

Autodesk Inc. (ADSK)

\$208.95 (As of 02/17/20)

Price Target (6-12 Months): **\$219.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/28/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

Autodesk's portfolio strength is helping it counter competition and win customers. Increasing adoption of BIM 360 solution is a key catalyst. The company is benefiting from higher subscription revenues, gross margin expansion and lower operating expenses. We believe that higher demand for Autodesk's cloud-based products, mobile solutions and design suites will drive the top line over the long haul. Autodesk has a mixed record of earnings surprise in the recent quarters. However, weakening demand environment in the U.K. and Central Europe (sluggish Germany) is expected to hurt profits. A slowing China economy and unfavorable currency are headwinds. Shares have underperformed the industry in a year's time.

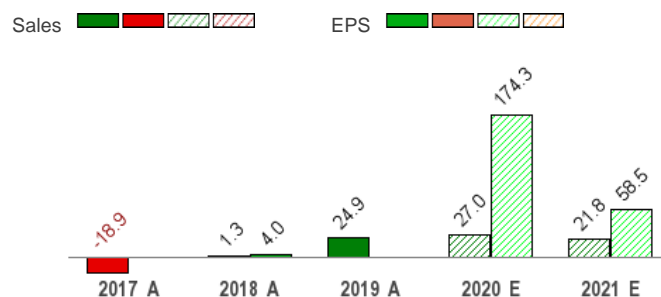
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$210.13 - \$129.70
20 Day Average Volume (sh)	1,356,190
Market Cap	\$46.0 B
YTD Price Change	13.9%
Beta	1.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 16% (42 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	89.3
P/E F1	47.6
PEG F1	1.3
P/S TTM	14.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	909 E	967 E	1,020 E	1,080 E	3,976 E
2020	736 A	797 A	843 A	890 E	3,265 E
2019	560 A	612 A	661 A	737 A	2,570 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.92 E	\$1.06 E	\$1.17 E	\$1.29 E	\$4.39 E
2020	\$0.45 A	\$0.65 A	\$0.78 A	\$0.89 E	\$2.77 E
2019	\$0.06 A	\$0.19 A	\$0.29 A	\$0.46 A	\$1.01 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/17/2020. The reports text is as of 02/18/2020.

Overview

San Rafael, CA.-based Autodesk develops model-based design, engineering and documentation software and also offers consulting, support and training services. The company serves customers in architecture, engineering and construction; manufacturing; and digital media and entertainment industries.

Autodesk reported revenues of \$2.57 billion in fiscal 2019. Total maintenance and subscription revenues accounted for 94.8% of revenues, while the rest came from License and other.

Autodesk has four product families: Architecture, Engineering and Construction (AEC), Manufacturing (MFG), AutoCAD and AutoCAD LT (ACAD) and Media and Entertainment (M&E).

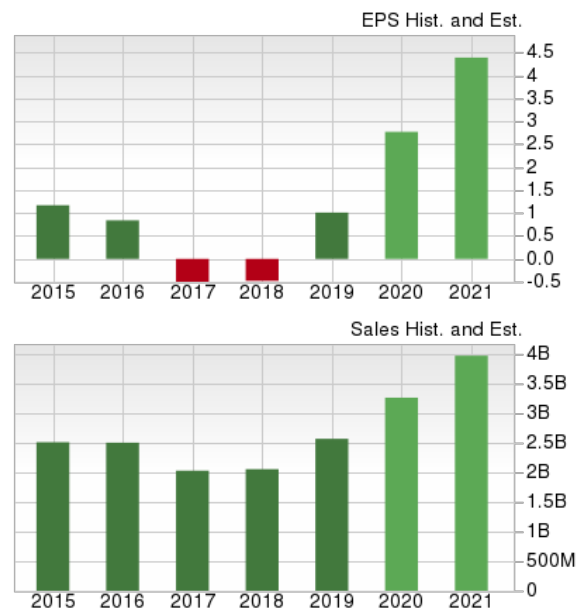
AEC solutions improve the way building, infrastructure, and industrial projects are designed, built, and operated. The product segment accounted for 39.7% of revenues in fourth quarter fiscal 2019.

MFG provides manufacturers in automotive, transportation, industrial machinery, consumer products and building product industries with comprehensive digital design, engineering, manufacturing and production solutions. The product line accounted for 23.8% of revenues.

ACAD comprises AutoCAD and AutoCAD LT. AutoCAD software is a customizable and extensible CAD application for professional design, drafting, detailing, and visualization. AutoCAD LT software is purpose built for professional drafting and detailing. The product line accounted for 28.3% of revenues.

Media and entertainment products provide tools for digital sculpting, modeling, animation, effects, rendering, and compositing for design visualization, visual effects and games production. The product segment accounted for 7.4% of revenues.

Geographically, Americas accounted for 41.5% of revenues in third-quarter fiscal 2020. Europe, Middle East, and Africa (EMEA) and Asia Pacific accounted for 39.1% and 19.4% of revenues, respectively.



Reasons To Buy:

- ▲ Autodesk's business transition from perpetual licenses to cloud-based services is expected to benefit it in the long run by boosting subscriptions and deferred revenues. Also, in order to influence customers to move from maintenance subscriptions to product subscription, management is offering discount, which is increasing subscription base. Moreover, growth in total ARR and annualized revenues per subscription (ARPS) is positive. Additionally, the company is gaining from robust performance of the Enterprise Business Agreement (EBA) program.
- ▲ We remain positive on Autodesk's long-term growth prospects as it is well positioned to capitalize on the rapid adoption of computer-aided designing and manufacturing through its comprehensive product portfolio. We believe that higher demand for the company's cloud-based products (BIM 360 cloud platform, Shotgun and Fusion Lifecycle), mobile products (AutoCAD 360) and design suites will drive top-line growth. Autodesk is also benefiting from its investment in digital infrastructure that includes its e-store. Moreover, the company remains focused on undertaking more cost-cutting initiatives as a part of its business transition. This is likely to boost profitability in the long haul.
- ▲ Autodesk's aggressive acquisition strategy has played a pivotal part in developing its business over the last couple of years. The company continues to expand its product portfolio through the acquisition of small start-ups that are easy to integrate into its own business line. Autodesk recently acquired PlanGrid in a bid to expand its presence in the construction space. The company also acquired BuildingConnected. The addition of BuildingConnected's bid management platform improves the company's visibility into new construction projects and bidding phase. We believe that Autodesk will continue to pursue strategic acquisitions in order to expand its cloud and mobile-based offerings over the long term.
- ▲ Autodesk's strong cash balance enables it to pursue growth strategies like acquisitions and share repurchase. As of Oct 31, 2019, Autodesk had cash and cash equivalents (including marketable securities) of \$1.02 billion compared with \$991.3 million as of Jul 31, 2019.

Autodesk is expected to benefit from the increasing subscriptions revenues, robust demand for BIM 360 cloud platform offerings, acquisitions and solid balance sheet.

Reasons To Sell:

- ▼ Autodesk's top-line growth over the last couple of years has been negatively impacted by the ongoing business model transition. The continuing movement from perpetual licenses to cloud-based services as well as migration of maintenance plan customers to subscription plan offerings has hurt revenues and the trend is expected to continue in the near term.
- ▼ Higher spending (cost of revenues + operating expenses) continues to weigh on profitability. Although restructuring programs are corrective measures to realign cost, their success often depends on execution. Most importantly, we believe that there is a certain limit up to which costs can be curtailed, after which investments are needed to boost organic growth. However, the company's plan to continue to shift to mobile and cloud computing will increase investments. In the long term, we believe that restructuring programs will not be enough to boost earnings and the company will need to generate organic revenue growth in order to yield profits.
- ▼ Autodesk has significant product concentration. The company derives a significant portion of its revenues from AutoCAD and AutoCAD LT, which accounted for 28.3% of revenues in fiscal 2019 compared with 20% in fiscal 2018.
- ▼ Moreover, Autodesk generates significant portion of revenues from international operations. Despite hedging program, the exposure makes the company vulnerable to foreign currency volatility.

Autodesk's ongoing business model transition, higher spending, product concentration and foreign currency exposure are major headwinds.

Last Earnings Report

Autodesk Q3 Earnings Beat Estimates, Revenues Up Y/Y

Autodesk reported third-quarter fiscal 2020 non-GAAP earnings of 78 cents per share that beat the Zacks Consensus Estimate by 6.9%. Moreover, the figure was much better than earnings of 29 cents posted in the year-ago quarter.

The earnings figure also surpassed management's non-GAAP earnings guidance of 70-74 cents per share.

Revenues of \$842.7 million comfortably surpassed the consensus mark of \$824 million and grew 27.5% year over year. At constant currency (cc), revenues were up 28%. Acquisitions contributed 4% to revenue growth.

The figure beat the management's guided range of \$820-\$830 million.

Recurring revenues represented 96% of Autodesk's third-quarter fiscal 2020 revenues, flat year over year.

Top-Line Details

Subscription revenues (84.8% of revenues) soared 48.6% year over year to \$715 million. However, maintenance revenues (10.8% of revenues) slumped 39.2% to \$91.2 million.

Revenues were also positively impacted by a 23.7% year-over-year increase in other revenues (4.3% of revenues), which totaled \$36.5 million in the reported quarter.

Geographically, revenues from the Americas (41.5% of revenues) increased 30.1% from the year-ago quarter to \$349.3 million. Europe, Middle East and Africa (EMEA) revenues (39.1% of revenues) increased 23.7% to \$329.6 million. Revenues from Asia-Pacific (19.4% of revenues) grew 30.1% to \$163.8 million.

Autodesk's top line improved slightly in the United Kingdom and central Europe. The commercial business in China continued to perform well despite a slowdown in state owned enterprises.

Billings of \$1.01 billion surged 55% year over year in the reported quarter.

Product-Wise Top-Line Details

Autodesk offers primarily four product families, Architecture, Engineering and Construction (AEC), AutoCAD and AutoCAD LT, Manufacturing (MFG), and Media and Entertainment (M&E).

AEC (42.5% of revenues) revenues surged 35.7% year over year to \$358 million. AutoCAD and AutoCAD LT (29.1% of revenues) revenues rose 28.8% to \$245.4 million. MFG (21.6% of revenues) revenues increased 15% to \$182.2 million. M&E (6% of revenues) grew 16.1% to \$50.6 million. Moreover, other revenues (0.8% of revenues) jumped 47.7% to \$6.5 million.

Annualized Recurring Revenues in Detail

Annualized Recurring Revenues (ARR) were \$3.22 billion, up 28% year over year. Acquisitions (completed over the trailing 12 months) contributed \$113 million to ARR. Notably, BIM 360 ARR growth accelerated in the reported quarter.

Subscription plan ARR of \$2.86 billion surged 49% (50% at cc). The figure includes \$597 million related to the maintenance-to-subscription (M2S) program.

M2S conversion rate increased to an all-time high of 40%. The growth in conversion rate was primarily due to 20% increase in maintenance renewal prices, making it more cost effective for customers to shift subscription based pricing.

However, maintenance plan ARR of \$365 million declined 39% (40% at cc) from the year-ago quarter.

Core ARR rose 23% year over year to \$2.99 billion. Cloud ARR skyrocketed 164% to \$232 million, driven by strong performance in construction. Organic Cloud ARR, which primarily comprises BIM 360 and Fusion 360, soared 35%.

Net revenue retention rate was within the fiscal 2019 range of 110-120%.

Autodesk also signed 19 license compliance deals worth more than \$500K. Three of these deals were worth more than \$1 million. This reflected that the company is successfully monetizing its non-paying user base.

Operating Results

Non-GAAP gross margin expanded 180 basis points (bps) from the year-ago quarter to 92.2%.

Research & development, marketing & sales and general & administrative expenses as a percentage of revenues declined 290 bps, 620 bps and 190 bps year over year, respectively.

As a result, non-GAAP operating expenses, as a percentage of revenues, declined to 65.4% from 76.4% reported in the year-ago quarter.

The lower operating expenses reflected disciplined cost management in the reported quarter.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	2.26%
EPS Surprise	6.85%
Quarterly EPS	0.78
Annual EPS (TTM)	2.34

Autodesk reported non-GAAP operating income of \$225.3 million compared with the year-ago quarter's figure of \$92.2 million.

Key Q3 Details

During the quarter, the company announced Autodesk Construction Cloud.

Moreover, Autodesk announced a partnership with ANSYS, which allows its customers to use simulation solutions of the latter while running generative design workflows in Fusion 360.

The company also launched design-through-make electronics workflow in Fusion 360 to take advantage of the expanding market for smart products.

Balance Sheet & Cash Flow

As of Oct 31, 2019, Autodesk had cash and cash equivalents (including marketable securities) of \$1.02 billion compared with \$991.3 million as of Jul 31, 2019.

Deferred revenues increased 35% to \$2.42 billion. Unbilled deferred revenues at the end of the third quarter were \$549 million.

Remaining performance obligations (RPO) totaled \$2.97 billion, up 32%. Current RPO totaled \$2.05 billion, up 23%.

During the third quarter, Autodesk paid down another \$100 million on the term loan associated with the fourth quarter of fiscal 2019 acquisitions.

Moreover, the company repurchased shares worth \$124 million. Year to date, Autodesk has repurchased 1.7 million shares for \$264 million.

Cash flow from operating activities was \$276 million, compared with \$219 million posted in the previous quarter. Free cash flow was \$267 million, compared with the previous quarter's figure of \$205 million.

Guidance

For fourth-quarter fiscal 2020, Autodesk expects revenues between \$880 million and \$895 million. Non-GAAP earnings are anticipated to be 86-91 cents per share.

For fiscal 2020, Autodesk expects revenues between \$3.26 billion and \$3.27 billion, indicating growth of 27% year over year. Non-GAAP earnings are expected between \$2.74 and \$2.79 per share.

Billings are projected to be \$4.05-\$4.09 billion, implying growth of 50-51% year over year.

Total ARR is expected between \$3.405 billion and \$3.445 billion, indicating year-over-year growth of 24-25%.

Non-GAAP spend is expected to increase roughly 9%.

Autodesk expects to retire remaining term loan (\$150 million) associated with fourth-quarter fiscal 2019 acquisitions by end of fiscal 2020.

Free cash flow is expected between \$1.30 billion and \$1.34 billion.

Moreover, long-term deferred revenues are expected in the mid-20% range of total deferred revenues at the end of fiscal 2020.

For fiscal 2021, Autodesk expects revenue and free cash flow growth in the low 20% range.

Recent News

On Nov 20, Autodesk announced an alliance with Virgin Hyperloop One to explore new opportunities in extending the value of BIM for transportation route optimization and digital engineering and construction workflows.

On Nov 20, Autodesk announced that new electronics capabilities are coming to Fusion 360 in 2020 including printed circuit board (PCB) design, schematics editing, SPICE simulation and library management among others.

On Nov 18, Autodesk announced an alliance with Virgin Hyperloop One to explore new avenues for extending the value of Building Information Modeling (BIM) for transportation route optimization and improved digital engineering and construction workflows.

On Nov 18, Autodesk unveiled Autodesk Construction Cloud which combines three core elements — advanced technology, a unique builders' network and predictive insights to connect people and data across the building lifecycle, from design through operations.

On Oct 30, Autodesk announced that its fastest-growing cloud solution, Autodesk BIM 360 Design, will include Autodesk Civil 3D.

On Oct 9, Autodesk announced new features for BIM 360, including a newly-designed Layout app for mobile devices on Android operating systems. The company also unveiled new BIM 360 features that make the project set-up process easier and increase collaboration between the field and the office, with expanded machine learning capabilities to better identify risks.

On Sep 9, Autodesk announced collaboration with ANSYS to provide automakers with lighting simulation and opportunities for designing the next generation of vehicles.

Valuation

Autodesk shares are up 42.9% in the past six-month period and 30% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 26.1% and 22.4% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 46.8% and 29.4%, respectively.

The S&P 500 index is up 16.1% in the past six-month period and 20.7% in the past year.

The stock is currently trading at 11.46X forward 12-month sales, which compares to 7.71X for the Zacks sub-industry, 3.79X for the Zacks sector and 3.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.83X and as low as 4.16X, with a 5-year median of 9.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$219 price target reflects 12.01X forward 12-month sales.

The table below shows summary valuation data for ADSK

Valuation Multiples - ADSK					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	11.46	7.71	3.79	3.58
	5-Year High	13.83	7.71	3.79	3.58
	5-Year Low	4.16	3.88	2.3	2.54
	5-Year Median	9.18	5.3	3.02	3
EV/Sales TTM	Current	14.94	7.99	4.51	3.32
	5-Year High	15.53	7.99	4.51	3.32
	5-Year Low	3.5	3.19	2.56	2.16
	5-Year Median	11.3	5.28	3.47	2.79

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 16% (42 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Cadence Design Systems, Inc. (CDNS)	Outperform
PTC Inc. (PTC)	Outperform
Adobe Systems Incorporated (ADBE)	Neutral
ANSYS, Inc. (ANSS)	Neutral
Avid Technology, Inc. (AVID)	Neutral
Oracle Corporation (ORCL)	Neutral
Trimble Inc. (TRMB)	Neutral

Industry Comparison Industry: Computer - Software				Industry Peers		
	ADSK Neutral	X Industry	S&P 500	ANSS Neutral	AVID Neutral	PTC Outperform
VGM Score	B	-	-	D	D	F
Market Cap	45.98 B	2.08 B	24.61 B	24.58 B	397.77 M	10.09 B
# of Analysts	10	4	13	6	2	7
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	B	F
Cash/Price	0.02	0.10	0.04	0.03	0.15	0.03
EV/EBITDA	662.13	24.33	14.06	43.82	16.25	78.90
PEG Ratio	1.25	2.45	2.09	NA	1.15	NA
Price/Book (P/B)	NA	5.74	3.29	8.40	NA	8.08
Price/Cash Flow (P/CF)	376.97	28.20	13.65	48.09	14.79	54.11
P/E (F1)	47.56	33.50	19.21	43.33	11.48	36.79
Price/Sales (P/S)	14.77	4.94	2.70	17.01	0.97	7.59
Earnings Yield	2.10%	2.77%	5.19%	2.31%	8.77%	2.71%
Debt/Equity	-8.92	0.18	0.71	0.03	-1.32	1.05
Cash Flow (\$/share)	0.55	1.01	6.92	6.07	0.62	1.61
Growth Score	A	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	NA%	10.54%	10.85%	12.93%	-57.59%	-9.02%
Proj. EPS Growth (F1/F0)	58.42%	13.10%	7.17%	6.51%	46.36%	44.77%
Curr. Cash Flow Growth	-149.98%	7.45%	8.56%	33.15%	-32.67%	-3.70%
Hist. Cash Flow Growth (3-5 yrs)	-21.89%	7.84%	8.36%	6.57%	-18.56%	-9.76%
Current Ratio	0.60	1.49	1.23	2.55	0.91	1.17
Debt/Capital	NA%	18.94%	42.91%	3.02%	NA	51.32%
Net Margin	4.74%	6.51%	11.81%	30.35%	-0.46%	3.38%
Return on Equity	-113.06%	12.71%	16.86%	16.65%	-10.84%	13.10%
Sales/Assets	0.64	0.64	0.54	0.42	1.47	0.47
Proj. Sales Growth (F1/F0)	21.76%	7.63%	3.85%	10.88%	3.39%	13.40%
Momentum Score	D	-	-	B	C	D
Daily Price Chg	0.69%	0.00%	0.06%	0.10%	2.90%	0.47%
1 Week Price Chg	5.16%	0.00%	2.47%	3.83%	0.89%	1.09%
4 Week Price Chg	8.55%	1.02%	0.59%	9.43%	0.54%	8.08%
12 Week Price Chg	26.60%	7.69%	6.98%	18.51%	13.24%	16.34%
52 Week Price Chg	30.64%	26.37%	16.62%	68.58%	85.54%	-4.00%
20 Day Average Volume	1,356,190	66,338	2,020,569	456,657	158,865	793,771
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	0.00%	0.00%	17.76%
(F1) EPS Est 12 week change	-6.24%	-1.18%	-0.17%	0.00%	7.08%	3.66%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	0.00%	0.00%	14.84%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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