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Greg Bentley: Executive Chair, Bentley Systems

Bob McCooley: Vice Chairman, Head of International Listings, Nasdaq

Bob McCooley: We're delighted to have Bentley Systems back here at the conference in London again and have executive chair Greg Bentley. Greg, thanks for joining us. It's wonderful to see you again and wonderful to have you here to, to talk about Bentley Systems. I think probably would be great just to give a level set for everyone as to what Bentley Systems is and a brief overview of the company.

Greg Bentley: Thank you Bob. So, I'm the oldest of five Bentley brothers, the other for all substantive engineers who founded Bentley Systems in 1984. All have recently retired, including me. But we remain the majority economic owners of the company and the majority of the board of directors. So, you should expect long-term orientation in how our company makes decisions.

We describe ourselves as the infrastructure engineering software company because we are the digital quartermasters, if you like that, provide the modeling and simulation tools and the enterprise collaboration environments for civil engineers, structural engineers, geotechnical engineers and those who work for them, and by virtue of their work in terms of end markets, we are we think of a leader in infrastructure, engineering, software for the public works and utilities sector, and within that for the subsectors of, roads and bridges, rail and transit grid and water.

We're the leader in, we think, in the resources sector that includes mining and environmental modeling, and we participate also in the industrial infrastructure sector and the commercial facilities infrastructure sectors. But they're we're not the leader. And you might describe that as vertical infrastructure. We think we are the leader in horizontal networks of infrastructure. As I first described.

Our business reflects 42 years of penetration. There are two thirds of our business are with accounts that spend \$250,000 a year or more in ARR for our portfolio of products. There's 200 plus among them who spend over \$1 million a year with us. Accordingly, where 93% direct sales. And the majority of our mainstay enterprise ARR is through a consumption program where we charge per application per day, which also brings us transparency in our revenue and ARR accounting and in our margins and direct sales leverage helps us to grow our operating margins 100 basis points per year as we get more efficient.

To have reached about 30%, in adjusted operating income, less stock-based compensation, the way we measure that and that flows directly into cash flows in

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a rather transparent way. And we reached 35% in free cash flow, margin. In general, the basis of valuation, if you like, we grow those free cash flows in the mid-teens.

Annually are ARR we grow in the low double digits. And so the basis of valuation, for our company has doubled every five years, certainly has five years since our IPO in 2020. And it's our job and expectation to continue to be able to do that.

Bob McCooley: Sounds like terrific financial performance. I think everyone in the room recognize that the market has recognized that.

And you know, always not enough. Greg. We all know that. Right. So that and that needs to catch up with what the reality is of how we're continuing to grow the business. So, and so can you talk through that financial performance and how you think about it and how you allocate, you know, between, you know, M&A cash, dividends, stock repurchases, you know, how do you think about your financials?

Greg Bentley: Well, as a public company we we're able to do to, what would you describe as platform acquisitions of \$1 billion magnitude, in 2021, in 2022. We took on some convertible debt to do that. And that if you count the convertible debt as debt, our leverage was at five x or so.

We've worked it down over the past few years to two x or so and are at equilibrium now, where our priority for capital allocation would continue to be, programmatic acquisitions. We'd like we're always able to do another platform acquisition, should that come along. But it's very fortuitous when that might occur and we can't plan on that.

We do make sure to repurchase stock at least to make up for what otherwise would be dilution from stock-based compensation, which is important to a company like ours, but is reasonable in our case. And in recent years, we have repurchased about or in last year about twice that much stock given the, the level of our stock price. And we also pay a modest dividend.

Bob McCooley: Wonderful. So, we're not going to get into politics, but there was a bill that recently passed out of the Transportation committee called, build to 50. And so that's moving through the House. What could this mean for Bentley?

Greg Bentley: Well, during the Infrastructure Investment Jobs Act in the U.S, which was the first serious long term infrastructure investment at the federal level in the US, but that's almost five years ago now. And so that bill will expire during this year. There's still a lot of money to be spent in the future from it. But during

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that period of time, we and the engineering community urged that the approach to think about in the US would be longer, rather than faster for infrastructure spending. So it is reassuring, that this bill, which so far is only in one part of the legislature, continues the level of funding with slight increases for surface transportation.

And that is the job of this committee that's released this bill. So, surface transportation is highways and bridges, but that's been traditionally what's funded at the federal level in the US. So, it's good to have another five years rather likely to, tough there might need to be a short-term extension of existing, funding, but that looks like the future for surface transportation, which is a good thing for us.

The other areas covered under the IIJA that will soon expire, where federal funding for broadband grid and water, in addition to surface transportation. But in those areas, there was no lack of private funding in the case of broadband and grid and water is funded more so at the local level in the US. So those sources will continue, that's not the remit of this new bill. But no one's concern in those areas, especially of broadband and grid, especially the concern is not funding levels but permitting levels. And this bill does what it can to address permitting obstacles for surface transportation. But there still needs to be permitting reform in many countries, including the US, to be able to expedite investments, especially in the electric grid and especially the transmission high voltage portion of it, which will be much to our benefit when it occurs.

Bob McCooley: Yes. As Americans, I think we can both agree that, that there's a lot of infrastructure that needs to be to be built. And then finally, we'll be right at the center of that as it continues to grow. So, it's taken me the question for to get to the thing that everyone likes to talk about. Oh, is that AI, so can you help us understand how Bentley is positioned in this age of AI that we talk about every day?

Greg Bentley: Well, the positioning for AI, the, what first comes to mind is, is how zealous and enthusiastic we are about the new opportunities this opens up. It literally is the springboard for our new generation of management.

And first to say, in terms of positioning, we don't think we're particularly vulnerable. And what we do in software to incursion from, AI and we don't have any administrative, software that might theoretically be vulnerable to being, self-coded, and engineers modeling and simulation software is the way in which they conduct their work and is subject to their compliance responsibilities and personal and organizational, professional and legal liabilities.

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That work is not going to be done by software. That's probably right. It has to be provably right. But in terms of opportunity, which is the way to think about it and sort of in, in order of revenue immediacy, AI open for us a new opportunity we call asset analytics, which is instant on AI for owner operators of infrastructure. The owner operators of infrastructure are half of our business, the other half being the engineering firms who are their supply chain. But for owner operators, asset analytics is a new process of using drone flights especially. And other sensing and surveying methodologies to automate the inspection and monitoring of their infrastructure assets. And then the next stage, the next step is to apply our engineering, modeling and simulation applications to derive engineering insights to improve the operations and maintenance.

And so that's a business that's underway and so far has reached recurring revenues of about \$50 million for us in, there's a litany that I'll shorten, of AI initiatives, in our company, as with any company. But that would include new products that are AI native and are percolating through. But capabilities from those products that we're extending throughout all of our applications, for instance, to automate, drawing production from engineering models.

But the perhaps most exciting one that we can talk more about is the opportunity to, provide agentic expansion of what an a of what an engineer can do to improve the quality as well as the quantity of their work with agents that are that are on their behalf, rather than, as a substitute for the engineer.

Bob McCooley: Okay. So let's kind of stay on that same theme because it would seem that the what you're talking about is engineers being more productive using AI. And so how do you think how do you see that impacting your seed-based consumption and kind of your overall ARR.

Greg Bentley: Our application consumption should increase substantially with AI and the thing about infrastructure engineers is that there's severe resource constraints on their capacity.

And they can't do any more work. It's very important to make them more productive. And for instance, just saving them the tedium of drawing production will enable them to do 20% more, projects to tackle the backlog and allow their firms to bid on more work finally. But it is their supplementing their attended consumption. What we currently, charge for today. They sit in front of a computer and instruct it when instead they spin up AI agents on their behalf. We get to terrific new capabilities to improve their work and the model under which they work. The commercial model generally is that they're being charged by the hour.

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Infrastructure on our operators are paying for infrastructure design for the hourly time of engineers.

That means that a project minimizes the amount of time spent and has a limited budget during which the engineer can produce one iteration of the proposed design. With AI, their agents will be able to run in the background and optimize multiple iterations, hundreds or thousands of iterations. In our first MCP server for structural engineering software, in and the first production project we tried, the result of optimizing was to reduce the material cost by 40%, through this optimization process enabled by, agentic AI, but across our portfolio, I envision that in addition to optimizing projects for cost and materials and carbon, we'll be able the engineer will be able to have an agent which will optimize the construct ability by running in the background while the design is being done. Our Synchro 4D modeling software, the sort used to construct these buildings where you simulate the occupancy of space and time, and be able to deliver a project that's constructible, as well as optimized in terms of cost, to be able to have an agent that looks in ProjectWise, the system of record for prior designs and which is AI ready for such searches by virtue of our iTwin schema, to find modules that can be reused that would improve the performance for an owner, because they'll be maintaining consistent, kit. You would have an agent that could be investigating the subsurface conditions with our Seequent Software, because otherwise the risk in ground conditions is what causes project overruns. Ultimately, through Bentley Infrastructure Cloud, the AI agents will be able to look at the performance of comparable assets and recommend those components which have been most maintainable, for instance.

So overall, there will be a much better quality of work that's possible that will help the engineers charge appropriately for the value of their work.

Bob McCooley: But you don't see this as a risk that your customers will use the AI agents themselves or build them themselves, and reduce their overall spending with you?

Greg Bentley: Our accounts should absolutely be encouraged to develop these agents themselves. The more that they do, the better. They have, especially the largest accounts with whom we're working most closely are E365 teams that are deployed within these accounts are helping them to introduce these energetic AI workflows. Now we don't charge for them at the present time. We're only charging for attended consumption. The much greater API agentic consumption will charge for in the future.

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But our approaches to proliferate proliferated as much as we can to have the value understood and appreciated and assessed. And then we'll work out and in an acceptable way to, mutually acceptable way to charge for that in the future. But the, our accounts should allocate their AI development to such agents, which start at the top for what it is that they optimize and how they do the tradeoffs and brand and market that owner operators, they have little incentive or opportunity to start at the bottom with the fundamental engineering logic that is already tried and true, and for which it would take years to have some substitute to replace that.

We talk about economics here. What we charge for our software in E365 is about 3% of the cost of an engineer's day. What an a project overall, a design project about 1%, considering everything else that gets done besides engineering engineers software time is spent on software. The total design is about 5% of the total installed cost of an infrastructure project. Of the trillions of dollars spent in every country for infrastructure projects, annually, or if you work it out, 1% times 5%, five basis points get spent on software and computing with everything I've described with agentic AI incorporated in in the project. On behalf of the engineer, it will be well worth spending multiples of that to get better performing infrastructure with less project risk.

And so the opportunity with AI for us is orders of magnitude more spending on software and computing, more comparable finally, to the rest of the economy that isn't slowed down by this time billing commercial model.

Bob McCooley: And with trillions of dollars being spent all over the world on huge infrastructure projects too, it seems that you're positioned well to capture so much of that.

Greg Bentley: It's a really worthwhile thing to work on.

Bob McCooley: Yes.

Greg Bentley: And AI is bringing forward the future for us, if you like. The things we have wanted to do with our software are more feasible. And in front of us at the moment. And it's really exciting to do that. Over the 42 years of our company, we've reinvented the technology underlying our software meant multiple times. That continuity and doing that is what has made us successful because of the longevity of infrastructure design projects and infrastructure assets, which is forever to be able to have that continuity and yet incorporate new technologies such as AI. AI is software by the way.

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Bob McCooley: Yes. So, let's talk about the concept of headless software, why it's gaining attention. You know, obviously due to AI, is battling at risk of losing mindshare with customers if your software is increasingly being accessed through an external LM provider.

Greg Bentley: Well, the LMS are going to be great to devise and run these agents to direct this process. But the value of the processes is in the underlying modeling and simulation software. And no, we're not worried that highly educated engineers are going to confuse what's doing their work and livelihood, as they already know and trust Bentley. So, this is not a concern for us. Headless software is great and better the more that can be of it, the happier we are.

Bob McCooley: So, one of the things that we've heard a lot about, I think just probably in the past, 3 to 6 months has been software. Software companies have announced layoffs to fund AI and some of even, you know, already spent their annual token budgets. I think that's probably been the talk of the past couple of months. How was Bentley thinking about funding AI investments and how may that change your overall cost structure in the future?

Greg Bentley: Well, our CEO, Nicholas Cummins, says the proportion of what we spend in the future on R&D will go up. We'll have more developer access to everything else. And our company will get more efficient faster with AI. And there's no end to our appetite to go on the software development roadmap that we can tackle much quickly at a much higher, much faster pace now. The cost of tokens to do that is not going to sneak up on us because we already manage our R&D and what we call head cost. So, head cost is not just compensation. It includes the cost of cloud consumption. So, we're already considering and bearing this cost while we continue to grow our development resources. I might point out that over our 42-year history, every engineer has the best, most capable workstation that you can imagine. And traditionally, these have been graphics workstations and the G and GPU computing means graphics.

Software developers will have lots of local resources to run their trained coding models. And I think our engineers especially will because they'll be testing the software. AI is software, that our users will have a choice to run in a hybrid environment. These optimizations that I'm describing, can often be run locally on sovereign AI environments, or in cloud computing for when that performance is needed.

But we should remember that the infrastructure design data is sensitive and confidential and needs to be secure. And the same is true of the intellectual property of engineering firms and owner operators. It's their data, their property

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need to be to train their models for their purposes. It's not ours or anyone else's. So, there will be actually a premium on, hybrid environments and sovereign computing.

Bob McCooey: Yes. I'm sure that's clearly the case. And as people worry about what's happening in the world of LMS to their data and how it's being monetized by others and in the future. So, resources have been a nice growth driver for the business as of late, as you mentioned. What are the drivers? What are those drivers? Are they susceptible? Are they sustainable and if the sector continues to grow faster than the company average, does that induce more cyclicity into your business?

Greg Bentley: Well, Resources is our term for the sector that includes mining, upstream oil and gas environmental modeling generally. And this year, that has been a, a contributor to our strong start for the year in ARR growth terms. We might have some concern about cyclicity historically in mining, but our Seequent Software is, in the main used during the operation of existing mines where every scoop of or brings you new information to improve your 3D modeling of the subsurface.

But we do benefit from an increase in new mining activity. The thing is, this may not be a typical upswing, but rather, has a secular motivation, a secular driver, which is the determination by each country in the world now to become more self-sufficient in terms of their supply chain and especially critical resources and we can suppose that that will continue to be the case foreseeably, given the geopolitical situation in the world. A further driver, for Seequent, our subsurface modeling company, is the opportunity for all civil projects in the world to be ground informed because that's where the risk traditionally has laid. We've quadrupled that aspect of sequence business over our five years of ownership. But it's still the case that only about 30% of projects include the subsurface modeling.

New data centers are starting to change that in the way they think about their potential need for water resources in the future. At any rate, there's this is a very strong sector for us. Seequent overall is growing on the order of twice as fast as the company. And, generally, applying 3D below the ground. And why is it different than above the ground? Because above the ground we can see and sense and survey, but below the ground we can only sample with drill holes and boreholes and then we need to interpolate and understand the, with mathematical geological models what lies below. But that, that applying 3D modeling for that is still, a frontier that is expanding to, to our benefit.

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So, these are reasons it's I think it's generally okay for our company because we have such a flywheel. As I've described our, our role, the number of engineers isn't changing much because, as many as we are retiring as our, as our joining the workforce and in the new ones are generally in, in India and China, but they're all working full out and that's rather predictable in terms of our, traditional business ARR. And it's appropriate and okay for us to take on some volatility. Asset analytics is of that nature as well, where we compete for large procurements in the inspection and monitoring opportunities for major utilities across for instance, their fleets of cell towers or distribution poles, for instance, where we've started. But we I think it's a good idea, I think for us to take on some volatility at the margin in order to place our bets to grow faster.

Bob McCooey: So, you touched on a topic that, I think, is of interest to all of us these days, which is, data centers. So, can you speak to how Bentley is positioned for the build out and power needs of data centers these days?

Greg Bentley: Well, first of all, the data centers market is one reason that engineering firms are as busy as they are and so confident about their backlog and future work, which is reflected in their commitments to our E365 program with floors and ceilings to bound their consumption in future years.

So, we benefit overall from data centers but from in a broadway but specifically for data centers while they're vertical infrastructure if you like. So, the design itself is likely to be done with other software. Our structural engineering software is probably used in each case. And our geotechnical software for the foundations, in each case. But the need to construct them as fast and efficiently as possible is requiring our synchro 4D modeling software, the same one used in these buildings to build a in London with no lay-up yard possible that that technology, is being used in data centers as well. So that's our first level of benefit directly. Next each data center is a campus requiring utilities. So, the roadways, the water networks, and so forth are where our software is used in each such case. But then even more broadly than that, at the macro level, data centers increase this need for critical minerals and copper and ultimately water, including aquifers and geothermal energy, where our Seequent Software is always used. So, it's a, it's a contributor on all those fronts.

Bob McCooey: Yeah. It sounds like there's a nice flywheel effect just in that segment of the business for you. So, SMB has been a strong growth driver since the time of the IPO. So, five years, five plus years ago, how much more runway do you think you have for that?

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Greg Bentley: To continue to be a strong growth driver for the business? Well, we didn't explicitly address small and medium businesses, prior to our IPO, and our new management appropriately have, approached this again through direct sales and increasingly digital. We never did an e-commerce transaction before, going public five years ago. But it's become a strong contributor, adds three basis points of ARR growth reliably, and over 600 new logos for each of the past 18 quarters now. What we are on our learning curve, focusing on now is the upsell and cross-sell opportunity to SMB accounts who have joined us. It's still, perhaps a quarter of our business. And they turn out to be as many infrastructure engineers who work for small medium businesses. For us, we classify those with 50 engineers or fewer.

There are as many such engineers and those smaller firms as there are in the larger firms. So, you can see that there's continued opportunity for us, there. In reaching them digitally, they prefer to do self-service. They don't particularly want to talk to a salesperson. They're ending up acquiring software. And by the way it can be even more specialized software. The more the smaller firms can be more specialized firms and use more specialized and expensive software subscriptions.

But they don't particularly want to talk to a salesperson. But our inside sales people are engineers themselves and we provide engineers as well to help them use the software. So, when they first say, gosh, we know of the reputation of Bentley Systems software, we know the large firms do the large projects with this software. Hadn't thought that I might drive a Bentley, but actually if you'll help me, it's worked out pretty well for them. And we do have considerable remaining upside there.

Bob McCooley: And so, there's still plenty of small, medium sized businesses all around the globe to tap into it.

Greg Bentley: That's where half of engineer's work. And it's very worthwhile for us to have now focused on that opportunity, that incremental opportunity.

Bob McCooley: Great. When you think about the other growth drivers, you've talked a lot about getting bigger in the operations and maintenance phase of infrastructure. Why is this an attractive market for you, and what are the capabilities that you have today, and where are you going with them?

Greg Bentley: The opportunity for digital twins in infrastructure is an opportunity largely to improve and optimize operations and maintenance. That's where the bulk of spending occurs. That's where all of the benefits occur during operations and maintenance. And the norm at the present, unfortunately, is that the work of

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the engineers is only utilized during project delivery and never thereafter. So, to have as operated engineering model can improve the resilience and, safety and, life cycle performance of an infrastructure asset.

But it used to be hard with AI, in our SLR asset analytics approach, we can stand up a digital twin overnight with drone flights and other capture of that sort. We started with cell towers because they're owned by organizations that are private. They're providing the broadband for the rest of us, and they're inclined to, be progressive toward, technologies.

From the drone flight, you have video overlapping imagery, our software processes overlapping imagery into a reality mesh model that is engineering ready. And you actually perform engineering, but you then bring in the engineering models because the first thing you do is identify whether the cell tower can accommodate more equipment and therefore generate more revenue. But each such piece of equipment would requires that the wind resistance be remodeled and the structural sufficiency be calculated.

Again, an electromagnetic interferences and so forth. So, to be able to have the AI and computer vision be supplemented with the structural and other engineering models, is the approach that is launching us to this large opportunity to address, and we now do distribution polls, and we'll go on to transmission towers and other such structures, roadway miles. These will be large business opportunities. That will be gained by someone. That would be us, we think, because we incorporate the engineering logic and the engineering models to get insights from the survey modalities. This is our preference for approaching the operations and maintenance opportunity. The driver is the opportunity for owner operators to spend less on maintenance because they won't need to do guidebook maintenance and often they have to defer that because they can't afford it. If you continuously survey, it's more economical and you avoid, dangerous things for humans to do. You can observe what maintenance is working and when maintenance is required. And because you're continuously monitoring and rerunning the structural sufficiency and so forth, you can do only that maintenance which is working and is necessary and spend less. And the digital twin can cost less than nothing with asset analytics. So that is truly a tremendous, opportunity we charge per asset. So, it's a whole incremental business model in addition to our traditional business of charging per engineer. And we're, this is our preference for how to tackle the opportunity and operations and maintenance. We wouldn't, for instance, acquire administrative software for work order management and so forth, and immediately become antagonistic to the incumbents who provide that already for infrastructure on our operators. We'd rather integrate and add engineering models, through digital twins in this respect.

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Bob McCooley: So, we began our conversation talking about Bentley in the Bentley family and, you and your brothers and, a couple of years ago, you moved to executive chair and, and, and brought in Nicholas as your, your new, CEO.

What are you most pleased with, that you've seen with him over the past couple of years? And what should we continue to expect from him in the future?

Greg Bentley: I'm so pleased. It's hard to call out something, but I'll say balance. In our generational succession, the first time in our company, I'd been CEO for, 30 plus years, we wanted a balance between left and right brain. We've always done better in engineering and less well in marketing, for instance. And we focused on large accounts and left out SMB in the past and so forth. And I think we've really succeeded, with in that, another aspect of balance is in executive talent recruitment.

Nicholas has really recognized that the importance of what we do in the world and now that we're a public company with a bit higher profile, we can and therefore should attract talent from around the world. By the way, Nicholas is based, here in France, in Europe, in France. And, he has been not settled for less than top global talent that continues to please me and the opportunities we talk about with AI are in great hands.

Bob McCooley: Great. Well, we do have a few more minutes in case there are any questions I want to take from the group.