Q223 Opening Commentary

Simon Mays-Smith, VP Investor Relations

Thanks operator and good afternoon. Thank you for joining our conference call to discuss the second 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.

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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 second-quarter revenue, non-GAAP operating margin and free cash flow. End market demand remained strong during the quarter resulting in robust new business activity. Renewal rates were again excellent. All this, and our strong competitive performance, more than offset the direct and indirect impact of geopolitical, macroeconomic, policy and COVID-19 related factors. Growing commercial usage outside China, Russia, and Ukraine; record bid activity on BuildingConnected; and continued channel partner optimism, leave us well placed to achieve our FY 23 goals.

As I said last quarter, 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 this period of elevated 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.

In pursuit of these goals, we announced at Autodesk University last year that we were moving from products to platforms and capabilities, and bringing those capabilities to any device, anywhere, through the cloud. Over the coming weeks, months, and years, you will hear a lot more from us about our plans and progress to build a world-class customer experience; catalyze our customers' digital transformation; and establish industry leading platforms for design and make.

As evidence of the progress we have made already, Fusion 360 flew past 200,000 subscribers during the second quarter and signed its first million-dollar contract, both important milestones and indications of the opportunities ahead.

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 provide an update on our strategic growth initiatives.

DEBBIE CLIFFORD, CFO

Thanks, Andrew.

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Q2 was a strong quarter across products and channels. Our end markets were broadly consistent with last quarter, with our strongest growth in North America and growth in Europe and APAC impacted by the war in Ukraine and COVID lockdowns in China.

Total revenue grew 17 percent, both as reported and at constant currency. By product: AutoCAD and AutoCAD LT revenue grew 13 percent, AEC revenue grew 18 percent, manufacturing revenue grew 16 percent, and M&E revenue grew 20 percent. By region: revenue grew 22 percent in the Americas, 15 percent in EMEA, and 10 percent in APAC – or 13 percent at constant currency. By channel, direct revenue increased 18 percent, representing 34 percent of total revenue, while indirect revenue grew 16 percent.

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

Billings increased 17 percent to $1.2 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 13 and 10 percent, respectively, reflecting strong billings growth and, as we've highlighted in the last two quarters, the timing and volume of multi-year contracts, which are typically on a three-year cycle. Multi-year contract volume remained strong during the quarter, as expected and as you can see from the uptick in long-term deferred as a percent of total deferred.

Turning to the P&L, non-GAAP gross margin remained broadly level at 92 percent, while non-GAAP operating margin increased by 5 percentage points to approximately 36 percent, reflecting strong revenue growth and ongoing cost discipline. GAAP operating margins increased by 6 percentage points to approximately 20 percent.

We delivered record second quarter free cash flow of $246 million, up 32 percent year over year, reflecting strong billings growth in both Q1 and Q2.

We continued our accelerated share repurchasing during the quarter. We purchased 1.4 million shares for $257 million, at an average price of approximately $182 per share, which, when compared to last year, contributed to a reduction in our weighted average shares outstanding by approximately three million to 217 million shares. While our capital allocation strategy remains unchanged – you can expect that we will continue to invest organically and inorganically to drive growth – we've proactively used our strong liquidity to repurchase 3.5 million shares in the first half of this year, front loading the offset of next year's dilution.

Now, let me finish with guidance.

The underlying business conditions we've been seeing are broadly unchanged. As I mentioned earlier, we're seeing strength in North America and continued healthy growth in Europe and Asia outside of Russia and China due to the geopolitical situation in both regions as well as the COVID lockdowns in China. Our renewals business continues to be a highlight reflecting the ongoing importance of our software in helping our customers achieve their goals. As we look ahead, and as with previous quarters, our fiscal 23 guidance assumes that market conditions remain consistent for the remainder of fiscal 23.

The strengthening of the U.S. dollar during the quarter generated slight incremental FX headwinds which reduce full-year billings, revenue and free cash flow by approximately $20 million, $5 million, and $5 million, respectively.

Bringing these factors together, the overall headline for guidance is that it is unchanged at the mid-point across all metrics with the underlying momentum of the business offsetting those incremental FX headwinds. We're narrowing the fiscal 23 revenue range to be between $4.99 and $5.04 billion. We continue to expect non-GAAP operating margin to be approximately 36 percent and free cash flow to be between $2.00 and $2.08 billion.

The slide deck and updated Excel financials on our website have more details on modeling assumptions for Q3 and full-year fiscal 23.

While the challenges our customers face are changing, the growth drivers underpinning our strategy have only been reinforced, which gives us confidence in our long-term growth potential. We continue to target double-digit revenue growth, non-GAAP operating margins in the 38 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.

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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 operations; 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, Kimley-Horn, one of the nation's premier planning and design consultants, expanded its EBA in Q2 broadening and deepening its long-standing partnership with Autodesk. In addition to increasing its utilization of Civil 3D and Revit, and driving further operational efficiency gains through BIM and cloud collaboration, it also chose to expand use of Innovyze in its rapidly growing water practice to help drive more growth opportunities and productivity gains.

As we highlighted last quarter, digital workflows are being adopted across the infrastructure lifecycle – from asset owners, architects, and engineers to construction – to drive improved efficiency and sustainability. The Indiana Department of Transportation, which was looking for an efficient solution to simplify its document management and field collaboration, is another good Q2 example. By adopting Autodesk Build and ACC Connect, it will improve communication and coordination throughout the construction process and streamline the documentation of citizen issues, resulting in less waste and more return per taxpayer dollar.

Across construction, the industry continues to look to connect workflows from planning and design to preconstruction, construction, and, ultimately, operations and maintenance. And we are enabling our customers to connect those workflows on a single platform. For example, a commercial real estate and property management company focused on owners, investors and occupants, was tired of having multiple platforms across a project lifecycle resulting in inconsistencies, rework, and poor hand offs. In Q2, it adopted the full Autodesk Construction Cloud to connect preconstruction with project management. It added quantification and estimating to BuildingConnected and BIM Collaborate Pro in preconstruction, and Autodesk Build for project management, to give themselves a competitive advantage and increased profitability through improved collaboration and data management.

Across the globe, our customers seek to connect and streamline their construction workflows. And we are enabling and accelerating that through our partner network; launching Autodesk Build in new markets like Japan; enabling more data formats on more devices; and delivering more value to our customers through account-based pricing. We're also giving our customers control of their data through Bridge, leveraging the power of machine learning to anticipate project risk, and seamlessly connecting workflows – like takeoff, estimating and budgeting – to delight our customers and improve their productivity. With monthly active users growing more than 45 percent quarter over quarter, Autodesk Build is being rapidly adopted by existing and new customers to connect and streamline their construction workflows.

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.

Our customers continue to expand their adoption of the Fusion Platform beyond design and engineering. This quarter, a U.S. supplier of metal-cutting tools chose to create a state-of-the-art collaboration tool on Fusion to enable its sales organization to demonstrate its digital manufacturing technology to customers. By enabling customer customizations to be immediately reflected in factory manufacturing instructions, the tool will be a competitive advantage during the selling process. For Autodesk, it adds a significant new persona group to Fusion's addressable market opportunity.

In automotive, we continue to grow our footprint, beyond the design studio into manufacturing, as automotive OEMs seek to break down the work silos and shorten hand-off and design cycles. For example, a top tier commercial vehicles manufacturer renewed and increased its partnership with Autodesk as part of its strategic focus on building a sustainable product and service portfolio which leverages new technologies and digital innovation to accelerate electric vehicle solutions. In addition to Alias, which it already uses for the surfacing work of all its vehicles, it is utilizing VR technology from The Wild in combination with VRED and Navisworks to drive innovation in visualization, from design and engineering through factory design.

Our Fusion 360 platform approach enables customers to seamlessly connect workflows and push the boundaries of innovation through the advanced design and manufacturing technologies in extensions. For example, a global leader in seat manufacturing which works with many major automakers worldwide engaged Autodesk Consulting to develop a blended workflow across design, product engineering, and manufacturing. The result was a seat that improves passenger comfort and safety while reducing the weight and number of parts. Using Autodesk design tools like Alias Conceptual Design and Fusion 360 Generative Design, it was able to redefine seat design with thinner seat sections and improved comfort and safety.

Fusion 360's commercial subscribers grew steadily, ending the quarter with 205,000 subscribers and demand for our new extensions (including Machining, Generative Design, and Nesting & Fabrication) continuing to grow at an exceptional pace.

In education, engineering students are using Fusion 360 to learn the skills of the future in institutions like Grwp Llandrillo Menai, the largest further education college group in Wales. Students there are applying their studies to benefit local industry partners and businesses. For example, students recently used Fusion 360’s cloud-based data management and advanced 3D machining to help a local RV manufacturer improve its output by about 50 percent. The college is now planning to integrate Fusion 360 across its 11 campuses due to its ease of use, modern user interface, accessibility across devices, and ability to collaborate on team projects and share data.

And finally, we continue to bring more users into our ecosystem through business model innovation and license compliance initiatives. When one of our EMEA customers realized that some usage from its international offices was non-compliant, it needed time and data to better understand its users before purchasing subscriptions. By purchasing our first-ever 100 thousand pack of Flex tokens, the customer gained instant access to Autodesk's portfolio of products and the usage data to make informed decisions on its future subscription purchases while also opening up new competitive opportunities for Autodesk. During the quarter, we closed 7 deals over 500,000 dollars with our license compliance initiatives, 3 of which were over a million dollars.

Flex and Premium are also helping customers transition from multi-user to named-user contracts. A leading supplier of concrete formwork and scaffolding systems in Europe has been unifying internally around BIM to accelerate its digital transformation. It added Premium Plan to its Transition to Named trade-ins to centralize software management, enable user-based analytics and license optimization, and benefit from single sign-on security. It can also purchase Flex tokens to cover its occasional user needs.

Let me finish where I started. Strong demand and robust competitive performance delivered excellent Q2 results. Our subscription business continues to demonstrate its growth potential and resilience. By accelerating the convergence of workflows within and between the industries we serve, we are accelerating the digital transformation of our customers and creating broader and deeper partnerships with them. And by moving from products to platforms and capabilities, and bringing those capabilities to any device, anywhere, through the cloud, we are expanding our opportunity horizon. Look for us to talk more about that over the coming weeks, months, and years. We look forward to seeing many of you at Autodesk University in a few weeks.

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