



Bentley Systems Inc

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Alexei Gogolev: Hello, everyone. My name is Alexei Gogolev. Today, I'm delighted to welcome at our Boston TMC event, the CEO, chairman, and founder, used to be CEO, but chairman and founder of Bentley Systems, Greg Bentley.

Thank you very much for joining us, Greg. We wanted to touch base, first of all, on some of the dynamics that you've seen recently. Can you remind us what makes Bentley a relatively insulated player in this macro volatility?

Greg Bentley: Alexei, thanks for having us here, and to each of you, thanks for your interest. Our company was founded by five Bentley brothers. Over these 40 years, we say we're the infrastructure engineering software company. It means we're the digital quartermasters, if you like, for the civil and structural, and geotechnical engineers of the world.

The bulk of the business that they do, and therefore that we do, we say public works and utilities. That is about 60 percent of our ARR, and that work is, in fact, less pervious to macrocycles. Arguably, it's even a bit countercyclical, you could say, if you think of the word stimulus being attached to infrastructure.

That's not the condition of the world at the moment, but in public works and utilities, the infrastructure engineers are busier than they ever have been. Their backlogs are longer. Their work is recognized as more important. It's adding to the quality of life everywhere.

That depends on the resilience of infrastructure as things change and adaptation occurs, and that's pretty much true for the whole world. The next 25 percent of our ARR is in the infrastructure sector we call resources. About half of that is mining. There's some upstream oil and gas as well.

The mining sector, especially, has a long-term secular tailwind, although it is somewhat sensitive and has been for the last couple of years in terms of the portion of it which is exploration for new mines that's been sensitive to interest rates and capital market conditions.

Then the remainder of our ARR, about 15 percent, are in the sectors of commercial and facilities and industrial infrastructure. These are privately funded and more cyclically exposed, if you like, and especially commercial facilities has some other headwinds. As I say, that's only about 15 percent of our business combined at the moment.

There are other reasons why we're relatively steady and less exposed to macrocycles. Our commercial model as well is 92 percent recurring the bulk of our business from large enterprise accounts. We have 180 who spend over a million dollars with us. The largest of those is still smaller than two percent of our revenue. We don't have revenue concentration.

That balance, 50 percent of our revenue are from engineering firms, 50 percent from owner-operators of infrastructure. We're well diversified geographically, and our business model, we're 94 percent direct sales and generally have more visibility and linearity in our business than we ever have had.

Alexei: Appreciate it, Greg. Can you perhaps elaborate a bit more on the implications to your business from the value of state and local government transportation contracts? The awards for those have been increasing recently.

Greg: The US is about 42 percent of our business. Here, in the US, we are the strong incumbent in road and rail and transit and airports transportation networks. The bulk of that spending is federal, and you will probably be familiar with the Infrastructure Investment and Jobs Act. We're in year three and a half of that.

Federal expenditures for transportation need to be matched by the states to some degree, but states have gone beyond that during the tenure of the IIJA and have increased their spending beyond even those matching requirements as particularly notable in the past year.

It's because there's increasing support even in this country. I say even in this country because in the whole world, there only was the US, which so much neglected its infrastructure. At the federal level, we were cynical about infrastructure spending because it connoted a bridge to nowhere and corrupt the earmarks and so forth.

The IIJA came along much later, and, of course, had bipartisan support. Now among citizens, we see an improvement in our infrastructure. We even get a higher mark from the tough-to-please civil engineers in their four-year report card, and we can see that investment in infrastructure improves the ROI and all other investments and has a lot to do with quality of life.

When there are referendum for infrastructure bond issues, they pass. Eight states this year or in the past year have approved increases in their gasoline or vehicle taxes for infrastructure, and we're seeing better infrastructure as a result, and the states are responding to that in their own funding.

Alexei: I appreciate you mentioning IIJA. As of March, you were suggesting that perhaps about two-thirds has already been obligated, so another third is still out there to be outlaid. How much of a tailwind of in this funding has your business seen, and what do you expect to see once this is fully outlaid?

Greg: Alexei, two-thirds is an overstatement. The last figure that was available was that just under 50 percent had been announced and not all of that outlaid. That was during the Biden administration, and the new administration has taken down the website where anyone can keep track of this, but I don't think it will have gotten to two-thirds yet.

It has been a tailwind for us. I believe it may have added even a point to our ARR growth overall. The IIJA will sunset, by rights, in September of next year, but some projects will continue and the funding has been pre-appropriated for all of those completions.

What is interesting is that what we call regular reauthorization that occurs every five years for a surface transportation bill in the US, and, of course, it's funded by the gasoline tax, so there's not a fundamental question about funding.

The discussions of that reauthorization to take effect at the end of the IIJA have begun, and there's considerable agitation to have the IIJA funding levels for transportation to be a baseline for that regular reauthorization bill. We're rather hopeful that the good results to the economy and quality of life that infrastructure investment have brought through the IIJA will continue in the US.

Alexei: What do you believe could be the changes under the new administration? Do you anticipate the IIJ to be reduced, or you think it will likely remain unchanged and the mix of it will change?

Greg: It's not unchanged because, as you say, the mix is changing already. What is interesting is that the DOGE, if you like, hasn't had an impact. In fact, in the transportation department, there's not even, as there is elsewhere in the federal government, now a shortage of people to process the reimbursements and so forth.

That has been proceeding as expected, and the new secretary of transportation is rather emphatic that the administration will continue.

In the first Trump term, there was likewise a focus on highway and bridges especially, but it's likely, in particular, that now ports and airports especially, and energy facilities are also a focus for this administration, but they have, as expected, deleted projects to do with high-speed rail and allocated that funding elsewhere.

The other difference is that this administration is not enthusiastic about discretionary grant programs, and a lot of the IIJA funding was taking place through grant applications where the federal departments made the decisions.

This administration believes that discretion belongs in the states and is likely to change the nature of those programs to block formula programs at the state level, but the funding is, as I say, pre-appropriated and is expected to be expended.

Alexei: Earlier in the discussion, you touched upon the new administration focusing more on expanding the domestic mining industry. Could this be beneficial for your Seequent business? Do you have any anecdotal comments if there is any pickup in that business right now?

Greg: Seequent is the leader in the world in 3D subsurface modeling, and they got started in mining, and almost all mining activities in the world take advantage of Seequent modeling. Yes, an expansion in domestic mining anywhere will benefit Seequent.

The difficulty for mining in the US has been that the permitting process literally has taken decades for new mines and is hardly economically feasible, therefore, for that to be pursued in the US, and that is what is rather certain to change with emphasis on self-sufficiency in the US and other countries as well, and that will benefit the Seequent business.

Since our acquisition in 2021, it has grown considerably faster than our company as a whole. It was growing twice as fast as our company as a whole before a curtailment in new mining exploration, which was interest rate sensitive and capital markets condition sensitive a couple of years ago.

We can go back to those levels and beyond ultimately, but what I believe is that everyone's pretty confident that the need for scarce minerals and metals and especially self-sufficiency in those will

be a long-term secular driver.

Alexei: Perfect. In terms of the electrical grid upgrades, it also seems like the executive orders by the new administration are suggesting that there should be more investments in security of US electric rates. One of your divisions is likely to benefit PLS. Can you talk about potential adoption that you could see there?

Greg: The other of our, we call, platform acquisitions of large magnitude occurred in 2022 of power line systems. It is essential in the world for the physical and structural modeling of, especially, high voltage transmission facilities where the system of the towers and the conductors are a combined structural system that no other software models adequately.

That business, likewise, has been growing twice as fast as our company as a whole. By the end of this year or three years from acquisition, it will have doubled from when we acquired it. That work has been merely to hold together, if you like, an overstretched grid, which has been operating beyond its capacity by rights.

The increase in electrical demand and especially renewable supply has not been accompanied by greater capacity in the transmission grid especially, and there's a big backlog of need for this the world over. Indeed, the reliability of the grid is palpably at risk as seen by the outage in Iberica three weeks ago.

In the US, the administration has propagated an executive order to focus on grid reliability. Part of that is to measure the margin of reserve, but also to preserve existing baseline generating capacity.

What's most needed is new transmission capacity to connect together where generation occurs, which increasingly, when it's renewables, is in different places than where the electricity is consumed.

Permitting for that has been impossible, likewise, taking a decade, and that has been the focus of legislative efforts, believe it or not, from both sides of the aisle in the US so much so that the holdup in legislation has been that each side hopes they can stick something else in the bill that the other doesn't want, and that has stymied that to date.

Now with one party and all three parts of the government, it's pretty likely. Legislation is in the works, for instance, in the EPW committee in the senate, that is likely to bring permitting reform

about almost certainly during the remainder of this year. There will still be a time taken to get the permits, but it's more likely to be a year and a half than a decade.

The result will be lots of new investment, needed investment, high return investment. There's no problem with funding for transmission capacity. It's the permitting issues, and that is likely to significantly inflect our power line systems business, and the same is true elsewhere in the world.

The problem is so severe elsewhere in the world that, for instance, in the UK, it takes literally years now. There's lots of renewal investment that has been completed and is ready to be connected to the grid and is waiting years to be allowed to connect to the existing grid in the UK.

This is a global priority about to be met, but with a global solution. This transmission engineering can't occur in the world without the power line system software.

Our business, in general, is very steady and predictable, as I say, more so than ever, but we do actually have this exciting opportunity for a multiple in this portion of our business to do with the physical grid expansion. That includes also substations and the low voltage distribution grid, in both of which we're leaders as well.

Alexei: Very interesting. Greg, if we could switch gears slightly to another driver for your business, fundamental driver, that you talked a lot about in the past, shortage of engineers. You recently mentioned nine percent of positions being unfilled. Has this figure evolved over time, and where do you think it can go in the near term?

Greg: In the US, where we can measure this through the American Council of Engineering Companies, it's been nine percent. Can you believe it? Nine percent open positions for two years. It was only eight percent for one quarter along the way.

There's considerable visibility into this because the engineering firms know, especially know as an industry, what their rate of retirements are, the demographic bulge. The engineers are older and wish to retire compared to the number in engineering schools.

The shortage is bound to continue, especially because the work for civil and structural geotechnical engineers continues to increase. The answer is going digital. That is the strategy of our accounts, and, obviously, we're there to help with that to make existing engineers more productive.

AI is very promising in this respect. Perhaps we'll talk about that, but it's the combination of longer backlogs than ever, more than a year for average firms. The fact that nine percent of the positions they can't find someone for, that gives us considerable confidence foreseeably in the stability of our business.

Alexei: Greg, what about your non-America's business? You have quite a significant international exposure. Are you seeing any hesitancy from international customers to adopt your software?

Greg: Certainly in China, and we'll probably get to that as a separate subject. Elsewhere in the world, we have heard some agitation in Europe from some would-be software competitors, but that's taken seriously by our accounts and prospects. There's robust infrastructure investment programs everywhere.

In Europe, especially now in conjunction with defense spending, defense spending requires infrastructure spending in general across the world as countries are inclined to increase their self-sufficiency that generally entails redundant infrastructure, if you like. The demand signals are strong.

The EU was in the process of considering its budget priorities. They have a role for budget starts in 2028 when the lights went off in Spain, and that couldn't be more impactful in terms of a reminder about the priority that infrastructure investment needs to have. We'll talk about that probably as well.

Alexei: Perfect. I'll be remiss not to ask about tariffs. Has there been any impact on the decision-making for your customers, maybe pull forwards or delays in their decision-making related to tariffs?

Greg: We inquire about that closely, and the answer is no. Not any impact on decisions. You could theorize that tariffs on materials used in construction could increase the cost of construction and, therefore, cause there to be scope of fewer projects because the money wouldn't go as far.

In public works and utilities and resources, the materials used in construction, in most cases, are domestically sourced already. There's political pressure for that, for one thing, and there are domestic substitutes. Even that is pretty theoretical.

On the ground, our accounts haven't changed their demand behavior, and so on. As I say, they

have the backlogs, they have the shortage of staff, and going digital remains their priority.

Alexei: If I could switch gears to an exciting opportunity, the Google partnership. Can you elaborate a bit more about it? Have there been any incremental customer conversations on the back of this new partnership? How does it grow your asset analytics opportunity?

Greg: Asset analytics is an instant-on opportunity to create digital twins, which, otherwise, are a slow sales cycle that starts with new design projects. With asset analytics, you use existing and crowdsource data to create an as-operated 3D representation of infrastructure assets and apply AI to recognize the operations and maintenance tasks that need to be required on a daily basis.

We've come furthest in asset analytics for the cell towers of the world using drone surveys and AI, and then the structural and wind modeling, and so forth. The tower codes have been the most progressive infrastructure asset class owners to adopt digital twins.

Elsewhere, it's been slower until now, but even public agencies recognize that it's not a question of whether they should be applying AI, but how. The crowdsourced data we've had to turn on digital twins tomorrow for roadway operations and maintenance, and that's our biggest remit is, for the highway agencies of the world, using dashcam data.

We acquired a company that has the AI to process dashcam data to recognize that a tree has fallen, a guardrail has been dented, the paint stripes between the lanes isn't reflective enough for cars' autonomy to recognize it. All of the daily requirements that make operations and maintenance more efficient can now be detected daily through AI with readily available data.

The new partnership with Google adds to that the Google Street View datasets, and think of the billions of dollars Google has invested there, and they haven't had a strategy to monetize that, for instance, in this application that I'm describing. We source the dashcam data from brokers who acquire it from delivery fleets, and we can get that very often.

For some DOTs, they want it twice a day even for their roadways. It's not very high-fidelity data being acquired from a dashcam. The Google Street View data, you've seen the vehicles that acquire that, can be used by our software for very high fidelity identification of the inventory of what's on the roadway, for instance.

A combination of infrequent but high fidelity and then very often updates is a great combination that we and Google...We're also adding some specialized vertex AI from Google for their

geospatial environment. We provide the geospatial tiling software for Google called Cesium that we acquired last year.

That has resulted in our being able to reach more countries because there hasn't been dashcam data everywhere, but there is street view data everywhere. It has increased the use cases. For instance, disaster recovery where the street view shows you what was there and then we know what occurred after a disaster. It's a good solution.

The beginning of our working together with Google, our new chief operating officer early this year, James Lee, was in charge of new business at Google Cloud, and we know we'll be bringing innovation from their ideas to asset analytics.

Alexei: Very interesting. Thank you, Greg. Do you mind if I ask a few questions about competition? Because one of your competitors has been making some noise about their wins in the state's DOTs. What does competitive landscape look like in the public sector, and how is Bentley positioned in this market?

Greg: Competitively, our remit, if you like, is the horizontal infrastructure of the world, the networks of road and rail and water and grid that we all need for our lives. We call that horizontal infrastructure. We don't really have a strong competitor in horizontal infrastructure.

The other design software companies include some business in, we call it, vertical infrastructure for buildings, and we, in turn, don't do as much in buildings. The competitive landscape really hasn't changed. DOTs are a desirable business, and there's a lot of competition. They do a lot of construction, and construction requires a lot of solutions to be used.

In the IJJA environment, the supply chains are so stretched for DOTs and their design work that many have said when previously they would only allow our software to be used, that now often they're open to having other software used for their work as well in order to reach out to the small firms and share the work because they don't otherwise have enough design assets.

That tends to have actually served to create opportunity for us because these small firms learn that they should acquire Bentley software, and we have added in SMB over 600 new logos for each of the past quarters during the past three years largely created by this opportunity of outreach by the DOTs.

Alexei: Also, speaking about this large competitor, have you seen the new marketing initiative

that they've recently introduced where they're trying to unify the different customers across their broader capabilities? Has this changed your thinking about your own marketing efforts?

Greg: I have great confidence in our successor. I want us to be improving our blind spots. During my 30 years as CEO, we didn't focus on SMB. We never did a credit card transaction before 2021. We worked at the top of the market at the largest enterprises, and we haven't been very good at marketing compared to our Silicon Valley competitor.

The engineers know that, like marketing, competitive software can focus on how things look. What engineers care about is how things behave and what are the simulation and logic and so forth on the engineering side.

I would rather have, as we do the advantage there and need to get better at marketing than be the other way around like the Silicon Valley competitors, and engineers think our way. It appears that way.

Alexei: Appreciate the comment. Maybe we have any questions in the room.

Audience Member: You've done a great job. Congratulations. I'm looking at the trends in your revenue growth. As you've gone past one billion, your revenue growth has decelerated, 20 percent in '21, 14 percent in '22, 12 percent in '23, 10 percent last year, but yet the Street thinks that you'll do 10 percent for the next two years.

Why shouldn't we assume this deceleration you've had for five years continues? It seems unrealistic to think, "Oh, now you get to 10 and you stay there."

Greg: The largest revenue growth was when we made these platform acquisitions. When we look at our ARR growth, we abstract from those platform acquisitions, and that was once 13 percent during the inflation years, and now it's steadily been 12 percent, would be 12.5 percent, not including China.

We've succeeded in China. We are we had five percent of ARR in China at one point in time. It's down to half of that now and continues to decline because state-owned enterprises in China are discouraged from using subscriptions for American software. We still have opportunities for perpetual license sales there, but not for subscriptions.

In general, we have a revenue caption that has been declining. It's professional services. We

acquired the implementers of the IBM Maximo system because our biggest opportunity is in operations and maintenance of infrastructure, and all of the infrastructure owner-operators in the world use IBM Maximo for their enterprise asset management system.

To that, we have wanted to add digital twins. Anything to do with Maximo has a very slow enterprise decision cycle, and our business in that regard has gone down by a third over the past two years. I don't regard that to be so undesirable. It's unprofitable to start with. It was a long-term means to an end.

This asset analytics opportunity for the instant-on digital twins is a lot faster way to get into those. Our subscription revenue growth has only increased over this period of time, and that's where our margins...We improve our margins 100 basis points every year, thanks to subscription revenues being the preponderance.

Audience Member: Is double-digit growth sustainable for two, three years out?

Greg: I don't see why our subscription revenue growth, which is 92 percent of the total, should grow less quickly than the 12 percent rate at the moment. When China, as it must, levels out, we would be at 12.5 percent. That seems sustainable to me.

What we need to do is to add some volatility to that very steady picture with this opportunity in asset analytics where we charge not per user where the limitation is there aren't more engineers, but rather per asset per year.

We charge per cell tower per year, per roadway mile per year. That will ultimately, during the time of my successor, become a larger business than we have now per user, I believe.

Audience Member: Thank you.

Alexei: Any more questions? Great. Greg...

Greg: Thank you, Alexei.

Alexei: Thank you very much. Wonderful to see you here. Appreciate it.

Greg: Cheers.

Alexei: Thank you.



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