be using BIM 360's integration with the Embodied Carbon Calculator to analyze material carbon emissions with all of their data connected through our common data environment.

In infrastructure, we released Civil 3D, InfraWorks, AutoCAD Map 3D, AutoCAD Plant 3D and ReCap Pro with enhancements in transportation, water, plant, land development and reality capture. Most importantly, we continue to mature our project delivery platform across design and construction to better support digital project execution that helps our customers increase operational efficiencies, make better design decisions, increase quality, and reduce cost and material waste.

During the quarter, we received notice of an award in design from the Montana Department of Transportation. Instead of a competitor offering, they will now be using our AEC Collection, which includes Civil 3D, Revit, InfraWorks, Navisworks, ReCap and our Common Data Environment, Autodesk Docs. The Department was particularly impressed by connected bridge design workflows between Revit and InfraWorks that drive efficiency and sustainability.

Turning to manufacturing, we've made significant organic investments in addition to Upchain. Inventor 2022 introduced new features and enhancements to speed up product development and interoperability with AutoCAD, Fusion 360 and Revit. In Fusion 360, we have introduced new functionality across the entire product development process and numerous integrated extensions that unlock advanced design and manufacturing technologies. In Vault, we introduced a new mobile application and web browser experience for engineers and non-CAD users to access their real-time data anywhere and on any device.

The potential to converge design and make in the cloud is becoming more of a reality every day to our customers. Autodesk continues to lead that transition.

AAC Technologies, the world's leading solutions provider for smart devices, grew its investment with Autodesk. Having struggled with data management and data integrations in their product lifecycle management using a competitor's 3D modeling product, AAC Technologies switched to our Product Design and Manufacturing Collection with Vault to manage all their data. They found our connected workflows particularly attractive and believe they will improve productivity and collaboration across their teams and enable them to go-to-market more effectively by increasing flexibility in their supply chain. For data management, our customers can now choose Vault for on-prem and Upchain as they transition to the cloud.

With the largest number of new commercial users in 2020, Fusion 360's strong momentum continued, growing commercial subscriptions to 152 thousand without any systematic cost promotions. While still early in its lifecycle, we believe Fusion 360 has reached an adoption tipping point and, with extensions and Upchain, we are excited about its future.

During the quarter, a U.K.-based design, manufacturer, and installer of architectural precast facades invested in Fusion 360 with its nesting and fabrication extension. By converging the design and manufacturing processes into a single unified experience in the cloud, Fusion 360 enables faster design, prototyping, and go to market. By creating optimized and associative multi-sheet layouts for sheet metal and non-sheet metal parts in preparation for cutting on CNC machines, our nesting and fabrication extension helps them to significantly reduce waste.

Last month, three students from Danville Community College in Virginia won the inaugural Project MFG National Championship, an advanced manufacturing competition, sponsored by the U.S. Department of Defense. Jeremiah Williams, Director for Integrated Machining Technology at Danville Community College said: "By testing a variety of advanced skills, like welding and multi-axis machining, as well as communication and teamwork, the Project MFG National Championship is one of the most challenging skilled trade competitions in the country. Fusion 360's next-generation platform enabled our team to complete all required and optional objectives, from prototype through to welding and machining the finished product, and to win this prestigious prize."

As announced last quarter, we extended our multi-user trade-in to August 2023, but we are still seeing customers convert and benefit from the transition to named user. SSP, one of the leading Integrated Design Offices in Germany, traded in their multi-user licenses with us this quarter and significantly increased their investment by purchasing additional AEC collections and premium subscriptions. In the process, they completely replaced a competitive design solution, standardizing their workflows on our cloud platform. The premium plan is especially valuable to them as they improve their site-to-site management using single sign-on which enables more digital collaboration, and efficiency while increasing employee satisfaction.

While we continue to be sensitive as the economy recovers, we are successfully converting non-compliant users to paying customers with Q1 license compliance billings almost doubling year over year during the quarter.

For example, a non-compliant customer converted into one of our largest premium customers to date. Over 500 branches in Indonesia made it difficult to track and manage software usage, and this customer was inadvertently using more licenses than it was paying for. After completing a self-audit, which confirmed the software gap, it purchased premium to help manage the complex roll-out of compliant licenses. They are now a happy premium customer with detailed usage insights and the ability to flexibly manage their licenses from headquarters across their entire branch network.

Let me finish with a story. Construction began on Notre Dame cathedral in 1163 but was not completed for more than 100 years. In a 12th century version of light weighting, Notre Dame was the first Gothic structure to use flying buttresses, which are slanted beams that support the heavy walls and ceilings that enable giant rose glass and stained-glass windows in large edifices and open-aired space beneath them. Following a catastrophic fire in 2019, the cathedral is being rebuilt with traditional and sustainable materials enhanced by next-generation Building Information Modelling provided by Autodesk. Combining traditional design and build know-how with modern workflow solutions, reconstruction is expected to be completed in 2024, in time to welcome athletes at the summer Olympics in Paris, and future generations from across the globe. I share this because, as the world rebuilds after the catastrophic impact of the pandemic, I am reminded again that Autodesk's purpose – to enable its customers to build and manufacture efficiently and sustainably – has never been more important or urgent. Together, we can meet the generational challenges posed by carbon, water and waste. Autodesk's central role in meeting these challenges underpins my confidence this year and my confidence in the future.

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