

Bentley Q2 2021 Earnings Call Transcript

Carey Mann: Good morning, everyone. And thank you for joining us for Bentley Systems' Q2 2021 Operating Results webcast. I'm Carey Mann, Bentley's VP of Investor Relations. On the webcast today, we have Bentley Systems Chief Executive Officer Greg Bentley, Chief Financial Officer David Hollister, and Chief Product Officer Nicholas Cumins. Before we begin, allow me to provide a disclaimer regarding forward-looking statements. This webcast, including the question-and-answer portion of the webcast, may include forward-looking statements related to the expected future results for our company and are, therefore, forward-looking statements.

Our actual results may differ materially from our projections due to a number of risks and uncertainties. The risks and uncertainties that forward-looking statements are subject to are described in our operating results release and other SEC filings. Today's remarks will also include references to non-GAAP financial measures. Additional information, including reconciliation between non-GAAP financial information to the GAAP financial information, is provided in the press release and supplemental slide presentation.

This webcast will be available for replay on Bentley Systems' Investor Relations website at investors.bentley.com. Greg will begin by reviewing business developments and our progress over the last quarter. Greg will be joined by Nicholas, who will provide an update on Bentley's Seequent business. David will then take you through a review of the financials results, as well as an update of our 2021 guidance. We will conclude with Q&A. And with that, let me introduce the CEO of Bentley Systems, Greg Bentley.

Greg Bentley: Good morning—as the case may be—and thanks to each of you for your interest in Bentley Systems' quarterly operating results.

Our prepared remarks today will follow our usual format, with the addition of a presentation by our Chief Product Officer Nicholas Cumins to introduce our new Seequent business unit. Interspersed throughout this agenda, I will provide some timely updates as to our work with digital co-venturers Microsoft and Siemens.

For the first time, our report today includes an update to our financial outlook for the year. Also, for the first time today, in observations about the tone of business, I would like to reset from recent convention. Last quarter, my narration provided yet further updates to the gyrations, which characterized, in particular, our applications usage during the pandemic, which began over a year ago. But now that we're lapping those 2020 periods, and even though financial reporting needs to focus on such comparisons, it makes more sense to leave comparisons to the erratic trends of 2020 behind. My observations now, and going forward, will more so be informed by reference instead to healthy, pre-pandemic conditions. When I think about, and will shortly speak

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about, notable new business trends by sector, geography, and/or product brands, I have in mind comparisons especially to 2019, rather than the aberrant past year.

For each quarter to date, including after 21Q1, shown here, we have started our tone of business narrative with the directions of application usage within each respective infrastructure sector, since that's where the trends of the pandemic impact have diverged most.

The natural reason to start with application usage is that it's, traditionally, literally the leading indicator of our new business growth—which particularly underlies ARR growth—and then, in due course, revenue growth.

The proportions of revenue attributable to each of our commercial models is shown here, as of last quarter. Earlier this year, I showed the incentive plan, which all of our quota carriers share, based on the same new business growth—that is quota achievement measure, which I will remark upon today. Recall that our accretion in recurring revenue attracts higher quota credit coefficients than do for instance, one-time license sales. In fact, this quarter continues the trend of decline in license sales, in favor of our mainstream subscription offerings.

For the first half of 2021, license sales were down to under 5% of revenues, from 7% in the first half of 2019, relatively benefitting our recurring revenue proportion. We have ever less exposure remaining to this amplifying source of cyclical volatility.

We have focused, for tone of business, on directions in application usage because usage presages new business growth and, eventually, revenue.

That connection between application usage and ARR and revenue is increasingly short-circuited, as we have repeatedly emphasized, by the increasing proportion of our business model, which is directly E365-consumption based. To the extent of the E365 proportion of our business model, changes in both our ARR—hence new business growth—and revenues follow usage directions in the span of a calendar quarter or less. This was our revenue mix by commercial model for 21Q1.

And as you see here, 21Q2 was another successful quarter in continuing to upgrade our enterprise accounts to the E365 subscription program. Now, David Hollister will help with understanding the obscure consequences, under Topic 606 accounting, of each such quarterly change in our business model mix, and thus in our subsequent quarterly seasonality. We expect new upgrades to 365 subscriptions for years to come, including to the majority—by dollars—of accounts currently under SELECT subscriptions.

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As we return to discussing comparative directions across sectors of our application usage, bear in mind that our observations about application usage are as to totals, which count any day's usage of any application equally.

In fact, our applications vary respectively by almost an order of magnitude in value of consumption—that is, what we charge—depending, in general, on the applications' degree of specialization. In response to your good questions about drivers of organic growth, earlier this year, I introduced the term “Application Mix Accretion” to measure the proportionate increase in our average dollar yield per application day, and abstracting from pricing changes, as we manage by degrees to upgrade users to more valuable products. Application Mix Accretion is a virtually unlimited source of new business growth for us, over the long term as in this example, from back then, of upselling a MicroStation user to become a user of OpenRoads, much more valuable to the user and to BSY.

I mention this in connection with E365 because one of the reasons E365 is a priority for us, and for our accounts, is that a major responsibility of our success teams—that we virtually embed within E365 subscriber organizations—is to lead the way in going digital, through what we call success blueprints, to new digital workflows. Advancing in digital workflows naturally results in more Application Mix Accretion. So far, in 2021, E365 has helped us achieve overall Application Mix Accretion that annualizes to several percentage points of ARR growth. And, of course, application usage doesn't include our ProjectWise and AssetWise enterprise cloud services, which have consistently grown faster.

Back to application usage by infrastructure sector, but now for trends in reference largely to pre-pandemic usage levels.

I'm pleased to say that for us, the overall commercial/facilities sector, which had been variously sideways “yellow” for more than a year, is now back to growth over the pre-pandemic period.

It does remain the case that usage by contractors in commercial/facilities—primarily architects and building engineers—lags behind usage by owner-operators.

As a hypothesis to account for this, I cite the example of Bentley Systems. I consider that prior to the pandemic, our colleagues—almost all in our company facilities every day, if not traveling—were “infrastructure dependent.”

But next during the pandemic, and largely still while maintaining our productivity primarily working at home, I consider that all of us have been, on the other hand, “infrastructure deprived.” I frankly think that while virtualization sustained, or even increased, our quantity of work, our

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work quality may have suffered without in-person collaboration and the stimulation of purposeful office settings.

So, my description of the improvement we should be able to achieve as we transition to degrees of freedom, which take advantage of both workplace and home environments, is “infrastructure empowered.” And this image is from our internal website sharing this plan with our colleagues. Each of our managers and colleagues will work out a hybrid work balance, appropriately valuing quality versus quantity.

But, to attract colleagues to our offices by their choice, I regard that we need to make our offices magnetic in their appeal to get more work done, better. It will be worthwhile for us to make the needed upgrade investments for infrastructure empowerment, and I think that’s true across our economies.

A considerably larger-scale example is Siemensstadt Square, where Siemens began in Berlin. Siemens just announced its framework contract with the city to revitalize and construct this urban district with 1 million square meters of diverse, new space for Berlin’s characteristic innovations. Siemens Real Estate has contracted with us for exemplary project and asset digital twin cloud services to span the supply chain and lifecycle. In turn, we and Siemens’ mainstream Smart Infrastructure business are now jointly pursuing opportunities globally for campus digital twins to support planning and construction, operations, and asset management.

Moving on to our next-larger industrial/resources infrastructure sector, I’m sorry to report that the decline in our application usage has continued, by contrast to commercial/facilities. Recall also that most EPCs—the couple dozen of necessarily large engineering-procurement-construction contractors who perform the mostly fossil-fuel-related CAPEX projects for industrial/resources owner-operators—have elected to become E365 subscribers, presumably to share with us the inherent cyclical volatility in their own work.

Their revenues fall within the 20% or so of our revenue mix from the industrial/resources sector, which also includes the owner-operators whose usage is not as volatile because it relates primarily to continuous operations and maintenance, where going digital has become a higher priority under cost pressures.

Despite this being the small minority of our business, these EPCs are responsible for a significant offset to what has otherwise been relatively consistent application usage growth in the great majority of our accounts and products.

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To quantify this, if not for the pandemic's macro impact upon these EPC accounts, our 106% recurring revenue net retention rate would have been about 2.5% higher—108.5%.

We can also now say, having observed the year-plus duration to date of this dip in application usage by EPCs, that even though E365 caused the impact on our ARR and revenues to occur much sooner than would have been the case under the predecessor ELS program—which reset only annually in arrears—by now, even if there were still only ELS, these backwards resets would have occurred, and we would have been locked into the resulting lower ARR and revenues for the full future contract year.

Under E365, we believe we can better help the EPCs to diversify their own project mix in favor of new energy transition projects and towards other infrastructure sectors.

It's also the case that energy prices have generally rebounded, and the EPCs are somewhat optimistic that their backlogs will recover over the coming year.

By geography, this unfavorable industrial/resources sector phenomenon has decimated our new business growth from the Middle East and has considerably decreased new business growth in Southeast Asia, which is significantly reliant on producing offshore oil and gas facilities for the world. And I want to bring attention to a new concern in China, which is now tending to offset continuing subscription growth there. During this year to date, we have experienced a rash of unanticipated outright subscription cancellations within the population of mid-sized accounts in China who have for years subscribed, at escalating fixed annual prices, to our China-specific enterprise program. I suspect that geopolitical issues are probably a factor because, on the one hand, our Chinese channel partners who manage these accounts now face burdensome differential tax treatment for foreign versus local software and, on the other hand, the user organizations are now required to repeatedly and formally justify why they can't use local software instead.

Together, this unanticipated and unprecedented attrition among this segment of accounts in China, compared to our normal global rate of attrition, is costing us, so far this year, about a further half-percent in net retention rate. Because we don't think there are product issues, we will next try to reinstate these account relationships through E365 programs, where we can inherently maintain—through Success management—greater continuous visibility as to their usage and their engagement.

Overall, we think the solution will require us to work more creatively with local Chinese partners and we are prioritizing both commercial ventures and technical innovations—local Chinese

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cloud services—to accomplish this. The unmatched upside scale of the Chinese focus on going digital in infrastructure engineering makes this more than worthwhile, and we still have reasonable expectations—I think—to achieve, as we ultimately did in 2020, world-leading new business growth rates in China by the end of this year.

Returning to infrastructure sectors, I am pleased to report that in our mainstay public works and utilities infrastructure sector, application usage and recurring revenue net retention continue to inflect upward globally, since before and throughout the pandemic.

Most notable new business growth—in magnitude and proportion and duration since pre-pandemic levels—has been most recently led among applications by our SYNCHRO 4D construction offerings, our geotechnical offerings PLAXIS and OpenGround, our OpenFlows water modeling software, and OpenBridge.

Most notable new business growth geographically is led by the U.K., North America, Continental Europe, and Russia.

In corporate developments, we review the relevant external news of the day.

On August 5, literally as I prepared these remarks, we went live on the Microsoft Commercial Marketplace for the first transactions to distribute our instant-on, cloud-native ProjectWise 365 through this new, e-commerce channel, which already serves 4 million users per month. ProjectWise 365 is well integrated with Microsoft Teams, and is accordingly now easily accessible for discovery and self-service procurement by the 250-million-plus Teams collaborators.

Going to market now through the Microsoft Commercial Marketplace reinforces our own direct e-commerce investment, through our Virtuosity initiative, to reach, especially, new SMB prospects. Our new business growth through Virtuosity subscriptions grew by over half from 2021's first quarter to the second quarter. The majority of Virtuosity's new ARR is from new SMB accounts. New accounts, largely SMB, contributed ARR growth of 1.5% in this year's first half—that is, 3% annualized growth rate—which is much higher than in previous years. I should say, however, that we don't yet have representative experience with Virtuosity renewal rates, where attrition may turn out not to be as low as our norm at large.

To update our external market checks—the studies here haven't been updated by their author but here are our penetration rates among ENR's 2020 rankings, published this spring, of Top Design Firms, respectively for our design applications portfolio among all 640, and for ProjectWise among the Top 50.

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And the ARC Advisory Group has just published its annual market analysis study for engineering design and BIM software, and we are gratified to see ProjectWise earn the number one market share ranking again for collaborative BIM. The distinctively industrial-strength collaboration, which has earned ProjectWise the role of “workhorse for work-sharing” across the largest global design organizations, became a necessity in 2020 to virtualize, in going digital, the work of every infrastructure engineer in virtually every organization.

In these combined markets, ARC continues to rank our overall share second to Autodesk. But, with Seequent, we are for the first time ranked number one in mining, while we continue to be ranked number one in water and wastewater distribution. And it is particularly significant to continue to be acknowledged as number one in electric transmission and distribution, combined with communications networks, with major investments in these areas being now explicitly prioritized all over the world.

In fact, in this year-to-date, notable standouts in new business growth include both our OpenUtilities applications for the energy grid and our OpenComms applications for communications networks. And of course, last quarter, I spoke at length about the pace-setting opportunity for communication towers digital twins.

For all these reasons, I am enthusiastic about our recent acquisition of SPIDA—established software leader for the utility pole structures and distribution networks on which we all rely in North America—to further extend OpenUtilities to this last mile. To the extent that all plans for energy transitions and carbon reduction goals depend on “electrification” and on distributed generation and storage, upgraded networks of utility poles are key resources for our resilience. Grid digital twins for transmission and distribution, and for communications, represent appealing investments that merit our full attention.

The ARC Advisory Group is very thorough and comprehensive in its research. As many of ARC’s subscribers operate industrial facilities, ARC has reported from the start on our joint development with digital co-venturer Siemens of PlantSight, our digital twin cloud service for operating process plants. It took some years to build out the scope of PlantSight, as we insisted upon a native SaaS implementation based on our new iTwin platform, but it is now brought fully to market by both BSY and Siemens Digital Industries. ARC recently issued this report of case studies from representative PlantSight implementations, including extensive interviews with the responsible engineers. And I recommend it.

Also, by way of updated external market research, recall that we have estimated our TAM based on the work of research firm Cambashi, which estimated engineering software spending by

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respectively all product engineers—that’s my term, they say “manufacturing”—compared to all infrastructure engineers—where they say, “AEC.” They have just completed for us an update from the year 2018 to the year 2019.

We haven’t prepared new materials yet, but while one result is about a 5% higher TAM estimate, their more immediately interesting finding, to me, is that from 2018 to 2019—that’s all pre-pandemic—manufacturing spending on engineering software increased about 7% while spending on AEC software increased about 12%. So, this is consistent with the premise of our TAM approach—that this gap in spending per engineer will close, with infrastructure engineering here confirmed to be already relatively accelerating in going digital.

The final external market development that I will remark upon is our successful offering of convertible notes during the quarter. I leave to David Hollister the discussion of its terms and our current capital structure. To me, the significance is that this reinstates, following the Seequent closing, our full capacity for opportunistic acquisitions, in addition to our ongoing programmatic portfolio development program. To support my premise that such opportunistic acquisitions can well serve our shareholders, and now bondholders, you will hear about Seequent from both a financial standpoint from David Hollister and as to its strategic synergies.

And to introduce Seequent, a Bentley business, may I now introduce Bentley Systems’ Chief Product Officer, Nicholas Cumins, to whom the Seequent organization reports.

Nicholas Cumins: Thank you, Greg. The world aboveground is largely known and well described. The world belowground is uncertain because it is designed by nature, and we cannot see it. Here, you need specialist expertise to understand nature’s curves, grades, shades, anomalies, and exceptions.

According to a report by the Institution of Civil Engineers, the largest element of technical and financial risk lies in the ground. Studies have shown that unexpected problems related to ground conditions account for more than a third of project overruns. But imagine if you could see what lies beneath. You could de-risk project delivery. You could greatly increase the resilience, the sustainability of the infrastructure.

Seequent is a unique and truly innovative company in the subsurface. Seequent translated algorithms that originated in medical sciences into geology to create a paradigm shift in how the subsurface is interpreted. This capability, honed-in the minerals industry where Seequent is very strong today, has gone on to evolve into multiple industry verticals.

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This deep competence is well aligned with Bentley. Bentley has the goal to advance the design, construction, and operations of the world's infrastructure to be more resilient and sustainable. To do that successfully, Bentley needed the best subsurface geoscience capabilities the world has to offer—and that is Seequent.

Seequent brings a world class leadership team to the Bentley family, with a blend of geoscience and commercial experience from multiple industries.

Headquartered in New Zealand, half of the executive team is in other locations around the world, as highlighted here.

With a very strong history supporting the minerals industry, Seequent has built offices in areas of strong mining activity, such as Africa, Latin America, Western Australia, and Canada. And these are all highly complementary to Bentley office locations. Software development is concentrated in Ontario, Alberta, and New Zealand.

At the time of close, Seequent was around 430 colleagues. Through expansion and the addition of Bentley geotech colleagues, it is now around 570.

Now, as Bentley, we have always been aware of the importance of the subsurface to infrastructure.

That's why, over the last 10 years we have acquired specialist products, such as PLAXIS, gINT, and Keynetix, which is now OpenGround Cloud.

Seequent are specialists in the subsurface—in fact global leaders in their field—so it made sense to bring all of this together. The Bentley geotech products and professionals have now been incorporated into Seequent, increasing the number of colleagues by around 30%.

Now, why have we done this? Well, we're bringing like-minded and like-skilled specialists and products together into a single team and plan. This will allow us to better address the need to connect these products to support improved and rapid decision-making.

We now represent the largest geotechnical software portfolio globally, with the potential to leverage our strengths to advance solutions that will greatly improve the resilience and sustainability of infrastructure.

Let me explain, now, how these different products can be used together. For example, when approaching a new road project, the client will provide some initial site data, but the consultant

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will quickly pull on their database of ground investigations from neighboring sites—stored in gINT historically but increasingly in OpenGround Cloud.

These inputs, along with GIS and survey data, are used to build a conceptual site model in 3D using Leapfrog, Seequent’s flagship product for geological modeling.

This is laying the foundation of the subsurface digital twin for the site.

As the project progresses into the detailed design phase, using products such as Bentley OpenRoads Designer, the geological structures and data about the soil and rock properties from the site investigation are combined, and the designs for cuts, embankments, and reinforced earth retaining structures are validated using the geotechnical analytical capabilities of GeoStudio and PLAXIS.

If it sounds complex, it’s because it actually is. Geotechnical professionals wrestle with subsurface uncertainty. They use different tools for different problems, at times multiple tools to triangulate on the right outcome as they drive from complexity to clarity.

This is why many of our users choose both PLAXIS and GeoStudio because of their respective strengths.

Now, to better understand the earth, we need a range of specialist methods. Alongside internal product innovation, Seequent has acquired businesses that broaden its geoscience footprint. Greg noted at the announcement that we fully expect that program of acquisitions to continue. And to that point, since we closed, we have announced two acquisitions that Seequent had in process.

The first is Imago. Imago is a relatively new, innovative cloud platform to capture digital images of mining company exploration and operational drilling. Drill cores and chips are incredibly valuable assets and form the basis of the evaluation of a mineral resource. Imago brings the images to a geologist anywhere in the world to speed up the assessment process. They are deploying machine learning to automate the assessment of characteristics, which you can see [here](#).

The next acquisition is AGS. It’s worth explaining first that in the geosciences arena, there are a large number of data types that are used to build understanding of the subsurface. Some of that data is historical and re-used and some is captured for the purpose. Examples can include direct ground measurement using drill holes thousands of meters deep, and even sophisticated measurements from inside those drill holes. There is a class of measurement called geophysics that measures the response of the subsurface using sensing equipment, and based on that

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response, a wide range of attributes can be inferred and used as a proxy for the underground geology. For example, Seequent acquired Geosoft in 2018, a company specialized in the measurement of gravity and magnetic changes. Another class of geophysics is electrical methods, where electrical current is sent into the ground, and the response measured.

AGS is a Danish software company that specializes in electrical methods, which can inform us about the presence of groundwater, contamination, soil types, and geological threats, such as faults or cavities. AGS is only five years old and originated from research conducted by the Danish government to understand their national ground water resources.

Bentley's acquisition of Seequent unlocks multiple opportunities. We are focusing on three objectives: ensure economic performance of infrastructure projects, ensure long-term sustainability of infrastructure assets, and accelerate environmental sustainability. What I would like to do now is give you a couple of examples of these objectives in action with Seequent software.

So, here is a great example of where Seequent software, combined with Bentley, greatly improves the performance of infrastructure projects. This is HS2, the high-speed rail project that is one of the most complex projects ever undertaken in the U.K., and that I am sure many of you are very familiar with. The power of connecting people and software is well demonstrated with over 80 geoscientists working on a 90-kilometer section of the project.

The project is supported by Seequent's central platform to collate, analyze, and share geological understanding with the wider project team. The model is the basis for design decisions that use Bentley software. With field data arriving just in time, the ground model can be updated and republished weekly, so the design team can respond iteratively to the updated geo-insights. According to Mott MacDonald, in a single section called the Streethay Cutting, the real-time updates saved around one year of construction time, and tens of millions of pounds.

Now, all economies around the world are facing aging infrastructure as a major issue. Here's an example of how Seequent software is helping ensure long-term sustainability of infrastructure.

The Upper Chelburn Reservoir was originally constructed over 200 years ago. With one abutment situated on an historic glacial landslide, the reservoir had a history of seepage. Historic construction records and site investigations were blended with high accuracy LiDAR and new investigations to create a 3D geological model in Leapfrog that was integral to the design of grouting and a new spillway by Mott MacDonald Bentley. The 3D visualisations can pick up features and clashes that otherwise would not be seen in 2D cross sections. The result was highly

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targeted works that could be executed with confidence and overall costs reduced for the remediation.

Going forward, we have active collaborations between Seequent and sensemetrics in order to develop real-time integration from IoT devices to the ground models to provide a framework for subsurface monitoring solutions.

For example, ground condition or water level changes detected by IoT in relation to earthquakes can update a ground model and, in turn, generate updated stability calculations and risk factors.

I mentioned that one of the strategic objectives was to drive sustainability. We are seeing a vast emerging market to apply geosciences to challenges that align with the UN Sustainable Development Goals.

Seequent's solutions have a rapidly expanding handprint around the world by enabling our users to address environmental challenges, such as:

- Salt water entering subsurface aquifers and damaging fresh water supplies, as a result of over pumping from agriculture
- Contamination from historical industrial activity
- The increasing pressure placed on scarce resources of clean water by population increase and urbanization.

We are witnessing a substantive shift globally in energy consumption patterns and changes to how countries and societies view energy.

The transition from hydrocarbons. Sourcing minerals to support this transition. Now, it's worth mentioning that the world's electrification depends on a massive renaissance for mining. Seequent supports this in conventional mining, of course, and in some less conventional sources. For example, extracting lithium from high-temperature geothermal fluids from underground.

Development of sources of clean energy. Now, let me drill down into one of the sources of clean energy, and that's geothermal. Geothermal energy is about tapping into the subsurface heat of the earth to produce either electricity or heat. Seequent is involved with over 50% of the world high-temperature geothermal electricity production, a true renewable base load power source.

Although electricity as an output is well known, heat may be less so. Paris, where I come from, has been using low temperature heating for 30 years. Utah FORGE—which stands for the Frontier Observatory for Geothermal Energy—is funded by the U.S. Department of Energy. This

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a test bed to develop technologies to unlock enhanced geothermal systems, where heat is stimulated to come to the surface. Leapfrog has been the basis of the earth model design and is used to communicate to communities and regulators. They actually call it their go-to tool for communication. FORGE believes that this approach could supply a quarter of the U.S. heat energy demand in the future. Now, this may be surprising, but Bavaria in Germany—where I live—has already set this as a heat generation target.

These projects demonstrate that working together, we have the potential to tap the earth's boundless resources of heat and substantively reduce, or even end, fuel poverty.

Lastly, let me introduce Lyceum. Lyceum is Seequent's thought leadership event—a nod to the place Aristotle had set up for scholars to meet and debate. Started in 2016 in Perth as a small, mining-focused event, this now extends across a wide range of geoscience disciplines and industries and is fast becoming the go-to event for specialists in this field. The theme for 2021 is "Together towards tomorrow." The aim is to help geoprofessionals accelerate their understanding of the earth. A global event will be followed by four regional events.

Now, I would like to hand back to Greg to give an update on *Year in Infrastructure*.

Greg B: Nicholas, thank you, and especially for relating what Seequent's users accomplish for responsible mining and environmental resilience toward achieving the U.N. Sustainable Development Goals. I know that our new Seequent colleagues all share zeal and responsibility for these advancements. We can together now deepen infrastructure digital twins and deepen our collective commitment to these imperatives.

In fact, I'm aware that ESG is a priority for everyone here, and it's especially a priority for us at BSY. But because advancement in and through infrastructure engineering is vital to the world's consensus Sustainable Development Goals, and, as you've seen for Seequent, going digital is the palpable key to such advancements, I ask our colleagues to think of our own goals in this combined way to remind us throughout Bentley Systems of our quite unique capabilities, and hence imperatives, in ES(D)G: Empowering Sustainable Development Goals—including the examples that Nicholas also referenced.

And while all organizations should attend to, be evaluated upon, and minimize their environmental "footprint" within ESG, for us the much greater imperative must be ES(D)G—our environmental "handprint."

So, to conclude, I will briefly make the case that our imperative for ES(D)G can and should be empowered by digital twins.

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Both our accounts' ES(D)G initiatives and digital twins will, of course, be in focus at *The Year in Infrastructure 2021*, our global thought leadership event, which will again be virtual this year in early December and where we will again have concierge arrangements for analyst and investor attendees.

Our virtual Going Digital Award finalist presentations and judgments will lead up to *The Year in Infrastructure*.

By way of accelerating progress toward digital twins, among the hundreds of projects nominated by our users again this year for Going Digital Awards, compared here to the year 2020, fully one-third now credit reality modeling through our ContextCapture software to produce the digital context for digital twins; 14% now credit iModels, our containers for semantic alignment of ET engineering models; and 11% now credit our iTwin Platform cloud services.

This year, I will be joined for keynote discussions by members of Siemens' managing board, whom also prioritize what I call ES(D)G and digital twins. When we think of Siemens and sustainability, we come back to their distinctively impactful role in the world for electrification of infrastructure.

By way of example, on the lower left here, you see a unique Siemens innovation already being proven in Germany: e-Highways, with overhead electrical catenary lines to emissionlessly power heavy truck traffic on the Autobahn. The infrastructure engineering for this can be advanced through our new OpenRail Overhead Line Designer, which incorporated Siemens' proprietary modeling algorithms but can be applied for any source of overhead line hardware.

In the recent commitments to carbon neutrality by many countries, such as the U.K., it is acknowledged that success depends on electrifying hundreds of kilometers of the rail network. Here is Siemens' assessment of the significance of this new engineering application of ours, crucially addressing ES(D)G imperatives through digital twins.

MOSES—our offshore wave motion simulation software, which has been a market leader for analysis of offshore fossil energy platforms—is also reaching notable new business growth levels this year for ES(D)G-led opportunities because another of our new infrastructure engineering applications, in the realm of electric power generation, OpenWindPower, now caters for floating offshore turbines, in addition to fixed offshore wind structures that are necessarily closer to shores. The most abundant and consistent wind capacity is the 80% located within ocean depths where direct seabed connections are uneconomical. MOSES is needed to connect the engineering for interactions of waves with wind and tethering of floating offshore wind farm foundations.

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I believe there will be many such examples where ES(D)G and digital twin imperatives converge good business and good work in infrastructure engineering and going digital.

In this regard, I'm pleased to say that later this month, we will be highlighted as a Microsoft Sustainability Partner, in particular for our OpenFlows water modeling offerings, which now include new, Azure-based WaterSight digital twin cloud services.

During this past quarter, we were also recognized by Microsoft U.S. with their U.S. Partner of the Year Award for Azure Mixed Reality, a truly significant and competitive category for us and for Microsoft. The award is for virtualizing bridge inspections by drones and ContextCapture reality modeling so that inspectors can stay safe, and engineers can work remotely, while together assuring that bridges remain safe. At this link, you can watch Microsoft's own dramatic presentation of this breakthrough at their Ignite Partner conference, with users Minnesota DoT and Collins Engineering.

The subject of bridge safety brings back to mind this slide from last quarter about the catastrophe on the Mexico City metro, caused by what amounted to a bridge collapse. You may recall that I also talked then at some length, relating such risks to our new and unique capability to enliven infrastructure digital twins for the monitoring of environmental resilience, made possible by our infrastructure IoT programmatic acquisitions earlier this year of sensemetrics and Vista Data Vision, and their ongoing software integration into our iTwin platform.

While examples of infrastructure vulnerabilities that we have referenced, such as Mexico City or the Genoa bridge collapse, may have seemed foreign and distant from the U.S., just since last quarter, here are ongoing and perhaps compounding examples of dangerous environmental threats to our infrastructure here in this country. And then, since last time we were together, Americans suffered our own catastrophe from infrastructure collapse.

I bring this up not to be morbid but to point out that, as many of you know and have also been tracking, most world economies have already committed, post-pandemic—as we would all like to think—to incremental infrastructure investment programs, though most projects are not yet underway on the ground or even in engineering.

But given that here in the U.S., our policymakers are still considering what could and should be our priorities, we have formed a coalition to make the case for the imperatives of digital twin technologies for our country's existing infrastructure assets, whose lifecycles Americans have no economical choice but to extend. Living, and deep, infrastructure digital twins, bringing together ET with IT and OT, are what's feasible and necessary to sustain these assets' fitness for changing purposes, to facilitate energy transitions, and to enable environmental resilience and

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adaptation. Compared to spending on new infrastructure capacity, the financial and environmental costs are modest or negative, and the return on investment is unprecedented, including for our safety and quality of life.

We do think we've garnered some support among policymakers for this, if not yet as explicitly in legislation as we would like, so thanks for any help from those here in making this public policy case to further accelerate going digital in infrastructure engineering towards our ample TAM and full potential for us at BSY.

In the meantime, to review our most recent financial performance and updated 2021 outlook, over to David Hollister.

David Hollister: Thanks, Greg. Jumping right in here with revenues.

Our second quarter revenues of \$223 million grew 21% over the same quarter last year. Of course, most of that growth comes from subscriptions, which grew 17.6% over the year prior and still represent well over 80% of our revenues. So, I offer much of my business commentary here as it relates to subscriptions. Our recent acquisition of Seequent contributed nearly \$4 million of subscription revenue growth during the quarter, accounting for 2.5 points of growth. Continuing foreign currency tailwinds contributed about four points to our subscription growth during the quarter. Thus, the remaining growth in subscriptions of a little better than 10% comes from business performance.

As Greg mentioned, our stalwart performance in the public works and utilities sector of our market led the way in overcoming the macro-induced drag on our performance in the industrial and resources sector, where our footprint of EPC accounts continues to suffer declines induced by capital project delays and cancellations.

On a product dimension, our SYNCHRO construction, PLAXIS geotechnical, OpenFlows water modeling, and AssetWise information management and inspection solutions all had notably positive contributions during the quarter.

On a geographic dimension, North America, the U.K., and Europe all also had notably favorable quarters, net of some disappointing ARR performance in China with its geopolitical challenges and in the Middle East corresponding to the ongoing oil and gas exposures.

Our perpetual license revenues are down \$1 million for the quarter relative to the prior year and now represent only 5% of total revenues. We continue to observe some ongoing cannibalization of perpetual licenses into term license subscriptions and virtuoso subscriptions—a trend we expected and welcome.

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Our professional services revenues, now over 11% of our total revenues, increased nearly \$12 million or 83% over the same quarter last year. The majority of this increase was stimulated by acquisitions concluded throughout 2020 and in 2021 year-to-date, as we acquired and built our Cohesive Companies digital integrator business. While more than half of this growth I would categorize as acquisition growth, these businesses post-acquisition are growing in double digits and generating low double-digit profit margins. I'll also point out that the relative mix shift favoring our professional services has a modest impact in lowering our gross margins. However, we absorbed those in our commitment and delivery of improvement in EBITDA margins overall. As a reminder, our digital integrator strategy is not merely creating professional services revenue bulk. We are strategically investing for digital twin software pull-through and to demonstrate an attractive business model in efforts to stimulate an ecosystem of such digital integrators. To see them bring modest profitability contributions along the way is just a bonus.

Year-to-date revenues are thus \$445 million and 17.4% improved over the prior year. Similarly, subscriptions are improved 14%, with about 4% coming from currency tailwinds, 1% from Seequent and the balance from business performance. Perpetual licenses are off \$1.7 million year-to-date, reflecting the trend towards subscriptions that I described for the second quarter. And professional services are up 78% year-to-date, also reflective of the dynamics that I described for the second quarter.

Moving on to recurring revenue performance, our last 12 months recurring revenues, which include primarily our subscription revenues, but also will include certain services that we deliver under contractually recurring success plans, together increased by 12.1% relative to the same LTM period last year. As you've heard Greg explain, and as I summarized in describing our subscription revenue performance, our subscription revenue performance and our recurring revenue performance is seeing a trough in our constant currency net recurring revenue retention rate, which this quarter rounds down to 106%. Again, that trough is significantly due to the drag being created by our industrial/resources sector and related EPC account performance. On the other hand, we are fighting through this with new account growth, representing again 3% annualized subscription growth in the quarter. And, in case it isn't clear, this growth happens outside of, and does not contribute to, the recurring revenue retention rates. I call it a trough, but obviously we just don't know. Historically, we've experienced a lag in seeing macro headwinds manifest, but also a lag in seeing relief once a macro recovery is evident. It's my anticipation that our nimble E365 contractual provisions will benefit us by at least partially shortening that lag once a recovery is evident.

On the far right, you can see some rather dramatic constant currency growth in ARR. Seequent onboarded significant ARR, which has only grown further through June 30 and is contributing

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about \$90 million and nearly 13% growth relative to the same quarter last year. Even net of Seequent, it was another 10% constant currency ARR growth quarter for us, relative to the same quarter last year.

Now, moving on to profitability. Our GAAP operating income was \$32.2 million for the second quarter of 2021, down \$12.4 million from the same quarter last year. These GAAP results reflect rather substantial incremental charges for acquisition related costs—primarily Seequent—and for non-cash, stock-based compensation. There's a reconciliation schedule quantifying these impacts in the appendix to the materials today and in the 10-Q for your study. On the right, our Adjusted EBITDA metric normalizes for such activity, where we thus show our more expected improvement in Adjusted EBITDA of 20% relative to the same quarter of last year. And year-to-date Adjusted EBITDA of \$152 million is an improvement of over 30% relative to last year. Year-to-date Adjusted EBITDA margins are 34.1%.

In a moment, you will see that I'm still going to steer towards a revised outlook for the full year 2021 towards an EBITDA margin closer to 32%. You may recall from last quarter that I've tried to temper enthusiasm for our recent favorability in margins as we continue to ramp out of certain unsustainable COVID-19 related cost savings—and as we reinvest cost savings into growth initiatives and recognize that seasonality of our expenses is heavier in the last half of our year. I won't go through that again but remind you that it's still available for study. I may have to admit that 32% Adjusted EBITDA margins is safe and conservative. It also represents the result of our carefully choreographed targeted 100 basis points of margin improvement each year once the turbulence of 2020 is normalized. We are both investing for long-term growth and delivering on our margin expansion business model targets. I hope you can appreciate the tradeoffs that we navigate when we do this.

Moving on to liquidity. Our GAAP operating cash flows are 9.4% improved year-to-date, compared to the prior year, and 21% improved for the second quarter LTM period this year, compared to the second quarter LTM period last year. These cash flows continue to outpace our Adjusted EBITDA. We are focused and efficient with cash flow, but I don't represent its volatility—bad or good—to be anything other than timing. We continue to believe that, on average, our business will efficiently generate cash flow from operations at a ratio of 85% to 90% of Adjusted EBITDA.

The relatively outsized cash flow generation for the periods shown here are unusually favorable due to the conversion of certain ELS contracts with historical quarterly payment cycles into E365 contracts, where we seek to collect as a deposit the estimated consumption for a full year at the outset of the contract. Further, continued expansion of our term license program, where we also seek to collect a year of consumption on deposit in the form of a CSS, also has generated

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stronger cash flows. As these programs grow, their cash flows outpace the historical usage and resulting revenue recognition.

On the flip side, the cash flows for just the second quarter 2021 in isolation were unusually unfavorable due to the inclusion of \$12.5 million of Seequent-related transaction fees paid in the quarter, as well as \$16.7 million paid incrementally in the second quarter of '21 relative to the second quarter of '20 for income taxes, which are currently reflected in prepaid taxes to benefit future periods.

Related to this, let me just take a moment to describe the unusual tax benefit that's reflected now in both our quarter and year-to-date results. The company gets a tax deduction when deferred compensation share distributions occur, and when certain stock options are exercised. The tax deduction is a discrete tax benefit recognized only when these distributions and exercises occur, and thus is subject to the fair market value of the underlying shares at that time. This significant tax benefit resulted in a second quarter and year-to-date tax benefit, rather than provision, and also rendered prior estimated tax payments to be overly conservative. You'll see in a moment that I am revising our estimate for the full year 2021 effective tax rate down to be less than 15%.

During our second quarter 2021, we successfully executed another placement of convertible notes for \$575 million. Market conditions and receptivity were favorable for us, and we took advantage of the opportunity to tidy up our capital structure by lowering the cost on our outstanding indebtedness and freeing up capacity on our \$850 million revolving credit facility, thus enhancing flexibility for continued growth.

Obviously, we also closed on the Seequent acquisition in late June, paying \$911 million in cash and issuing 3.1 million shares of our Class B Common Stock.

Also worth highlighting is the \$69 million we paid during the second quarter related to net settlements for deferred compensation plan share distributions and taxation of stock option exercises. Participants in these plans are entitled to net settle with the company, leaving the company the obligation to remit taxes on their behalf. It effectively manifests as a share buyback. These transactions occur to a much lesser degree in every other quarter, but each year our second quarter is most impacted.

As of the end of June, our net debt was \$1.17 billion, and net total debt leverage was 3.5 times. Our net senior debt leverage rounds to zero times, given only \$37 million was drawn on our \$850 million senior secured revolving credit facility. \$813 million remains fully available to borrow on the revolving credit facility. I had previously projected less than four times total leverage after the Seequent acquisition, and we're actually slightly more favorable at present—and trending

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towards further deleveraging. As I've mentioned, I think leverage of two times to three times is optimal for us, but our business, with its predictable and visible cash flows, carries debt well. Our capital structure is in very good shape and fully able to support continued growth investment, which we intend.

As we committed, we're now revising our 2021 full year outlook metrics. I show here a bridge on our revised revenue outlook, where the first adjustment we make is downward for the effects of foreign currency. The currency tailwinds we anticipated in our initial outlook—which basically were exchange rates at the beginning of the year—have since shifted such that our portfolio of business and currencies yields a slightly stronger U.S. dollar and thus \$10 million less in expected revenues for the full year 2021. Of that \$10 million, \$3 million has already manifested in the first half of 2021 and another \$7 million we expect to manifest in the last half of 2021, assuming that exchange rates remain where they were as of late July on average.

Of course, the next adjustment is to pick up the revenues from Seequent, where we expect to record \$45 million of gross revenues, but that will be netted down by the opening balance sheet fair value adjustments to deferred revenue, which we affectionately know as the acquisition haircut, courtesy of accounting rules. Seequent revenues are rather seasonal based on renewal patterns, and the last half of a calendar year represents its lower seasonal period. And I'll show this in a moment.

The last item to note is a modest expected increase in our business performance relative to that assumed in our prior initial outlook. We're thus raising the outlook and narrowing the range to now be \$945 million to \$960 million for the full year 2021 total revenues.

And as mentioned, here's the seasonality for Seequent and its business profile based on past and expected near term performance. Due to its legacy as a New Zealand company and a March 31 fiscal year, the first calendar quarter of each year is by far the heaviest renewal quarter—and thus the strongest quarter for revenues and ARR improvement. Folding this into Bentley Systems should help to counterbalance Bentley Systems' fourth quarter renewal seasonality. Also, because Seequent tends to bill in U.S. dollars and incur expenses in other currencies, going forward, it should contribute to slightly improve the Bentley Systems natural hedge against foreign currency fluctuations.

So, I'll conclude by summarizing the updated outlook for our key financial metrics. I will say that in deriving this update, we don't assume into them any meaningful changes in macro conditions—for better or for worse—relative to what we are seeing and experiencing today.

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I walked you through the bridge in our updated revenue outlook, which is increased now to \$945 to \$960 million, which again, is net of \$10 million reduced for exchange rates and \$5 million reduced because of the Seequent acquisition deferred revenue haircut.

Our constant currency ARR growth is now expected to be 22% to 24%, which includes 12% to 13% from the acquisition and then subsequent growth from Seequent, and 10% to 11% from all other business.

Adjusted EBITDA, as I mentioned, is being calibrated towards a 32% Adjusted EBITDA margin, which, based on the updated revenue outlook, should be between \$305 and \$310 million. This reflects expected ongoing reinvestment of cost savings into growth initiatives, seasonality of our core Bentley Systems expenses weighted to the last half of the year, and also absorbs some margin dilution in the last half of the year from Seequent due to its seasonality lows as I just showed.

We're also now spending a bit more on interest, where we expect total expense to be \$11 million, not quite half of which is actually cash interest.

I described the discrete tax benefits that are driving a more favorable effective tax rate, which I expect for this year to be less than 15%. Those discrete favorable tax benefits will continue for at least the next five years, providing ongoing favorability towards our effective tax rate—which is, of course, is otherwise subject to any pressure from major tax reform.

We've updated our expectations on fully diluted average shares outstanding due to the convertible notes issuances we've taken on, and now are expecting that to be between 328 and 330 million shares. And this also anticipates no changes to our pace of CAPEX investment nor our current quarterly dividend.

And with that, Carey, I think we're ready to move on for some questions.

Carey M: Our first question will go to Matt Hedberg from RBC.

Matt Hedberg: Hey, thanks for taking the question. And congrats on a really strong quarter. Greg, I guess what really stood out to me—it was a lot of good detail—it really feels like you're returning now to pre-pandemic levels in a lot of aspects of your business. And, I think you guys noted that license revenue was down—and that's a favorable trend—E365 usages up.

I guess I'm wondering, when you look across the broad business, are you seeing consumption patterns change in some of these customers that were maybe more impacted by the pandemic? In other words, are people leveraging your technology even more so, to a greater extent than they

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did pre-pandemic because of some of the stuff that they learned about digital transformation, leveraging technology? Just wondering, on a broad scale, if you sense any change there?

Greg B: I think so. All of the E365 accounts—and you see how that’s growing—are because these accounts want success programs for new digital workflows. I like to say, they expect their workload to grow and are concerned that they won’t be able to grow their workforce to the extent that they—of the new work. And hence, new digital workflow methods. And of course, for us, that can be application, mix secretion with more specialized products, such as the examples we showed here. I think you’re right.

Matt H: That’s helpful. Then maybe just one more. David, you noted that you’re not making any additional macro assumptions within your guidance. I think the Delta variant has been on a lot of people’s minds, recently. Anything there that you’re sensing from the field? Or is it still too early to get a sense for that?

David H: Yeah, I think it’s still too early. I’ve not heard one negative feedback point from the field so far.

Greg B: On the other hand, it changes by the day. Our poster child for back-to-work has been China, and the recent news is concerning there.

Matt H: Got it. Well, well done thus far in the first half of the year. Congrats on Seequent closing. Thanks, guys.

Carey M: Thanks, Matt. We’ll go to Jason Celino from KeyBanc.

Jason Celino: Hey, guys. Thanks for taking my questions. Maybe just two for me. It looks like the implied ARR guidance from Seequent is \$94 million? That’s an uptick from the \$80 million commentary that you gave previously. I guess, any further thoughts on Seequent growth or margin profile, now that the acquisition’s finally closed and done?

David H: Yeah, Jason, I would say, just a confirmation that Seequent is growing twice as fast as Bentley Systems. We’re seeing that, and that’s confirmed. And, on an annualized basis, I described their margin profile as similar to Bentley Systems. You won’t see that in the last half of the year because of the seasonality. But on an annualized basis, their margin profile will look like Bentley Systems’. And we’re going to program it to look like Bentley Systems’ because we’re going to keep investing in that business to fuel that continued growth.

Jason C: Excellent. Thanks.

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Greg B: I guess I'll just ask Nicholas. I think we're organizing as well so that momentum continues and that we add to it through the reverse integration of our existing geotech business and into Seequent for strong momentum, right?

Nicholas C: That's exactly right. So, we're keeping Seequent as a stand-alone business unit, reporting to me but they're keeping all of their core business functions. The only changes we're making to their operating model are to either accelerate their growth or for compliance purposes. The objective is really to continue to grow that business as fast as they've been growing stand alone, if not even faster now that they're part of the Bentley family.

Jason C: OK. Excellent. Thank you. And then one quick one for Greg. You talked about the 5% higher TAM based on this new study, and that AEC was growing in spend more than so on the manufacturing side. Is there any—I guess, what is driving that out performance and growth? Is it investments in certain areas, certain products? Any thoughts there? Thank you.

Greg B: Well, of course, the report goes from '18 to '19. And we will publish the report in due course here. You will see the day. We measure the number of AEC engineers, the number of infrastructure engineers, as well as their spending. And they are also able to research this in more countries than before. I think going digital and going virtual will have accelerated that even more so.

But this notion that infrastructure engineering had been behind, but has this appetite to catch up now that there's lots of new work coming, and we can't produce in the world even more civil, less structural and geotechnical engineer, as we need to make them more productive and make them collaborate better. And going digital is the answer to that. And last year—not within the study—has shown that, I think.

Jason C: Great. Thank you.

Carey M: I'll go to Matthew Broome from Mizuho.

Matthew Broome: Thanks very much. Just in terms of digital twins, maybe if you can talk a little bit about the momentum for that in the quarter in terms of interest and pipeline, and given your ongoing efforts to evangelize that technology? And then, to what extent are you seeing ecosystem partners ramp their investments in this area?

Greg B: Well, we are working hard to evangelize, especially among ecosystem partners', and our acceleration venture fund includes now technical support efforts and so forth to help with that. An ecosystem exists within our own applications, where our effort now is to have the

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platform underlie the digital twin advancements for all of our products. We use the term “iTwin-empowered” increasingly for our products.

And, I think we are making headway there, to see 11% of the projects nominated this year refer to our iTwin platform. And they could be using just parts of it, not all of it necessarily. But we’re trying to go broad with the iTwin platform at the same time as we go deep, with examples like the communication towers that I talked about last time that are moving ahead. And then eventually, coalesce everything somewhere in between. But we’re working on both of those at the same time, going broad and going deep. But it’s still very early.

Matthew B: Right. Of course. And then just longer term, do you have any expectations in terms of what the E365 license mix will be for you?

Greg B: Well, we—there are very many large SELECT subscriber accounts who never went on to our ELS program. And that’s the next set of priorities for us. Some of those have already—best interests or gone to E365. We think there’s another equal amount of E365 that we can gain there. And the feedback from E365 has been very strong. Again, accounts want the success initiatives and the virtualized embedded experts that we’re getting better at. Having just started it a year ago, we’re very encouraged by it. And, of course, the acid test will be the EPCs. Those accounts want new digital workflows. They want to be doing things like changing their offshore mix of business to offshore wind, fixed and floating platforms. Also, floating solar is a horizon for them, and something like a success blueprint in an E365 program gets their full attention. So yes, we think even though the ELS program will exhaust that within the coming year, there’s yet more years of such opportunity for us.

Matthew B: Great. Thanks. Thanks very much, Greg.

Carey M: We’ll next go to Kash Rangan from Goldman Sachs.

Kash Rangan: OK, great. Congratulations, Greg. Good to see you on this webinar. I was intrigued by your comment at differentiating the recovery in commercial versus civil infrastructure. I would have thought that probably we see a rebound in civil infrastructure first before we see commercial, because there are still—a lot of us are still working from home. Wondering if you can expand your thoughts on that? And I think you also made a comment that the owner-operators are still lagging as far as the sentiment relative to the contractors. So, if you can just expand on those comments? And finally, any thoughts on the competitive environment? I know that you acquired Seequent. You see a larger TAM. So, as a result, are you seeing less competition, more competition, or about the same? Any thoughts there would be appreciated. Thanks. Once again, congratulations.

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Greg B: Well, I'll start with the last part of the question. I think everyone sees infrastructure as a great opportunity for going big with advancement, so I'd say there is more competition all the time. I don't think that's a bad thing, because there is so much—our TAM is such a multiple, and based on what product engineers already spend, just catching up on that.

Let me go back to by sector and be more clear. So, public works and utilities, there never was a slowdown, if you like. That continued to grow, at various rates, through the pandemic. Commercial and facilities dipped, and now has rebounded above the pre-pandemic levels.

In public works and utilities, contractors stayed busy. Owner-operators, some of them, had work schedules that changed. They had furloughed workers and so forth. So, there were those institutional variations of public works and utilities. The civil side, as you say, generally has stayed strong.

In commercial and facilities, we see the owner-operators responding faster. And I just use this example, maybe like us, we believe we need to make changes in the fitness of our office facilities to attract our workforce back. That's just to surmise on our part.

So, the commercial facilities, owner-operators are coming back sooner. Public works and utilities, nobody ever was slowing down. But there were some work furloughs and so forth on the younger side that weren't reflected on the contractor side.

And generally, I think the public works and utilities folks are expecting this new work to come across the world in the commitments that are, of course, not limited to road and rail, but especially in the energy grid, communications networks, and in water. All these environmental resilience opportunities, where civil engineers have to do the work, and are eager and able to do the work.

Kash R: Thank you. Thank you, Greg.

Carey M: Let's go to Joe Vruwink from Baird.

Joe Vruwink: OK, great. Hi, everyone. I want to discuss a bit your advocacy here in the U.S. around smarter infrastructure investments, particularly as we contemplate stimulus measures. What has been the feedback from stakeholders and government, your customers as you've been communicating this idea? And then, if this advocacy does result in action, how would you expect that to manifest for Bentley Systems in terms of maybe particular areas of the business or products that could potentially fill this void relative to practices, standards that aren't being pursued right now?

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Greg B: Joe, the feedback generally is that there's enthusiasm about going digital, especially for construction and project digital twins for new capacity of infrastructure. But our point is, that's great. However, most of our infrastructure in the future, 99%, is the infrastructure we have now. And digital twins are even more immediately applicable with drone inspection. Or you can find the existing modeling data for digital twins and use it to maintain fitness for purpose. And now, connect it up, make it living with IoT inputs to avert catastrophes and continue safety, you know? That is a new thought.

What we advocate in federal legislation is to provide incentives to the states, and I'll use the example of transit agencies, especially. And we think there's some receptivity to that, but it's tough to get above the noise for everyone lobbying for their particular new capacity project. We're just saying, do what you can there. It's still going to matter less in terms of quality of life, and energy transition, and safety than would digital twins for our existing infrastructure. That's rather an urgent need.

Where it would translate for us is to help the engineering firms get in the business of providing the digital twins for the assets they've created on behalf of the owner-operators. We're pretty hopeful that metros and transit will be a next entry point on that, however.

Joe V: OK, OK. That's great. And then just on Seequent, so my understanding is Seequent is growing at twice the rate as kind of core Bentley Systems. But now you have this dynamic where there's certainly acquisition opportunities. You're already executing on that. You're incorporating the Bentley geotechnical products, so I would imagine there is cross-sales synergies that can be achieved. What can Seequent grow by? If that's two times as better now before some of these things gain traction, I guess, what would be the targeted rate of growth?

Greg B: Well, I'm going to ask Nicholas to comment, but my observations are everything below ground is going from 2D to 3D, and you can only do that with the geosciences portfolio in Leapfrog. So that's a one-time, but continuing, momentum. Mining is a great business, as important as it is now for the world's electrification. And then, we have the opportunity for these synergies in infrastructure and environmental. So, I think our expectations should be high. Nicholas, you and the team will be delivering on those expectations. But go ahead, David.

David H: So, just so, just real quick, Nicholas, first. So, Joe, the expectations for Seequent's acceleration, they're in the revised guidance. But certainly, Nicholas is going to talk with some enthusiasm here about where we can go with this.

Nicholas C: Yes.

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Greg B: Over to you, Nicholas.

Nicholas C: Well, they're—yeah—fantastic growth opportunities with Seequent now part of the Bentley group, the Bentley family. The first one—and the first priority, actually, with Seequent part of Bentley now—is to accelerate their growth in civil. We have, actually, a number of joint customers as already joint users. But there's a lot of potential for cross-selling there. So, that is actually our number one priority.

And then the other way around, actually. We don't have that many Seequent accounts who use Bentley products in mining. So, mining actually could be a growth opportunity for the Bentley products as well. And then, energy in general. We don't have a lot of crossover there at all, actually, between Seequent and Bentley, but we see that as a very important growth opportunity when it comes to renewable energy, when it comes to clean energy, when it comes to energy transition.

Joe V: Great. Thank you very much.

Carey M: We'll next go to Jay Vleeschhouwer from Griffin.

Jay Vleeschhouwer: Thank you, good morning. For Greg and Nicholas, first, a couple of questions around your recent ProjectWise and SYNCHRO conferences. There was some interesting commentary at both of those events. In a session at the ProjectWise conference, it was disclosed that approximately 47% of your design users employ ProjectWise. It wasn't clear if that should be considered a high attach rate or otherwise. And at the SYNCHRO conference, it was quite reasonably said that project delivery is adjacent to design delivery. The question, then, is how does Bentley see its overall design or ET strategy—which is to say, could you talk about your internal investments in the ET business, the importance of, or likelihood of, accelerating your growth or share in ET as a predicate for the project delivery business? And then a follow-up for David. Thank you.

Greg B: I'll just remark upon the attach rate with ProjectWise. We think it should be a lot higher. The answer and the investment is in ProjectWise 365. ProjectWise Design Integration, the workhorse for work sharing—it's a great industrial strength, but there are a lot of projects that are smaller that are receptive to an instant-on, no administrator, and of course there are competitive products that are new there. So, ProjectWise 365, Microsoft Commercial Marketplace, Virtuosity, our inside sales, e-commerce is succeeding in introducing ProjectWise 365. So, that's the answer to close that up and make, as you say, project delivery and design delivery inclusive and comprehensive. And the SYNCHRO opportunity is to have what's designed in 3D become 4D in construction rather than become 2D, ultimately, in construction.

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All of that has to come together. It's why we group project delivery and the cloud services together. I know we're being quick in an answer to that very good question, which will come back to more answers over time.

Nicholas, do you want to add something to that?

Nicholas C: The only thing I would say or add is the focus of SYNCHRO is very much in civil. So, this is where we're looking, from a product standpoint, for the synergies between our design products and our project products to make sure there are true synergies here for our customers in civil infrastructure.

Jay V: OK. For David, looking back over the last year, considering the investments you've made in Cohesive and your other internal investment in services capacity, could you say to what extent that capacity might have changed or grown over the last year? In other words, how well resourced are you for what you anticipate in your deployments and engagements pipeline, particularly for project delivery and your introduction to new capabilities—like Greg mentioned ProjectWise 365, which you're also calling now blueprints, which seems to be a newish offering? So just perhaps talk about the connection between your services capacity and your pipeline.

David H: OK. OK, so I think about Cohesive a little bit differently than the implementation work you're describing for a ProjectWise or an AssetWise implementation. I think that's where your focus is, are we staffed well for our core product implementation work, are we staffed well to deliver on those success blueprints? And I would say it's always a trade-off to make sure that we have enough resources on board to deliver what we sell, but not so many that our utilization rates suffer. It's a constant back and forth. I feel we manage it well. You know, we talk about the expansion of the E365 program, and, frankly, the rate limiter there is we want to make sure we can deliver well on those programs with those success plans and those success blueprints. So, we're metering, frankly, our growth in E365 to make sure that we are well resourced to deliver that. So, I would say, look, we're in a good spot, Jay, but it's a pretty constant back and forth to make sure we're resourced for what we're selling.

Greg B: The best answer is for ProjectWise and AssetWise to require fewer implementation resources. And ProjectWise 365, for instance, requires none. The Cohesive group, on the other hand, are going to be working on digital twin projects that involve a lot of data quality issues, a lot of enterprise integration issues—such as Maximo, where most of them start. That's a different direction than implementation of ProjectWise and AssetWise alone. So, it's sort of two separate workforces. One is getting smaller, our Professional Services implementation, as more and more of them become, instead, success managers in E365, whereas the digital integrator workforce in

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Cohesive is growing. But hopefully, what it does is learns that business well and sets off many external digital integrators taking up the slack so that it doesn't have to grow beyond what we need to do to learn to do that well.

Jay V: Thank you, everyone.

Carey M: All right. With that, we'll wrap up the call. Thank you, everybody.

Greg B: Cheers!

David H: Bye-bye.