

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

**Jack Castle:** For those new to this session, my name is Jack Castle. I'm with Nasdaq. I'm a senior vice president and head of listings for the western U.S., and as my pleasure to have this conversation with you, Greg, maybe we'll start off, if you can introduce yourself and a little background.

**Greg Bentley:** So, Greg Bentley, executive chairman of Bentley Systems, thanks to each of you for your interest in Bentley Systems. Glad to be here today.

**Jack C:** So, Bentley recently celebrated its 40<sup>th</sup> anniversary. Can you share a little bit, to kind of kick things off, about the guiding principles and how those have helped you create your competitive advantage in this market?

**Greg B:** Well, the company was founded by five Bentley brothers. The other four are mechanical, electrical, chemical systems engineers. And I suppose I must have engineering DNA, but that balance in favor of the technical and substance, I think, has served us well as we develop engineering software for engineers, from the start.

For one thing, the hands on Bentley is all we've ever done—software development among the five of us. But it helped us have a focus on platform for software and all that means so that there's maximum reuse and consistency across everything we've done.

The platform aspect of our software from the start also provided us with a target-rich environment to acquire the best developers of software for our platform over the years. But the continuity of the same technical leadership then meant that our software well-suited the requirements of infrastructure engineering. So, the work of civil and structural and geotechnical engineers—their projects take years, and the assets they produce last literally generations.

And any project ever done in Bentley Systems software, or even 42 years ago, can and is reopened today to continue to maintain the fitness for purpose of the infrastructure assets. So, over the careers of infrastructure professionals and over their organization's project, this continuity has been a competitive advantage. I think also the family ownership. The family continues to maintain the majority economic ownership of the company and that has provided stability and consistency.

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

The lack of drama—that has also, I think, been a differentiator for us and continues to be.

**Jack C:** Yeah, drama's good for TV, not good for business.

**Greg B:** Not good for infrastructure engineering business. There may be some businesses which can tolerate that.

**Jack C:** Yes, that's fair. So, it's been about a year now since your transition to executive chairman from the CEO seat for about 30 years. Can you share a little bit about how that transition has gone from your perspective, and what excites you about the new leadership?

**Greg B:** Well, the brothers have all retired now and, since IPO, which occurred almost five years ago, half of our officers have retired, but that's as intended and expected. That was the purpose of going public, was to provide them with long-awaited liquidity. And having earned a third of the ownership of the company, that's been a good opportunity for promotion and attraction of younger folks in leadership.

I stayed in the post until we had completed a C-suite transition that has all of our new leadership in their 40s. Well, all right, our CFO is 40 [plus] 13. But the notion is to have another generational cohort who can, if not for 30 years, likewise take a long view and make decisions to benefit the future.

What I'm most excited about in the new leadership cohort, led by our CEO Nicholas Cummins, who's based here in Europe—in France, by the way—and our chief technology officer is based in Spain. What excites them is what excites me. And that is the AI opportunity especially. And I encourage them, rather than to necessarily follow our course, to consider the company, to benefit from being revitalized. And think of it now with the AI opportunity in the way we thought of the younger company along the way.

**Jack C:** I love that. Maybe we'll jump to that just on the AI topic, because again, that wouldn't be a discussion in 2025 without it. How is Bentley using AI today, and what are both the opportunities and potentially the risk you see for Bentley?

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

**Greg B:** Well, of course, we're taking full advantage of it internally. But in our product set, our Asset Analytics initiative is based on using AI to recognize changes in assets over their lifecycle. The corrosion and maintenance situations on roadways, for instance, are examples of that. That's been underway for some time. But we are introducing a product for civil site design that's AI based and optimizes drainage and grading and so forth. And generates drawings automatically to minimize the routine things that have consumed engineers' time. And we will learn from that to apply it to our broader domains. I think one of the most interesting prospects with AI is to help the economics of infrastructure by more purposefully reusing designs from past projects.

Today, amazingly, almost every infrastructure project starts on our software with a blank screen. And that's because engineers like doing work in a new way, and the drudgery of going back to what they've already done and extracting something to reuse is something that AI would be much more willing to do. As you design, your copilot will recognize something you've already done. It will show you in context. Ideally, it will also tell you from a digital twin how well it has performed in operations and maintenance and suggests that it might modularize and parameterize that for you to reuse again, industrializing and improving the quality, as well as the economics, of the project. So, I think that all lies ahead. And it's so interesting a prospect that our whole company is revitalized by the prospect of that.

**Jack C:** Yeah, very much so. So, going to the financial side, your ARR growth has really accelerated post-IPO and in 2020. Can you talk about the major drivers for that and why you think double-digit growth ARR is sustainable?

**Greg B:** Well, since 2020, we've become a public company. There's been a pandemic. But most importantly, infrastructure has become of much greater importance in the world, even in the U.S now, by the way.

Our ARR growth each year includes layers, if you like, that start with our annual pricing escalation that tends to correspond. We're not obliged to do this, but we have it correspond more or less to a pricing index. And that is in mid-single digits. Then, the bulk of our ARR is based on consumption. We, in our E365 program for enterprises, which is the majority of our business, we charge per application per day. And you could grow either volume. But, as we'll come back

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

to, there are not more engineers each year. So that's hard to do, but the engineers use more sophisticated software. We have that software as they care more about their productivity and throughput.

And that consumption combination of volume and mix upsell of products comprises the other portion of our 10% or so of net revenue retention from existing accounts. And beyond that, since IPO, we have added about 300 basis points of annualized ARR growth from SMB, from new logo prospects. And together, that's in the low double digits. I believe that will be sustained.

We're enduring a loss of ARR in China for geopolitical reasons that won't be sustained for as long because it's down to 2.5% of our ARR from having been 5%. But we are the quartermasters, if you like, to the civil and structural and geotechnical engineers of the world, they are busier than they ever have been. As there are fewer of them and more work, going digital is the greater priority sustainably, I think.

**Jack C:** Well said. And you mentioned the China element. So, maybe we'll go there with how do you see the current geopolitical and tariffs situations impacting your business, as well as impacting your customers?

**Greg B:** Well, outside China, the, infrastructure professionals of the world have concluded that their business isn't directly threatened by tariffs, and especially tariff threats since the bulk of materials used in a heavy civil project are domestically procured. As the world may tend to want, in each country, to be more self-sufficient, that will require more and redundant infrastructure.

And our accounts have shown no inclination to be any less concerned about their priority for going digital. And we haven't seen an impact on our end markets. I must say, the software business depends on globalization. And I'm very glad that the tariff threats are subsiding. The situation in China is completely different, and I don't imagine anything can improve that in the short run.

China's been a good market for us over time. We actually have been happy with our business in China. But now, the state-owned enterprises, which are responsible for infrastructure, are rather flatly discouraged from using American subscription software, especially. And that doesn't seem likely to change, as of this year.

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

**Jack C:** And then looking at the bigger picture, could you comment on the current state of global infrastructure spending and the drivers for the increased pace over the last several years, and whether you think that current pace is also sustainable?

**Greg B:** Well, I think the greatest driver is simply the age of our existing infrastructure, but especially, in addition to the need for greater capacity in most parts of the world, resilience and adaptation are more important all the time. And it's the rest of us talk about that. It's civil engineers, structural engineers, geotechnical engineers who whose work that entails. It's the work on which the economy and quality of life depend. And there will be ever more of it. We've had a country where the lights have gone out, here in Europe, as a reminder of how everything else depends on infrastructure.

If you don't have quality, reliable infrastructure, it doesn't matter what you do have in an economy and, in our lives. So, even in the U.S., where perhaps, over time, we were cynical about federal investment in infrastructure, especially having had now the Infrastructure Investment and Jobs Act in the U.S. Americans no longer attach the word "stimulus" to infrastructure and understand it's all about improving resilience and quality of life, and is a good investment for which there's strong support.

**Jack C:** And speaking to those programs, what does the new U.S. administration meant to the Infrastructure Investment and Jobs Act and then the Inflation Reduction Act program?

**Greg B:** Well, that's what everyone in the U.S. was scratching their head over earlier in the year. But I think things have settled out. In that respect, the previous Trump administration was very positive on road and highway spending. And in fact, the new, current reconciliation bill in the U.S. adds funding for the Department of Transportation. The IIJA's mix included aspects that are going to be redlined by this administration. High-speed rail, for instance, is just prohibitively expensive, unfortunately, to do it at this stage in the U.S.

The administration also is not in favor of micromanagement of discretionary programs at the federal level and is going to return that discretion to the states and local for infrastructure spending generally. But, overall, spending will continue. We think even the IIJA transportation funding will be a baseline to be

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

increased in the next regular five-year program that's already under discussion in the U.S. And there will be more spending related to ports and airports, for instance, that have to also do with defense.

The IRA hasn't really been a benefit to us at Bentley Systems. It's not so much about funding for things that get constructed, maybe other than chip factories and so forth. But generally, the IIJA will continue for its duration, and we're already discussing in the U.S. new and expanded programs at the federal level for roads and highways, in particular.

The IIJA included a new federal role in broadband, water, and grid, but those were already adequately funded at the private and state and local level. I don't expect those federal programs to continue under this administration, but that won't represent a significant cutback in funding. What those areas more so need, especially broadband and grid, and grid especially, are permitting reforms so that the backlog of permitting can finally be addressed, and this administration will be finally leading the way in that, we think, by the end of this year.

**Jack C:** Okay. That's helpful. Can you talk about any opportunities you may have as it relates to increased data center investments and the needed power generation?

**Greg B:** Well, new data centers amount to mini-cities, if you like. And while our software isn't likely to be used for the building proper, the structural aspects and drainage, water, foundation, and geotechnical, those are all opportunities for our software.

But where that matters most is just adding further on the margin to the tremendous need for more grid capacity, and especially for high-voltage transmission to connect up the users of electricity from the new renewable sources. And that's been put off because of permitting obstructions, generally in the world. Here in the U.K., for instance, the new renewable generation has been invested in and stands ready, but is waiting to be able to be hooked up to the national grid for lack of transmission capacity.

So, the largest inflection we have in our growth rate is likely to come from pent-up expansion and new transmission corridors, which are designed in the world with our Power Line Systems software, a business that, in our almost three years

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

of ownership, has already doubled, and will likely do so again and again as, finally, there's new investment in transmission capacity to improve the reliability and avoid the sort of problems that occurred last month here in Europe.

**Jack C:** Earlier you mentioned the digital twin. Maybe we can define that for the application for Bentley here. And then, what needs to happen to have an increase in adoption in the infrastructure space? How is Bentley currently monetizing that?

**Greg B:** Well, the work of civil and structural and geotechnical engineers is in creating 3D models that incorporate the simulation of behavior and performance for infrastructure assets. When that's done for a new project, of course, the owner pays for it, but, as we know from tracking the software usage, it's used only once during the project delivery, the capital project, and then it's dark forever.

What that engineering logic should be doing is improving the operations and maintenance lifecycle of the infrastructure. It should be continuously simulating and optimizing the maintenance especially, and the fitness for purpose when something would come along, like a pandemic or other needs. It should be an evergreen digital twin, maintained [and] up to date, for instance, through drone surveys, which are software processes into engineering-ready updates to the capacity and performance of the software.

So that that's the opportunity for a digital twin. And you can, as we know, convince an owner-operator for a new project—especially if it's in Asia and they're open to new processes and are most concerned about quick performance and high performance of the asset—you can have a digital twin from the very outset of a new metro project, for instance.

But, that's a slow process to wait for in the rest of the world. So, the opportunity with AI are instant-on digital twins that, for instance, start from a drone survey, or, in the case of roadways, from dashcam data that's literally updated daily. And we use AI filters to detect conditions that require maintenance.

We can now, in our new partnership with Google, incorporate Google Street View data, which is from special vehicles that costs more, so it can be done only annually, but provides a baseline for the digital twin to then be updated with AI from dashcams daily in our digital twin service now. And we can charge per

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

asset mile, for instance, or per cell tower in the business we call Asset Analytics, so that we can start immediately, thanks to AI.

And thanks to the even conservative owner-operators of infrastructure recognized, it's not whether they should be using AI, it's how they should be using AI. And to have a digital twin tomorrow in the ways that I've described is a compelling opportunity for everyone. We're in a race to have a cloud platform for that where we think we're leading the world and we want to include the half of our business that are engineering firms and adding their own specialized analytics to our cloud asset analytics platform, which will white label to them.

And they will become, in turn, the creators and curators of digital twins for the owner-operator. So, it's a long-term vision, as it turns out. But thanks to AI, we can kickstart it, mile by mile, and, for instance, tower by tower. And it's a pretty exciting opportunity to increase our ARR growth rate in this new business of charging not only per user for software, but per asset for asset analytics.

**Jack C:** That's very interesting. The SMB market has been great for you. Can you share a little bit about that market maturation, and what you feel the runway is for mentally going forward?

**Greg B:** Well, our focus had been, prior to our IPO, on our enterprise accounts, and we are 92% direct sales. By the way, that provides our operating leverage to increase our operating margins by 100 basis points a year, which we're committed to continuing and able to do because of direct sales.

But, by virtue of direct sales, we were not so focused on small and medium prospects until it became possible to do that through digital experience and, of course, all sales were direct during the pandemic. It turns out that the engineers who work in smaller firms are just as numerous as those who work in larger enterprises. They need the same software, and perhaps they haven't been thinking that they should be driving a Bentley.

But when we find them and offer them the software, our software is well-reputed. They simply might have thought it pertains to larger firms and larger projects. It's been a good match for them. And our Virtuoso subscriptions—we bundle in expert services from our own civil and structural geotechnical engineers who can help them apply the software in the right way.

**52<sup>nd</sup> Annual London Investor Conference Interview Transcript**

Since IPO, we've added over 600 new logos every quarter, aggregating to 3% or so of our ARR growth coming from this, for us, new market. And there's just a lot of it still ahead.

**Jack C:** With that, can you speak to the financial framework that investors should expect from Bentley going forward?

**Greg B:** Well, when we reviewed our metrics since IPO, it will have been five years in the coming quarter. We have, over that period of time, doubled our revenues, our subscription revenues, our ARR, our operating margins. We measure that less stock-based compensation as we think we should. And our cash flows likewise net of repurchasing stock to make up for stock-based compensation.

So, we we've doubled all of those in the five years, and we don't see why we shouldn't be accountable to do that each five years going forward. And to think of—we get there by way of low double-digits ARR and subscription growth annually and the incremental operating margins, adding 100 basis points of margins as we have done and can continue to do thanks to our direct sales model, largely, indefinitely in the future.

And if, going forward, we can do another platform acquisition or so within every five years, as we have done in the past, that are larger acquisitions, then we can double the revenues also each five years, I hope. That's the way I think of it.

**Jack C:** Bentley is controlled by the Bentley family, as you chaired at the beginning. Can you speak to the longer-term commitment of the family and how investors should interpret Schneider talks last year? And do you believe the company needs more scale to remain competitive?

**Greg B:** Well, our family has maintained majority economic ownership. It's gone down a little bit each year only primarily to the extent of liquidity we've needed for taxes on distributions from our deferred compensation plan that are triggered by the retirements that I mentioned.

So, we love this investment. If you could invest in the combination of going digital and infrastructure, that seems ideal. I might say one more thing, which is that, on the other hand, our family, being programmers, have also programed in the

## 52<sup>nd</sup> Annual London Investor Conference Interview Transcript

opposite of a dynasty, if you like, by virtue that, while we have a dual class share structure, it ratchets down and sunsets over the period of time when the brothers would no longer be on the board. We are the majority of the board today. And then if the family would sell down its stake below minority threshold.

But our family isn't so self-centered that we wouldn't consider a transformative opportunity, as was reported in the Wall Street Journal, that Schneider was considering, which was to spin out its existing billions of dollars of industrial and infrastructure software into a public Bentley Systems where there would continue to have been a controlling shareholder but would have been Schneider rather than the Bentley family. Something so transformative.

We're here to say we wouldn't fail to consider it just because we would lose control in the process. But it didn't take place. And nothing of the sort has taken place in 42 years. I think, at our scale, we do have critical mass, as witnessed the doubling we've achieved and believe can continue to achieve each five years.

**Jack C:** Thank you. With that, I do want to open up to the audience if there are any questions. Okay, well, I've got one more. The company has been relatively acquisitive in its history. What role do you see M&A playing going forward?

**Greg B:** Well, in this excitement about our new management, we've repurposed our programmatic acquisitions. We say "programmatic" because we've done 100 of them and more over time to focus on this Asset Analytics opportunity and especially vertically based AI that's appropriate to a particular asset class with an infrastructure that we can add to our broad asset analytics platform and save the time it takes to train the models for particular assets like transmission towers or water treatment plants and so forth.

They've been slow to come by, those acquisitions. But it remains a priority for us. I would hope that there might be another platform acquisition opportunity, but we can't plan for those. We simply make sure that our balance sheet makes us capable of responding to such opportunities, if they come along. And we would like to continue to be a consolidator.

**Jack C:** Absolutely. Well, you've got the bones to do it. And obviously the proof for the integrations over the years. So, well done. Greg, thank you so much for



## **52<sup>nd</sup> Annual London Investor Conference Interview Transcript**

joining us today. It's an incredible story. And thank you for sharing that with me and the audience today.

**Greg B:** Jack, thanks, and thanks to each of you. And look forward to seeing some of you and subsequent meetings today. Cheers.

**Jack C:** Perfect. Thank you, all.