

Autodesk Inc. (ADSK)

\$180.94 (As of 04/17/20)

Price Target (6-12 Months): **\$190.00**

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: C

Summary

Autodesk's portfolio strength is helping it counter competition and win customers. Increasing adoption of BIM 360 solution and success of the maintenance to subscription (M2S) program 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. However, restructuring plan is expected to hurt margins in the near term. Moreover, a slowing China economy and unfavorable currency in the rest of fiscal 2020 are headwinds. Also, weakening demand environment in the United Kingdom and Central Europe (sluggish Germany) is expected to hurt profits. Shares have underperformed the industry on a year-to-date basis.

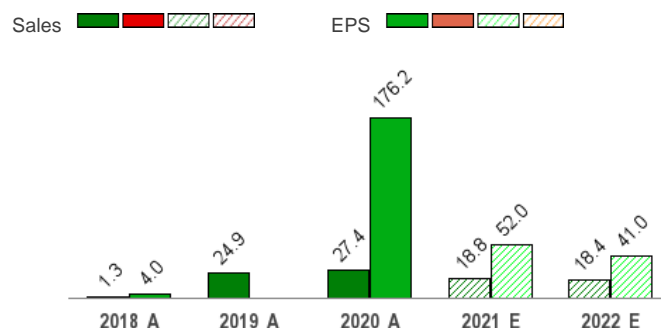
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$211.58 - \$125.38
20 Day Average Volume (sh)	2,661,951
Market Cap	\$39.7 B
YTD Price Change	-1.4%
Beta	1.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-3.7%
Expected Report Date	05/28/2020
Earnings ESP	-2.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,052 E	1,114 E	1,173 E	1,246 E	4,603 E
2021	882 E	944 E	999 E	1,068 E	3,889 E
2020	736 A	797 A	843 A	899 A	3,274 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.26 E	\$1.40 E	\$1.56 E	\$1.74 E	\$5.98 E
2021	\$0.82 E	\$1.01 E	\$1.11 E	\$1.26 E	\$4.24 E
2020	\$0.45 A	\$0.65 A	\$0.78 A	\$0.92 A	\$2.79 A

*Quarterly figures may not add up to annual.

P/E TTM	64.6
P/E F1	42.7
PEG F1	1.1
P/S TTM	12.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

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 \$3.27 billion in fiscal 2020. 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).

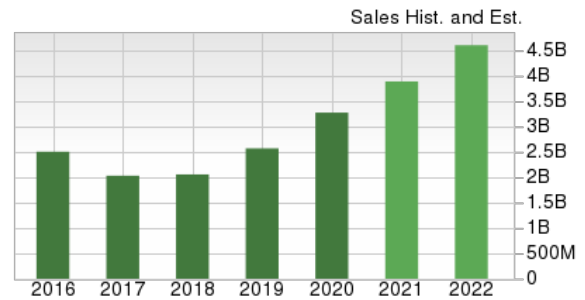
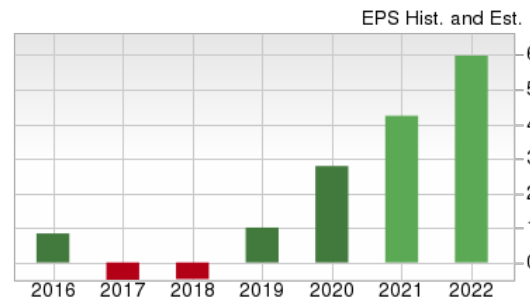
AEC solutions improve the way building, infrastructure, and industrial projects are designed, built, and operated. The product segment accounted for 42% of revenues in fiscal 2020.

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 22.1% 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 28.9% 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 6.1% of revenues.

Geographically, Americas accounted for 41.5% of revenues in fourth-quarter fiscal 2020. Europe, Middle East, and Africa (EMEA) and Asia Pacific accounted for 40.6% and 40.1% 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 Jan 31, 2020, Autodesk had cash and cash equivalents (including marketable securities) of \$1.77 billion compared with \$1.02 billion as of Oct 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 28.9% of revenues in fiscal 2019 compared with 28.3% in fiscal 2019.
- ▼ 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 Q4 Earnings Beat Estimates, Revenues Up Y/Y

Autodesk reported fourth-quarter fiscal 2020 non-GAAP earnings of 92 cents per share that beat the Zacks Consensus Estimate by 2.2%.

Moreover, the earnings figure doubled year over year driven by growth in subscription plan revenues, led by product subscription revenues.

The earnings figure also came in higher than non-GAAP earnings guidance of 86-91 cents per share.

Revenues of \$899.3 million beat the consensus mark by 1% and grew 22% year over year. At constant currency (cc), revenues were up 28%. Acquisitions contributed 3% to revenue growth.

The figure came ahead of the guided range of \$880-\$895 million.

Recurring revenues represented 95% of Autodesk's fourth-quarter fiscal 2020 revenues, flat year over year.

Top-Line Details

Subscription revenues (86.4% of revenues) soared 41.3% year over year to \$777.4 million.

However, maintenance revenues (8.9% of revenues) slumped 41.8% to \$79.9 million. Moreover, other revenues (4.7% of revenues) decreased 15.8% to \$42 million in the reported quarter.

Geographically, revenues from the Americas (40.6% of revenues) increased 21.4% from the year-ago quarter to \$364.8 million. Europe, Middle East and Africa (EMEA) revenues (40.1% of revenues) increased 20.7% to \$360.5 million. Revenues from Asia-Pacific (19.3% of revenues) grew 25.8% to \$174 million.

Billings of \$1.49 billion surged 43% 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 (42.3% of revenues) revenues increased 29.9% year over year to \$380.6 million. AutoCAD and AutoCAD LT (28.7% of revenues) revenues rose 23.6% to \$258.3 million. MFG (22.4% of revenues) revenues increased 14.5% to \$201.8 million. Moreover, other revenues (0.7% of revenues) jumped 46.5% to \$6.3 million.

However, M&E (5.8% of revenues) declined 4.7% to \$52.3 million.

Annualized Recurring Revenues in Detail

Annualized recurring revenues (ARR) were \$3.43 billion, up 25% (26% at cc) year over year. Acquisitions (completed over the trailing 12 months) contributed \$126 million to ARR. Notably, BIM 360 ARR growth accelerated in the reported quarter.

Subscription plan ARR of \$3.11 billion surged 41% (43% at cc) driven by growth in all subscription plan types, led by product subscriptions. The figure includes \$639 million related to the maintenance-to-subscription (M2S) program.

However, maintenance plan ARR of \$320 million declined 42% (42% at cc) from the year-ago quarter, reflecting migration of maintenance plan subscriptions to product subscriptions

Core ARR rose 21% year over year to \$3.17 billion. Cloud ARR skyrocketed 102% to \$255 million, driven by strong performance of BIM 360 Design.

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

Autodesk also signed 62 license compliance deals worth more than \$500K. Fourteen of these deals were worth more than \$1 million. This reflects that the company is successfully monetizing its non-paying user base.

Operating Results

Non-GAAP gross margin expanded 130 basis points (bps) from the year-ago quarter to 92.3%.

Research & development, marketing & sales and general & administrative expenses as a percentage of revenues declined 200 bps, 510 bps and 150 bps year over year, respectively.

As a result, non-GAAP operating expenses, as a percentage of revenues, declined to 63.5% from 72% reported in the year-ago quarter.

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

Autodesk reported non-GAAP operating income of \$258.9 million compared with the year-ago quarter's figure of \$139.2 million.

Quarter Ending **01/2020**

Report Date	Feb 27, 2020
Sales Surprise	1.02%
EPS Surprise	2.22%
Quarterly EPS	0.92
Annual EPS (TTM)	2.80

Key Q4 Details

During the quarter, the company 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.

Moreover, 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.

The company 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.

Balance Sheet & Cash Flow

As of Jan 31, 2020, Autodesk had cash and cash equivalents (including marketable securities) of \$1.77 billion compared with \$1.02 billion as of Oct 31, 2019.

Deferred revenues increased 44% to \$3.01 billion. Unbilled deferred revenues at the end of the fourth quarter were \$550 million.

Remaining performance obligations (RPO) totaled \$3.56 billion, up 33%. Current RPO totaled \$2.37 billion, up 23%.

The company repurchased over 1 million shares worth \$191 million. In full year 2019, Autodesk has repurchased 2.7 million shares for \$456 million.

Cash flow from operating activities was \$698 million, compared with \$276 million posted in the previous quarter. Free cash flow was \$684 million, compared with the previous quarter's figure of \$267 million.

Guidance

For first-quarter fiscal 2020, Autodesk expects revenues between \$880 million and \$895 million.

Non-GAAP earnings are anticipated to be in the range of 80-86 cents per share.

For fiscal 2021, Autodesk expects revenues between \$3.93 billion and \$3.99 billion, indicating growth in the range of 20-22% year over year.

Billings are projected to be \$4.63-\$4.71 billion, implying growth of 11-13% year over year.

Non-GAAP earnings are expected between \$4.21 and \$4.44 per share.

Free cash flow is expected between \$1.63 billion and \$1.69 billion.

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

Recent News

On Apr 8, Autodesk announced BIM 360 Design, part of Autodesk Construction Cloud, expanded global collaboration with a new Europe-based data center offering for primary storage of product data. Also, the company established a connection to collaboration for Plant 3D.

On Mar 26, Autodesk announced free and extended access to cloud collaboration products including BIM 360 Docs, BIM 360 Design, Fusion 360, Fusion Team, AutoCAD Web and Mobile, and Shotgun for its customers. The company also launched COVID-19 Autodesk Resource Center as a measure to combat coronavirus.

On Mar 3, Autodesk announced collaboration with British supercar manufacturer Briggs Automotive Company (BAC) to apply generative design methods to the latter's design and manufacturing process.

On Feb 10, Autodesk signed a letter of intent with European construction service provider, STRABAG to strengthen cooperation and drive digitization within the construction industry in Europe.

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.

Valuation

Autodesk shares are down 2% in the year-to-date period but up 4% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 6.9%, while the Zacks Computer & Technology sector is down 5.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 24.1% and 3%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 9.67X forward 12-month sales, which compares to 7.17X for the Zacks sub-industry, 3.36X for the Zacks sector and 3.2X 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 9.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$190 price target reflects 10.15X 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	9.67	7.17	3.36	3.2
	5-Year High	13.83	7.23	3.59	3.44
	5-Year Low	4.16	3.88	2.32	2.54
	5-Year Median	9.3	5.42	3.09	3.01
EV/Sales TTM	Current	12.22	7.48	3.8	2.86
	5-Year High	15.53	8.11	4.44	3.46
	5-Year Low	3.5	3.19	2.58	2.16
	5-Year Median	11.4	5.45	3.56	2.83

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

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

Industry Comparison Industry: Computer - Software				Industry Peers		
	ADSK Neutral	X Industry	S&P 500	ANSS Neutral	AVID Outperform	PTC Neutral
VGM Score	B	-	-	D	A	F
Market Cap	39.72 B	1.49 B	19.60 B	22.67 B	267.04 M	7.70 B
# of Analysts	10	4	14	7	2	7
Dividend Yield	0.00%	0.00%	2.17%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	A	F
Cash/Price	0.05	0.11	0.06	0.04	0.29	0.04
EV/EBITDA	84.89	17.02	11.73	36.88	9.88	61.97
PEG Ratio	1.12	2.50	2.19	NA	0.36	NA
Price/Book (P/B)	NA	4.57	2.67	6.43	NA	6.17
Price/Cash Flow (P/CF)	86.14	19.88	10.55	40.24	9.01	41.29
P/E (F1)	42.53	28.40	18.18	42.46	7.23	30.28
Price/Sales (P/S)	12.13	3.93	2.08	14.96	0.65	5.79
Earnings Yield	2.34%	3.38%	5.38%	2.36%	13.92%	3.30%
Debt/Equity	-14.71	0.16	0.70	0.15	-1.46	1.05
Cash Flow (\$/share)	2.10	1.22	7.01	6.56	0.69	1.61
Growth Score	A	-	-	C	A	F
Hist. EPS Growth (3-5 yrs)	NA%	9.78%	10.92%	14.19%	-51.21%	-9.02%
Proj. EPS Growth (F1/F0)	52.11%	8.24%	-3.36%	-5.54%	67.65%	34.23%
Curr. Cash Flow Growth	280.74%	10.55%	5.93%	8.84%	12.92%	-3.70%
Hist. Cash Flow Growth (3-5 yrs)	8.91%	9.63%	8.55%	7.79%	-13.66%	-9.76%
Current Ratio	0.83	1.49	1.24	2.24	0.98	1.17
Debt/Capital	NA%	19.50%	42.78%	12.98%	NA	51.32%
Net Margin	6.55%	7.06%	11.64%	29.77%	1.85%	3.38%
Return on Equity	-165.74%	11.82%	16.74%	15.76%	-11.12%	13.10%
Sales/Assets	0.63	0.64	0.54	0.40	1.43	0.47
Proj. Sales Growth (F1/F0)	18.78%	3.20%	-0.14%	7.38%	2.96%	9.94%
Momentum Score	C	-	-	C	D	D
Daily Price Chg	5.81%	0.97%	4.04%	2.36%	2.83%	1.46%
1 Week Price Chg	18.63%	10.80%	16.01%	8.99%	-4.84%	16.25%
4 Week Price Chg	21.25%	20.03%	18.93%	19.36%	2.15%	32.29%
12 Week Price Chg	-8.89%	-13.61%	-19.39%	-4.97%	-30.95%	-21.64%
52 Week Price Chg	6.94%	-0.70%	-11.34%	41.43%	-20.15%	-31.70%
20 Day Average Volume	2,661,951	73,016	3,220,598	718,718	562,842	1,089,498
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.70%	-2.21%	-7.09%	-3.59%	0.00%	-8.81%
(F1) EPS Est 12 week change	-7.30%	-2.82%	-9.32%	-11.00%	9.09%	4.28%
(Q1) EPS Est Mthly Chg	-1.79%	-1.79%	-10.68%	-7.19%	0.00%	-17.33%

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	C
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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