Q421 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 fourth quarter of fiscal year 2021. On the line with me is Andrew Anagnost, our CEO, Stephen Hope, Vice President, Chief Accounting Officer, and Abhey Lamba, our Vice President of Go-to-Market Finance.

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, 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 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 the press release or the slide presentation 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.

Before jumping into our fourth quarter and full-year results, I would like to again thank our employees – and the families and communities that support them – as well as our partners and customers, for their continued commitment during uncertain times.

That commitment, combined with our resilient subscription business model and the secular shift to the cloud, enabled us to maintain momentum and exceed our goals. We generated strong growth, with full-year subscription revenue and remaining performance obligations (or RPO) up 26 percent and 19 percent, respectively. We also made significant progress toward digitizing AEC, converging design and make in manufacturing and converting non-compliant and legacy users. We signed a record number of new enterprise business agreements, or EBAs, in the fourth quarter. In fact, they were equal to the number we signed in the entirety of the previous year. That's a testament both to our execution and growing partnership with our enterprise customers as we enable their digital transformations, demonstrated by enterprise BIM 360 usage nearly doubling year over year. While we made great strides this year, we intend to extend our leadership in the cloud and expand our presence in existing and adjacent industry verticals across the globe.

The pending acquisition of Innovyze, which we announced yesterday and is expected to close later this quarter, is a great example of that intent. Innovyze is a global leader in water infrastructure simulation and modeling, serving many of the world's largest utilities, the majority of the top ENR design firms, and other leading environmental and engineering consultancies. Innovyze enables water distribution networks and drainage systems to be more cost-effectively and sustainably designed and operated. Combined with CIVIL 3D, InfraWorks, Revit and Autodesk Construction Cloud, we would be able to provide end-to-end water and wastewater solutions across planning, design, construction and operations. With our existing capabilities in road and rail, and our partnership with Aurigo in capital planning, we now have end-to-end infrastructure solutions for facility owners and public sector agencies. Autodesk provides Innovyze with multiple opportunities to scale through enterprise, channel sales, and geographic expansion. We also intend to apply our expertise in navigating through a business model transition to drive additional growth in fiscal 2024 and beyond.

I'm excited about the opportunities ahead, and look to the future with optimism. In the near term, we expect the unwinding of uncertainty from vaccine availability and political stability to drive confidence and investment over the second half of the year. Over the long term, Autodesk's purpose – to drive efficiency and sustainability - has never been more relevant or urgent. In partnership with our customers, we have an unmatched capacity to drive efficiency <u>and</u> meet the global challenges of carbon emissions, embedded carbon, water scarcity and waste.

And Autodesk is playing its part. We are on track to meet our commitment to be climate neutral and remain dedicated to being a resilient, diverse, and equitable company. We were recently recognized by Barron's as #4 on their list of the world's 100 most sustainable companies, and the highest-ranked software company. We are proud of our impact at Autodesk, and - through our customers - the impact we are making in the wider world.

I'm thrilled to announce two strong additions to my team. Debbie Clifford will be returning to Autodesk as Chief Financial Officer and Raji Arasu will be joining as Chief Technology Officer.

Debbie is currently Chief Financial Officer at SurveyMonkey but spent the 13 years prior to that role in various financial leadership roles at Autodesk, including leading the internal business model transition team, engaging with many of you in support of our investor outreach, and as my finance business partner before I became CEO. With her leadership skills, expertise, and passion for our mission, Autodesk's finance team will not miss a beat.

Raji joins us from Intuit, where she currently serves as senior vice president of their Platform and Services business. Prior to that, she was CTO for eBay subsidiary StubHub. At Autodesk, she will oversee and be responsible for the Autodesk's technology and platform strategy, as well as being operationally responsible for the on-going development of our platform services.

Raji will replace current Autodesk CTO Scott Borduin, who announced his intent to retire last year after more than 21 years of service to the company. Scott had two tours as Autodesk CTO – the prior one working for Carol Bartz – and has not only contributed to the rise of Inventor and Fusion to the products they are today, but also as a passionate evangelist for Autodesk and our vision. Emblematic of his dedication to Autodesk, he moved out his retirement date so that he can help Raji during her transition into Autodesk. I'd like to give Scott a heartfelt thank you for all he's done and is continuing to do.

Before I provide insights into our strategic growth drivers, let me take you through the details of our quarterly and full-year performance, and guidance for the next year.

In an extraordinary year, we performed strongly across all metrics, perhaps best encapsulated by the sum of our revenue growth and free cash flow margin for the year equaling 51 percent.

Several factors contributed to that strength in the fourth quarter, including: record EBAs, robust subscription renewal rates, accelerating digital sales, and continued sequential growth in new business.

Total revenue growth in the quarter was 16 percent, both as reported and in constant currency, with subscription revenue growing by 22 percent and now representing approximately 91 percent of total revenue. There was approximately 2 percentage points of benefit to subscription and maintenance growth from upfront revenue recognition of some products that do not incorporate substantial cloud services.

Looking at revenue by product and geography: AutoCAD and AutoCAD LT, revenue grew 11 percent in the fourth quarter, and 16 percent for the year. AEC grew 18 percent in Q4, and 20 percent for the year. Manufacturing rose 17 percent in Q4, and 10 percent for the year. Even excluding the benefit from a strong performance in automotive EBAs, which include non-ratable VRED revenue, manufacturing revenue grew double digits in the quarter. M&E grew 14 percent in the quarter, boosted by a strong performance from our collaboration platform, Shotgun, and was up 10 percent for the year. Geographically, revenue growth ticked up in all regions. Revenue grew 14 percent in the Americas, 13 percent in EMEA, and 23 percent in APAC during the quarter.

We also saw strength in direct revenue, which rose 28 percent versus last year, and represented 34 percent of our total sales, up 3 percentage points from the fourth quarter of last year. The strength in our direct business was driven by some non-ratable products included in a few large EBAs and digital sales.

During the year, we grew total subscriptions by 8 percent to 5.3 million. Excluding the multi-user trade-in program, total subscriptions grew 4 percent to 5.1 million. Subscription plan subscriptions grew 15 percent, and by 10 percent excluding the multi-user trade-in program. We added 130 thousand make subscriptions due to the strong adoption of our BIM 360 family and Fusion 360 products.

During Q4, our maintenance conversion and renewal rates declined sequentially, which was expected as we are entering the final stages of our maintenance-to-subscription program. With only one quarter left before this program retires, we have approximately 126 thousand maintenance subscriptions remaining, accounting for approximately 3 percent of our revenue in the fourth quarter. I am proud to share that we have converted over 1.3 million maintenance subscriptions to date.

At the end of the fourth quarter, the lion's share of our commercial subscriptions were named users benefiting from easier access, usage data visibility, and secure license management. We anticipate many of our remaining multi-user subscribers will make the transition to named users as the pandemic recedes, and we are now extending our 2:1 multi-user trade-in to August 2023 to enable that. As announced last November, we are also exploring consumption-based models to meet the needs of customers requiring flexible license usage.

Our net revenue retention rate remained within the 100 to 110 percent range we laid out in our guidance. Our product subscription renewal rates remained robust, reinforcing the business-critical nature of our products to our customers.

Our billings were broadly level with last year, reflecting fewer multi-year sales, and our long-term deferred revenue was 26 percent of total deferred revenue in Q4.

Our total RPO, of $4.2 billion is up 19 percent, and our current RPO of $2.7 billion grew 16 percent.

On margins, we continue to realize good operating leverage due to strong revenue growth and diligent expense management. For the full year, non-GAAP gross margins remained very strong at

93 percent, up 1 percentage point from last year. Our non-GAAP operating margin increased by 5 percentage points to 29 percent.

As you have seen in our press release, our GAAP results include a $679 million deferred tax asset valuation allowance released in the fourth quarter. This largely reflects the completion of our business model transition and the significant growth in our profitability.

Consistent with our capital allocation strategy, we continued to repurchase shares with excess cash to offset dilution from our equity plans. During the fourth quarter, we purchased 530 thousand shares for $157 million dollars at an average price of approximately $295 per share. For the full year, we purchased 2.6M shares for $549 million dollars at an average price of approximately $208 per share.

Now let me turn to our guidance, which does not include Innovyze.

We expect an improving macro-economic environment during the year will result in accelerating growth in new business over the course of fiscal 2022. Usage trends during the fourth quarter remained above pre-COVID levels in most of Asia Pacific and Continental Europe and below pre-COVID levels in the U.S. and UK. We have seen an uptick in interest for multi-year deals, growing optimism in the channel, and gradual recovery in bid activity on BuildingConnected in the U.S. We expect product subscription renewal rates to continue to be very 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.

For fiscal 2022, we expect revenue to grow by 13 to 15 percent, margins to expand to between 31 and 32 percent, and free cash flow growth to re-accelerate to approximately 20 percent. When looking at the quarterization of free cash flow for fiscal 2022, we expect about three quarters of our free cash flow to again be generated in the second half of the year due to our macro-economic phasing assumptions and normal seasonality. As we noted last quarter, Vault revenue is becoming ratable for fiscal 2022 with the release of significant new mobile functionality in the first quarter, and this will reduce our revenue growth by about a percentage point over the year with the biggest impact in other revenue on the P&L and in the manufacturing product family.

Looking at our guidance for the first quarter, normal seasonality is compounded by Vault ratability and one fewer calendar day versus Q1 fiscal 2021, which together reduce year-on-year revenue growth in the first quarter by about 2 percentage points. With improving macro-economic conditions and easing comparables, we expect our revenue growth to accelerate after the first quarter. The slide deck on our website has more details on modeling assumptions for the fiscal first quarter and full year 2022.

We expect Innovyze to be accretive to revenue growth, broadly neutral to free cash flow and a headwind on reported operating margins in fiscal 2022 and 2023. We will provide additional details after the Innovyze transaction completes.

Let me finish by giving you some details on the progress we made executing on our strategy to digitize AEC, converge design and make in manufacturing, and monetize non-compliant and legacy users.

Earlier in February, we launched our Autodesk Construction Cloud platform, which unifies our organic and acquired AEC cloud offerings—and the data held within them—to enable a connected project ecosystem across design and construction. Underpinning the Autodesk Construction Cloud is our common data environment, Autodesk Docs; this provides seamless navigation, integrated workflows and project controls, and enables a single source of truth across the project lifecycle. Autodesk Build brings together the best of PlanGrid and BIM 360 with new functionality which, along with Autodesk Quantify and BIM Collaborate, creates a comprehensive suite of field construction and project management solutions. For our design customers, BIM Collaborate Pro extends the capabilities of BIM 360 Design on the new platform to create a more seamless exchange of project data between design and construction. Our strategy is to combine organic and acquired software in existing and adjacent verticals to create end-to-end, cloud-based solutions for our customers that drive efficiency and sustainability. We have pursued that strategy to create Autodesk Construction Cloud, we are pursuing that strategy in infrastructure with the acquisition of Innovyze, and we will continue to pursue that strategy in manufacturing.

The reasons for, and benefits of this strategy, were clearly demonstrated in our fourth quarter results. Our growing partnership with our enterprise customers—as we enable their digital transformations—resulted both in a record number of new EBAs in the fourth quarter; and also strong expansion and renewal rates with existing EBA customers.

We are seeing our new products—typically used by contractors—being increasingly adopted by design firms. For example, we expanded our agreement with Jacobs, the world's largest design firm, to include Pype, PlanGrid, and Assemble to enable greater collaboration and more efficient workflows. Autodesk has been a trusted partner of Jacobs over the last 30 years, aligned with its mission to challenge today and reinvent tomorrow. Jacobs is also using Autodesk's transformative services to help them deliver innovative solutions to their customers. For example, Autodesk and Jacobs partnered to deliver the world's first generatively designed airport in Australia and, together, we are focused on leveraging generative design to solve other client challenges around the world.

Environmental Air Systems (EAS), a full-service mechanical contractor and custom-built HVAC equipment manufacturer which is on the forefront of industrialized construction, increased its investment with Autodesk by replacing its existing project management tool with BIM 360. It is now able to leverage its existing investment in AEC Collections, and provide a comprehensive tool for its teams to collaborate and to connect the office and the field.

And Tyréns, a leading sustainable urban development consultancy in Sweden, significantly expanded its strategic platform partnership with Autodesk. As Per Bjälnes, Tyréns Digital Strategy Manager for Business Area X, said, "Tyréns is at the leading edge of the digital transformation of the construction and maintenance industry. Digitalization enables smart building design, but requires secure data flows and seamless collaboration across a broad ecosystem of stakeholders during the construction and operations process. Autodesk's Revit and BIM 360 Docs empowered us to create true digital representations, and now with Autodesk Forge we can leverage those assets as digital twins to create value for different stakeholders, such as a reduction of energy consumption, the prediction and optimization of maintenance, and new smart seamless end user services."

We are also seeing benefits from our strategy in manufacturing. In the automotive sector, we now provide design software through our enterprise agreements to nearly all the largest global Automotive OEMs, and are extending our footprint beyond design into the factory. For example, our expanded partnership with Rivian, a global provider of electric adventure vehicles, now extends across facilities with Revit, BIM360, and PlanGrid; manufacturing with Inventor and generative design; and in the design studio with Alias, VRED, and Shotgun. We are able to support Rivian as it converts existing facilities to digital twins, optimizes its factory layout using generative design, improves energy efficiency through simulation, and enables collaboration and efficiency using a common data environment.

Similarly, we are providing end-to-end support to our long-term customer, Transmashholding (TMH), which is the largest manufacturer of rolling stock and rail equipment in Russia and CIS, to accelerate its digital transformation and converge its design and make processes. TMH now builds trains in concept in Alias, designs and engineers in Inventor, optimizes in Fusion, produces in Powermill, and sells in VRED.

Our market-leading cloud-based platform, Fusion 360, enjoyed another quarter of accelerating subscriptions, growing scale of deployments, and adding competitive displacements, ending the quarter with over 140 thousand commercial subscriptions. Conturo Protoptyping, a machine shop based in Pittsburgh, recently expanded its relationship with Autodesk by adding more Fusion seats.

Conturo is also adopting our recently launched machining extension, due to its integrated Design and CAM workflows, its advanced manufacturing capability, and the potential of generative design to reduce project timelines and solve design-for-manufacturing issues faster than ever before.

In education, we continue to expand our footprint and replace traditional CAD competitors. With Tinkercad and Fusion 360 alone, Autodesk is now approaching 40 million education users worldwide. For example, all of University College London's Mechanical Engineers switched to Fusion 360 during the fourth quarter. As Professor Tim Baker, MBE, who led the transition, said: "Covid-19 accelerated UCL's transition to the cloud. By enabling collaborative, multi-disciplinary engineering, Fusion 360's next-generation platform equips our graduates to become the world's leading engineers of the future." While all our software remains free for educators and students, graduates continue to bring Fusion 360 with them into the workplace, from startups through to the giants of manufacturing.

While we have moderated our license compliance activity during the pandemic, we continue to work with existing and potential customers to ensure they pay for the software they use and comply with our terms of use. Our goal remains to give non-compliant and legacy users access to the benefits of subscription access through flexible models. During the quarter, we closed 23 deals over 500 thousand dollars with our license compliance initiatives, 3 of which were over a million dollars.

For example, a European customer became aware during its transition to named users that its employees were accessing licenses in regions outside of the contract scope. Our Premium Plan provided them with the flexibility to manage all licenses centrally, monitor usage to remain in compliance, and resulted in a million-dollar-plus deal.

And a leading supplier of industrial automation solutions based in Europe, who became a legacy customer 3 years ago, subscribed to our Product Design and Manufacturing Collection when we were able to demonstrate that recent workflow improvements and cloud enabled functionality would allow them to win more business by improving communication with their own customers, and improved efficiency through quicker layout in 2D and handover to 3D and visualization.

In closing, we continue to build a stronger Autodesk for the long term. Our early and sustained organic and strategic investment in critical capabilities like cloud computing and cloud-based collaboration – combined with a successful transition to a SaaS business model – give us significant competitive advantages and confidence to grow in the double-digit range in the foreseeable future. We expect to have accelerating momentum during fiscal 2022 and we have multiple drivers that make us confident in our fiscal 2023 free cash flow target of $2.4 billion and double-digit growth thereafter.

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