

Bentley Q3 2024 Earnings Call Transcript

Eric Boyer: Good morning and thank you for joining Bentley Systems' Q3 2024 Results webcast. I'm Eric Boyer, Bentley's investor relations officer.

On the webcast today, we have Bentley Systems' Executive Chair Greg Bentley, Chief Executive Officer Nicholas Cumins, and Chief Financial Officer Werner Andre.

This webcast includes forward-looking statements, made as of November 7, 2024, regarding the future results of operations and financial position, business strategy and plans, and objectives for future operations of Bentley Systems, Incorporated.

All such statements made in or contained during this webcast, other than statements of historical fact, are forward-looking statements.

This webcast will be available for replay on Bentley Systems' Investor Relations website at investors.bentley.com on November 7, 2024.

After our presentation, we will conclude with Q&A. And with that, let me introduce the executive chair of Bentley Systems, Greg Bentley.

Greg Bentley: Good morning and thanks to each of you, once again, for your interest in BSY.

Compared with the remit of CEO Nicholas and CFO Werner, who will follow today, my perspectives as executive chair by rights would tend more towards qualitative and longer-term considerations.

The progress we're reporting for this inaugural quarter, after completion of our generational succession, underscores my confidence in raising our sights in these respects.

Hopefully, you will have viewed these worthwhile and concise keynotes presented at our annual conference in Vancouver last month, and if not yet, please do follow the links here. In any case, I defer to Nicholas to summarize the directions and developments, which he and his team shared, I thought, more effectively than ever.

Bentley Q3 2024 Earnings Call Transcript

I likewise recommend the supporting Going Digital Award finalist project presentations, each a compelling case story describing and quantifying how our digital advancements together are helping to surmount the infrastructure engineering resource capacity gap.

My own role this year was in selecting the very deserving Founders' Honorees for this year and recording presentations to explain why, which you can find here.

24Q3's progress towards our targeted ARR growth trajectory for the year goes beyond the commendable quantitative gains, which Nicholas and Werner will cover. As we charted in this year's early going—as the proportions under E365 and then subject to annual floors and ceilings deliberately increase—year-over-year ARR growth will naturally ramp somewhat more throughout each calendar year.

Usually now, for multiple years, we and our enterprise accounts have constructively agreed to contain and exchange the potential extremes of their consumption volatility for a predictable and mutually satisfactory range of visibility.

The purposeful advantage of this for us and investors is that, in each successive quarter now, we benefit from greater visibility and linearity in ARR growth—both within the quarter and over foreseeable future years. In effect, we have traded off some potential for quantitative upside extremes for greater qualitative continuity of our annual ARR growth.

Balanced against this risk truncation in our traditional paid-per-user business is our new and promising, but intrinsically lumpy, asset analytics business. In asset analytics, we're paid annually per asset, but we've got to secure major enterprise procurements. Adding to asset analytics volatility, this is our priority for ongoing but less predictable programmatic acquisitions.

In covering today my executive chair responsibility for capital allocation, I will come back shortly to review our uses of cash for such acquisitions. But to get there, we should start with our sources of cash flow, also characterized by rather unique visibility.

Bentley Q3 2024 Earnings Call Transcript

This shows BSY's operating profit performance over our four-year history as a public company. Because our management is held to improving margins on an annual basis, what's plotted for each quarter is the last 12-months adjusted operating income, after stock-based compensation, as our majority-share-owning board regards SBC as fungible with cash compensation.

Over this public lifetime, we have maintained a compounded annual growth rate of 15% in AOI, less SBC, subject to minor variance primarily early during the pandemic with unanticipated savings in travel and events. Our accounting profit visibility is an outlier, compared to the volatility of our software peers—and is bound to be ever more so by virtue of our consumption-oriented business model. Our visibility is because, essentially, we do not book revenues that we haven't billed annually in advance, and the great majority of our revenue recognition is strictly on pace with consumption.

Thus, with subscriptions now 91% of our revenues, and over 70% (and increasing) of our subscriptions revenue booked ratably—as if pre-606—and virtually no multiyear bookings, our annual profit growth rate corresponds straightforwardly to our consistent ARR growth rate plus the proportionate rate of consistent annual expansion in margins.

Last quarter, I rather offhandedly said "what you see is what we get" about the direct-ish relationship between our operating profits and cash flows. Here's how this looks quantitatively over our public company history, again accumulating the last 12 months through each quarter, to abstract from seasonality. While we have experienced some temporary collections timing offsets, as in 22Q4, our free cash flow has also tended to compound rather reliably. Of course, in conventional terms of conversion rates, free cash flow wouldn't be expected to exceed operating profit. That appears to be generally the case here only because, for us, operating profit is reckoned after the costs of non-cash SBC.

For our majority-share-owning board, cash flow could only be regarded as discretionarily free after setting aside an amount equal to stock-based compensation for equity purchases to offset what would otherwise be dilution, as is, in fact, our intended regular practice at BSY.

Not surprisingly, here you see that our truly free cash flow, or FCF less SBC, tracks rather consistently with our operating profit.

Bentley Q3 2024 Earnings Call Transcript

And indeed, throughout our four years as a public company, we have maintained a compounded annual growth rate in FCF less SBC of, likewise, 15%.

This emphasis as much on consistency and sustainability and quality of earnings metrics—as we are even further distinguished by visibility over volatility—is an enduring objective, and capability, of BSY.

And it happens that there is a reason to consider this trajectory of FCF less SBC to be currently relevant for our capital allocation. This metric has been highlighted to us as perhaps the most plausible valuation basis for a predictably growing, and compounding, company like ours.

The immediate implication is for our almost \$690 million of convertible debt, which will mature and need to be refinanced in January 2026—if not converted into about 11 million newly issued shares, which are already included in our diluted share count, at just over \$64 per share.

So now, it behooves us to factor into our capital planning the potential path of our stock price.

If you research this, I think you will find that if, for the coming five quarters, our FCF less SBC would continue to grow at this established 15% CAGR, then our stock would crest the conversion price if its valuation multiple of FCF less SBC would merely be at least at the current median among our design software peers.

So, while conversion of the 2026 convertibles is legitimately possible, of course we have judiciously prepared for potential debt refinancing by putting in place last month an improved and expanded new five-year syndicated bank credit facility with revolver capacity of \$1.3 billion, plus further available \$500 million accordion.

Our predictable and compounding annual cashflows supports debt capacity, which enables us to be agile in responding to the rare opportunities for platform acquisitions, such as of Seequent and Power Line Systems, which continue to drive increasing investment returns.

As you see, our capital allocation since these platform acquisitions has prioritized de-levering to what is probably now near optimum leverage levels, given our cashflow consistency.

Bentley Q3 2024 Earnings Call Transcript

There is no platform acquisition in prospect, but we think the headroom in the new facility prepares us amply, should an opportunity arise.

At all times, our capital allocation priorities—along with affording our modest dividend and the equity repurchases to offset stock-based compensation—contemplate relatively consistent expenditures for smaller programmatic acquisitions.

Here, you see our public tenure programmatic acquisition expenditures, smoothed on a trailing-year basis, through 24Q2.

The pace had trailed off over the last year and a half, primarily reflecting a change in our acquisition assessments and priorities, coinciding with our generational succession.

This is now fully signified by our acquisition during 24Q3 of Cesium, which, by the way, serves to bring last 12-month expenditures back to our established range in very low nine figures annually.

I couldn't be more pleased with the acquisition of Cesium. From their start, Cesium has been our neighboring company in many respects.

I leave to Nicholas and others to articulate, as they did at our Year in Infrastructure 2024 conference, the compounding technical and commercial synergies with our iTwin Platform around 3D geospatial immersion for infrastructure digital twins.

For me and my brothers, suffice it to say that internalizing and infusing Cesium's naturally more youthful ethos—with its corresponding track record of continued vigorous success against world-class competition to institutionalize its open-source platform and open standards—is a resounding accompaniment and reinforcement to the truly generational succession at BSY, which now extends to our new chief platform officer, Cesium founder and CEO Patrick Cozzi.

I think it would sufficiently substantiate Cesium's uniqueness—for a cadre which only recently exceeded 50 colleagues—to have become indispensable for the top-notch Open Geospatial Consortium, which, among things, spans and unifies the world's governments' requirements, and for Google, as to its own priceless and ubiquitous geospatial content, as well as for developers of tens of thousands

Bentley Q3 2024 Earnings Call Transcript

of geospatial and digital twin application projects, including all of ours at BSY, and all those with iTwin.

Reflecting this breadth, and even though its ARR is still relatively insignificant on our scale, the pace of Cesium's open-source early adopters individually upgrading to paid subscriptions seems to compare satisfactorily in relation to other ultimate open-platform software winners, at this same level of maturity.

But Cesium may be again unique in having also proven its substantial enterprise pedigree.

From the standpoint of our strategic investment, what seems utterly persuasive is the industrial-strength endorsement of heavy construction equipment market leader Komatsu's global enterprise adoption of Cesium. Komatsu undertook an exhaustive search for platform software to anchor their strategic initiatives for the domain, which is very relevant to BSY and to our accounts and aspirations of earthmoving digital twins.

Cesium-based heavy construction simulation products are already in the Japanese market through Komatsu's full-scale Earthbrain joint venture, which includes NTT and Sony. This will increase our foothold in the huge Japanese market for infrastructure engineering, with 3D construction now an explicit Japanese government priority, and where, to date, we have been conspicuously underrepresented.

But, finally, I think an equal case for our substantial Cesium investment can be made from a financial investor perspective as well.

In addition to validating and accelerating commercial, as well as technical maturity, substantial incremental revenue from Komatsu's ongoing licensing and commissioned development has enabled Cesium to become, and to remain, cash-flow neutral, seemingly a rarity at such an aspirational stage.

Going forward, while our platform investments and organizations are merging, R&D synergies are abundant. In particular, Cesium will underlie integrated immersive visualization across our asset analytics portfolio, and I expect its widespread penetration to open up new entry points for instant-on digital twins.

Bentley Q3 2024 Earnings Call Transcript

Most significantly for me, this qualitatively different acquisition raises our sights as to the substantial incremental opportunities, which Nicholas and his executive generation have (I think, astutely) identified and prioritized for AI-driven digital twins to sustain resilient infrastructure asset performance.

And now, to review 24Q3's commendably productive first 100 days along this arc of progress, over to Nicholas.

Thank you.

Nicholas Cumins: Thank you, Greg.

In early October, infrastructure leaders met in Vancouver for our annual Year in Infrastructure conference and Going Digital Awards.

This event is, without a doubt, a highlight of the year for Bentley. The extraordinary work that our users accomplish with our software is both inspiring and humbling. Their project stories bring into focus how we connect with our purpose to advance infrastructure for better quality of life.

It just so happened that YII coincided with my 100th day as CEO. During my first 100 days, we unveiled ambitious strategic moves that will help propel our future growth while delivering strong quarterly results.

In September, as Greg mentioned, we acquired Cesium, the foundational open platform for creating 3D geospatial applications. Since we launched iTwin more than five years ago, we have learned that a 3D geospatial view is the most intuitive way for users to search for, query, and visualize information about infrastructure networks and assets. Combining Cesium and iTwin technologies enables developers to create astonishing user experiences that help infrastructure professionals make better informed decisions in full 3D geospatial context. Cesium's founder and CEO Patrick Cozzi has joined Bentley as our chief platform officer, and is leading the development of the combined Cesium and iTwin Platform offerings.

At YII, we announced a strategic partnership with Google to bring Google's unmatched geospatial data and capabilities into Bentley software. The partnership complements our acquisition of Cesium, and it is worth noting that Google uses the 3D Tiles open standard created by Cesium. Users will be able to incorporate

Bentley Q3 2024 Earnings Call Transcript

Google's Photorealistic 3D Tiles into their digital workflows to enhance our users' experiences even further.

Bentley Asset Analytics was another strategic announcement we made at YII. As you recall, we previewed this exciting opportunity on results calls earlier this year. We are bringing together existing products and solutions with new innovations and acquisitions into a new product portfolio that leverages AI to generate insights into the condition of existing infrastructure assets. We want to empower engineering firms, among others, to leverage these capabilities and extend their expertise into asset operations.

We also continue to advance our Bentley Open applications with the introduction of the "plus" generation of applications that are digital twin-native, AI-powered, and run on the desktop while offering the benefits of cloud—for example, running on multiple operating systems and remaining current with automatic updates. These applications enable data-centric workflows while allowing engineers to generate a file in the format of their choosing, if and when they need to.

OpenSite+, for civil site engineering, is the first of this new generation, which will complement existing Bentley Open applications for the foreseeable future. It is also our first application that leverages AI for design—for example, to suggest alternative layouts and automate drawing production.

These recent moves and initiatives accelerate our vision of open data ecosystems for the built and natural environment. The future of infrastructure engineering is open because infrastructure projects are complex. None of the infrastructure leaders we talk to believe in an approach where all their data is centralized in one place. None of them wants to be locked into a single vendor's proprietary system. They are all looking to combine data from a wide variety of sources, to understand their infrastructure in its full context, to make better-informed decisions. Our job at Bentley is to make it as easy as possible for them to leverage the value of their data, no matter how or where it was created. We are well positioned to answer the industry's call for openness, which has been a core principle since our founding forty years ago.

Now, to our business performance for the quarter.

Bentley Q3 2024 Earnings Call Transcript

We continued to execute at a high level, and market sentiment remained very positive. We delivered broad-based ARR performance across sectors and geographies. We were pleased once again with the contributions from our E365 and Virtuosity growth initiatives.

The two headwinds in the quarter remained China, in particular for ARR, and Cohesive, our digital integrator business, with respect to professional services revenues for IBM Maximo services.

We continued to deliver very strong profitability and cash flow.

Moving to ARR growth, our key metric of business performance year-over-year. In Q3, this accelerated to 12%, as we had anticipated directionally.

We expect ARR growth to continue to benefit from E365 renewals in Q4, based on the impact of floors and ceilings.

Excluding the impact of China, ARR growth was 12.5%. China now represents about 2.5% of our total ARR.

Moving to our growth by commercial models, our E365 programs remain a major growth driver, with continued upgrades of accounts from the SELECT subscription program, and application mix accretion (upsell or cross-sell) within existing E365 accounts.

In Q3, new logos contributed 3.5 percentage points of ARR growth, with SMB continuing to be the main driver. We classify SMB accounts as those with less than \$100,000 of ARR per year. The outlook for our SMB business remains as promising as ever.

Our Virtuosity subscriptions, targeted primarily at SMBs through our online store, continued to add a significant number of new logos in Q3—the 11th straight quarter of more than 600 new logos.

Moving to industry dynamics, which continue to be robust.

In the most recent ACEC quarterly survey, the main theme is consistent with previous quarters: U.S. engineering firms across sectors expect higher backlogs 12 months from now.

Bentley Q3 2024 Earnings Call Transcript

They also continue to express optimism regarding the design and engineering sector and their own firm's overall finances, and there was a notable uptick for their outlook of the U.S. economy.

Looking at our performance by infrastructure sector in Q3:

Public works/utilities continued to be the main growth driver for the company, benefitting from robust global infrastructure spending across transportation, water utilities, and the electric grid. Seequent's biggest growth driver year to date continues to be civil. At this year's YII, it was very clear that we are only at the very beginning of how Seequent can help our users with subsurface modeling within the civil space.

Resources growth was solid, despite new mine investments remaining soft. The industrial and the commercial/facilities sectors continued to have modest growth.

Moving on to regions.

Americas delivered strong growth once again, driven by North America, with Latin America performing at a high level. In the U.S., only 40% of IIJA funding, that is \$480 billion, has been announced to date, with much less awarded. The majority of the funding announced has been for transportation.

Performance remained steady in EMEA in Q3, with Middle East again a highlight.

Asia Pacific also delivered strong growth across sectors, with Southeast Asia and India standing out. As expected, growth in India picked up following the elections, as infrastructure funding remains a government priority.

China's performance continued to be impacted by the same headwinds, soft economic conditions, and shifting preferences by state-owned enterprise accounts for perpetual licenses and local software due to geopolitical tensions.

All in all, we are pleased with our performance year to date. We continue to execute well, and our end-market conditions remain favorable.

Before I turn it over to Werner, I want to thank our colleagues for delivering another successful quarter. I also want to apologize that I will not be able to be

Bentley Q3 2024 Earnings Call Transcript

with you for the Q&A portion of the call due to a family matter. I look forward to speaking with many of you in the near future.

Over to you, Werner.

Werner Andre: Thank you, Nicholas. We are pleased with another consistent and strong quarter. I'll start with our revenue performance.

Subscription revenues grew 12% year-over-year for the quarter and year to date, in reported and in constant currency.

With the backdrop of favorable end-market conditions, our E365 and SMB initiatives continue to be solid contributors to our subscription revenue growth.

On a year-to-date basis, subscription revenues now represent 91% of our total revenues, up from 88% in the prior year.

Perpetual license revenues for the quarter were \$11 million, down half a million year-over-year. Perpetual license sales make up only 3% of total revenues and will remain small relative to our recurring revenues.

Our professional services revenues for the quarter declined by \$3 million, down 14% year-over-year or 15% in constant currency, driven primarily by the previously discussed delays in IBM Maximo-related implementation and upgrade work within our digital integrator, Cohesive.

While we do see pipeline improvements and retain our readiness to execute, we currently expect that we won't see meaningful revenue improvements until late in 2024 or early 2025.

As we mentioned earlier this year, an opportunity introduced by the version upgrade delays we have observed this year is that we are now better positioned to also offer our accounts the transition from on-premise solutions to our hosted managed services for Maximo, facilitating eventual integration with our iTwin environment.

While our mainstay subscription revenues continue to exceed expectations, the reduction in Cohesive professional services for Maximo curtailed our growth in

Bentley Q3 2024 Earnings Call Transcript

total revenues, which were up 9% year-over-year for the quarter and year to date, in reported and constant currency.

Moving on to our recurring revenue performance.

Our last 12-months recurring revenues increased by 11% year-over-year in reported and in constant currency and represent 91% of our total last 12-months revenues.

Our last 12-months constant currency account retention rate remained at 99%, and our constant currency recurring revenues net retention rate rounded up to 109%.

Moving on to our ARR growth. We ended Q3 with ARR of \$1.271 billion at quarter-end spot rates, with our E365 and SMB growth initiatives remaining the key growth drivers.

Our constant currency ARR growth rate was 12% year-over-year, or 12.5% excluding China, where we continue to experience ARR attrition. China currently represents approximately 2.5% of our ARR, down from approximately 3% a year ago.

The contribution from programmatic acquisitions to our year-over-year ARR growth rate is less than 50 basis points, while in the year-ago period, onboarded ARR from programmatic acquisitions contributed in the range of 1%.

Excluding the impact of programmatic acquisitions, our organic year-over-year ARR growth performance was approximately 11.5% (or 12% excluding China), both at least in line with the year-ago period.

On a sequential quarterly basis, our constant currency ARR growth rate was 3.2%, which exceeded our expectations, and was driven by strong performance across geographies and sectors.

As a reminder, Q4 remains for us the biggest contract renewal quarter of the year, and thereby represents the quarter with our biggest ARR growth opportunity.

The increased percentage of our E365 accounts on consumption floors and ceilings further impacts our ARR growth seasonality and tends to align an

Bentley Q3 2024 Earnings Call Transcript

increasing portion of our ARR accretion related to E365 consumption with the annual contract renewal timing, which is also heavily weighted towards Q4.

Based on our ARR performance trajectory throughout the first three quarters and expectations for the remainder of the year, we are trending above the midpoint of our 10.5% to 13% ARR growth outlook range for 2024.

Now moving to profitability performance. Our GAAP operating income was \$69 million for the third quarter and \$241 million year to date.

We have previously discussed the impact on our GAAP operating results from amortization of purchased intangibles, deferred compensation plan liability revaluations, and acquisition expenses.

Moving on to adjusted operating income with stock-based compensation expense, our primary profitability and margin performance measure. Adjusted operating income with stock-based compensation expense was \$90 million for the quarter, up 4% year-over-year, with a margin of 26.7%.

Year to date, adjusted operating income with stock-based compensation expense was \$297 million, up 19%, with a margin of 29.6%, up 240 basis points year-over-year.

As a reminder, our first half of 2024 was particularly profitable, with our adjusted operating income with stock-based compensation expense margin at 31.1%, up 430 basis points, year-over-year.

The first half of 2024 benefited from run-rate savings associated with our strategic realignment program, and a higher gross margin from the mix shift from lower margin professional services revenues to higher-margin subscription revenues.

While this put us in a strong position to deliver on our 100 basis points intended annual margin improvement, we do not undertake to maximize short-term profitability, and over the full year, we instead prioritize investing in longer-term initiatives, such as AI in product development and marketing.

We expect a greater amount of reinvestment in Q4, combined with our typical seasonal increase of Opex in the fourth quarter, due to larger promotional and

Bentley Q3 2024 Earnings Call Transcript

event-related costs. For the year, we continue to expect 100 basis points of margin expansion in line with our annual outlook.

With respect to liquidity, our operating cash flow was \$86 million for the quarter, and \$354 million year to date.

Our year-to-date operating cash flow benefited from our strong profitability and reflected a conversion from adjusted EBITDA of 96%.

Based on our strong cash collections, lower cash interest as a result of our deleveraging trajectory, and lower deferred IT expenditures, partly offset by higher expected cash taxes from acquisition integration, we currently expect this year's cash flow from operations to gravitate towards the 85% conversion range, up from our previous estimate of approximately 80%.

With regards to capital allocation, during the first three quarters of the year, along with providing sufficiently for our growth initiatives, we deployed \$129 million for acquisitions, which includes Cesium. We expect Cesium will have an immaterial impact to our financials for the year.

We also deployed \$114 million towards bank debt reductions, reducing our outstanding senior debt to \$168 million at the end of the quarter.

We further paid \$54 million in dividends and applied \$57 million to share repurchases to offset dilution from stock-based compensation.

As of the end of Q3, our net senior debt leverage was 0.2 times, and, including our 2026 and 2027 convertible notes fully as debt, our net debt leverage was 2.9 times.

We have year to date de-levered 0.6 times adjusted EBITDA.

In October 2024, we entered into a new five-year senior secured credit agreement, which provides us with a \$1.3 billion revolving credit facility, as well as an incremental \$500 million accordion feature to increase the facility in the form of both—revolving indebtedness and/or incremental term loans.

The new facility has broadly even more favorable interest spread terms than the superseded facility.

Bentley Q3 2024 Earnings Call Transcript

On a pro-forma basis, as of September 30, 2024, the refinancing increased our available revolver capacity from \$732 million under the old facility to \$1.132 billion under the new facility, and will provide us incremental flexibility to repay the 2026 convertible debt, if not converted.

From a rates exposure perspective, all of our debt is protected from high or rising interest rates, through either very low fixed coupon interest on our convertible notes, or our \$200 million interest rate swap, expiring in 2030.

We remain comfortable with our capital structure in terms of leverage, maturities, liquidity, and interest rate exposure.

And finally, to recap with regards to our outlook for the year, our Q3 financial performance puts us in a solid position to deliver above the midpoint of our 10.5% to 13% constant currency ARR growth range. We are in a strong position to deliver on our 100 basis points intended annual margin improvement. We are raising our expectations for our full-year cash flow conversion range from 80% to 85%.

However, while our recurring subscription revenues continue to exceed expectations year to date, total revenues are trending towards the low end of our outlook range due to weakness within our non-recurring professional services revenues caused by delays in Maximo-related implementation and upgrade work.

On the slide, you also see updates to our expectations for Capex, interest expenses, and cash interest, as well as cash taxes.

With regards to foreign exchange rates, for the first three quarters of 2024, the U.S. dollar has only slightly weakened relative to the exchange rates assumed in our 2024 annual financial outlook, resulting in approximately \$1 million of incremental revenues from currency.

If end-of-October exchange rates would prevail throughout the remainder of the year, then we would not expect a significant FX impact on GAAP revenues, relative to the exchange rates assumed in our 2024 financial outlook.

And with that, we are ready for Q&A. Over to Eric. Thank you.

Eric B: Thanks, Werner. Today, for the Q&A portion of the call, we have Greg and Werner, of course, and also Julien Moutte, our chief technology officer, to help fill

Bentley Q3 2024 Earnings Call Transcript

in for Nicholas. In order to get to everyone's questions today, we ask that you limit yourself to just one. Our first question comes from Joe Vruwink from Robert Baird.

Joe Vruwink: Hi. Great. Thanks. Good to see you all. I wanted to ask about the Year in Infrastructure conference. There was a lot of detail about how Bentley is embedding iTwin capability across the product portfolio. And it sounds like the next phase of effort is AI capability across the portfolio.

Should investors view these actions as strengthening the core products we all know today so you still have a big TAM that you can further penetrate? Are these efforts meant to accelerate that and progress that? Or are you thinking about some of these things as actually bringing new products, new monetization opportunities and so it's going to be incremental to the products we all know today?

Greg B: Well, the asset analytics portfolio announced at Year in Infrastructure is the incremental opportunity to charge per asset per year for AI-enabled twin sites, if you like, from instant-on digital twins. But as to our mainstay portfolio, I might ask Julien for his answer. And I want to thank Julien for helping fill in for Nicholas, who is attending a family bereavement today. And Julien, perhaps you can talk about the intention with respect to the mainstay products.

Julien Moutte: Yeah, I'd be happy to. So, the answer to your question is both, right? We see that in the existing line of products, the capabilities of digital twins are going to allow a stronger interoperability between the different applications of the portfolio. And then, this will create a foundation to apply AI to unlock new outcomes and new features in those products.

These products will be strengthened by those new capabilities, delivering additional value to our users, but also, the data continuum that is created between all of our product portfolio by this integration through our platform is also going to allow us to explore new offerings to those users, potentially opening new opportunities for products or monetizations.

Joe V: Thank you.

Eric B: Our next question comes from Matt Hedberg from RBC.

Bentley Q3 2024 Earnings Call Transcript

Matt Hedberg: Appreciate the time, as always. Let's see. So, one question—I'm wondering, you've had really consistent growth this year. And I know you're not offering '25 guidance yet, but I guess for any of you on the interview, when you think about growth drivers in the next year, it seems like IIJA funding is still very early. I'm hearing some positive things from PLS out there, as well as E365, and even it feels like maybe China headwinds could become less of headwinds next year.

Could you kind of talk about structurally how you think about growth next year in terms of some of the most important things that you're prioritizing as we get closer to year end?

Greg B: Well, in general, I agree with you that we don't have reason to expect next year to look very different than this year in material terms. And the building blocks will remain the same for the coming year. Certainly, the project backlog and momentum continues globally.

I'm not so sure about China, but at least it has become less, and eventually, you would think would approach an asymptote as ARR becomes unfashionable there. And our asset analytics wild card could take off yet further. But overall, these things are likely to balance out, and we would expect generally, a year or next year, that would continue to be in consistent with our expected long-term framework of low double-digit ARR growth. And, of course, you can count on us adding 100 basis points of margin annually.

And we're generally enthusiastic because each quarter of this year has represented more visibility and greater linearity and unfolding, just as we have thought. And, as Werner mentioned, even a bit above what we thought for the third quarter. And we don't see why next year shouldn't look rather the same as a year in whole. And I'm not able to talk about seasonality. We'll get to that as it comes closer.

Matt H: Great. Thanks, Greg.

Eric B: Yeah, thanks, Matt. Next question comes from Siti Panigrahi from Mizuho.

Sameer Kalucha in place of Siti Panigrahi: So, we were also thinking on the uncertainty past U.S. elections as you as you look forward. So, one of the things

Bentley Q3 2024 Earnings Call Transcript

everybody has been talking about, and even some of your peers have talked about it, that inherent in elections, there's an uncertainty and pause in people's thoughts.

So, we're curious, in terms of how lifting that uncertainty trends going forward, do you see any changes in people's sentiments over the next few months in terms of bringing new and large projects to market?

Greg B: Well, of course, in the U.S., we've had, in general, the greater visibility afforded by the IIJA multiple-year program. And by the way, its way of doing things is two-year advance appropriations. So, there's considerable visibility in that.

The infrastructure engineering community in the U.S., of course, studies government expenditures and likelihoods very closely and has had experience with the administration that will come into—come in here again to be inaugurated in the new year, and has been rather unconcerned about changes and more concerned about doing more with less, going digital as they are at their resource capacity.

But as to the U.S. elections generally, I would like to think that all substantial businesses would be excited about an administration coming in whose priority is economic growth. And the reason for infrastructure investment, of course, are resilience and economic growth. And I think you're right that from a federal government standpoint, the project mix is likely to change over the course of this administration. There'll be less of an emphasis on public transit, on electric vehicles, and so forth.

But overall, there are more likely to be, for instance, block grants to the states to set their own priorities. But infrastructure is a bipartisan priority in the U.S., and it should be. What is particularly exciting for us is the likelihood now—I would use that word—of permitting reform that will finally accelerate the opportunity for energy and electric grid transmission investment that would benefit us.

But we have a broad portfolio so that changes in project mix are going to be taken—we can take that in stride.

Sameer K: Great. Thank you.

Bentley Q3 2024 Earnings Call Transcript

Eric B: Thanks. Next question comes from Clarke Jeffries from Piper Sandler.

Clarke Jeffries: Hello. Thank you for taking the question. Given the dynamics around how ARR pans out for you and the contract structures that you've created for the visibility and predictability of the business, I wanted to clarify on that net new ARR number, whether there was any meaningful contribution from Cesium.

It sounds like there was some exceeding of expectations on sequential ARR growth and even some of the metrics that we have that are trailing 12 month in terms of expansion look promising, but I wanted to get a little bit more of an unpacking of that net new ARR number as more indicative of contract structure or really encouraging bookings in this sort of 3Q.

Greg B: I want to respond to the word meaningful. I think Werner would say Cesium's onboarded ARR is not meaningful from a financial magnitude standpoint, especially it doesn't show up in ARR growth appreciably. But I think it's meaningful from a strategic standpoint because of the hundreds of thousands of users of the open source platform. The pace of those opting into the paid Cesium ion version is pretty notable and satisfactory and is on a good and steep curve. And I think that's meaningful. It's new for us to think about an open source business and how it grows, but the ARR aspect of that is meaningful and portends well, although it doesn't show up much in magnitude on our scale yet. Werner, are we saying anything more than that?

Werner A: No, I think that's spot on. What I want to point out is that our contract-based organic performance was at 11.5%, and 12% ex-China, on a trailing 12-months basis, which, as I mentioned, it is at least at the level where it was a year ago. And this is bottom-up contract-based and not impacted by onboarding from programmatic acquisitions.

Clarke J: All right. Well, thank you very much.

Eric B: Thanks, Clarke. Next question comes from Kristen Owen from Oppenheimer.

Kristen Owen: Hi, good morning. Thank you for taking the question. Similar tack here, but I wanted to ask about what's driving the SMB growth. 11 quarters consecutively of 600-plus new logos—what's contributing to the success of that

Bentley Q3 2024 Earnings Call Transcript

product category? And as it relates to Cesium, if you view that platform maybe being a TAM expander or opening up to some new customers who were not previously familiar with Bentley Systems.

Greg B: Actually, I hadn't thought about that connection much, Kristen, until hearing your question. I suppose that Cesium subscribers, since they come on at zero ARR to start with, are the ultimate example of digital engagement. So, digital engagement is quite the story with, as we say, Virtuosity, our Virtuoso subscriptions, that we are primarily offering to SMB, and every quarter, it's more digital, lower touch, and so forth.

And it's just apparent that the market is deep in terms of SMB firms for us to reach, as they are more interested in investing in the direction of horizontal infrastructure proficiency and so forth. And I think that it's become rather institutionalized in our way of thinking.

But just more generally, I'll say I'm excited about our new management, our generationally succeeded management, having a more open mind to such opportunities. And, for instance, Cesium is a bold acquisition both to go after, if you like, younger colleagues and a younger stage of take up of digital twins, as we're describing here, that could add to our TAM because it's a broader swath of the world.

And as you remember, we hadn't focused on SMB or e-commerce at all prior to being public and I think we're getting our legs under ourselves now. And Cesium, to your point, reinforces that.

Kristen O: Thank you.

Eric B: Thanks, Kristen. Next question comes from Jason Celino from KeyBanc.

Jason Celino: OK, great. Well, a few quarters ago, you sounded pretty optimistic about seeing some water infrastructure funding start to flow. I think since then, we've seen a few new regulations by the EPA to drive utility operators to leverage more software, to upgrade facilities, to filter out certain PFAs. Have you seen an uptick in water infrastructure demand because of this? Or is this more of a longer-term opportunity? Curious what you're seeing on the water side.

Bentley Q3 2024 Earnings Call Transcript

Greg B: Well, water is something that's going to be, long term, more and more important than—there is nothing political or partisan about it. We have seen an uptick in water, but it's been global, to my knowledge. I don't know that it's any more so concentrated in the U.S. of late. And I wonder if you know, Julien or Werner, but water is on the high end of growth rates among our sectors. And the good thing about that is there's no reason that should be a short-term phenomenon at all.

Werner A: That's correct. And it's more globally, as you said.

Jason C: OK. Excellent. Good stuff. Thank you.

Eric B: Thanks. Next question comes from Jay Vleeschhouwer from Griffin.

Jay Vleeschhouwer: Great, thank you. Good morning. I'd also like to follow up on some of what we talked about in Vancouver last month, specifically with how customer's benchmarking or selection criteria may be changing. In other words, are there new functionalities or capabilities that you need to demonstrate incrementally now as part of customer benchmarking or pilots that you're engaging in?

For example, customers now begin, or might they begin, to make their decisions horizontally based on your platform? Or do you think the decisions will be made based more on the stack, the applications, and functionality level?

Greg B: Well, I'm going to answer that my impression, as Julien was suggesting, is that they're quite interested in this horizontal data accessibility of the platform and our understanding that their data is going to be their advantage with AI in training their tools for the future.

And this question of openness and commitment there is something they are explicitly assessing. And, of course, we welcome that. Julien, perhaps you've been involved in some of those questions and benchmarking and could add to my impression.

Julien M: Indeed. In the comments we heard from CEOs of different engineering firms, one of their top priority is data management and how to make sure that the data is made available to the engineers to achieve new outcomes using new technologies, but that comes as a secondary problem that first needs to be—

Bentley Q3 2024 Earnings Call Transcript

intelligent data management is at the top of their priority, and this is one of the key reasons why we're insisting so much on our open approach to make sure that, as they make decisions for their technical solutions and platforms, that they decide to use a platform that is going to provide that intelligent data management while not standing in their way.

So, the importance of integrating those capabilities into our products in a simple way that is not disruptive to their workflows and then allowing them to leverage that data for those future benefits. So, I think the openness is really a strong point, which we've heard in multiple conferences, which I guess you have attended as well—like Next Build, for instance—and I think we'll hear this more and more.

Eric B: Thanks, Jay. Next question comes from Michael Funk from Bank of America.

Michael Funk: Hey, guys. Thank you again for the time this morning. Greg, you opened up by talking about having better visibility, linearity into results. And you talked about one part of the business, and in the contracts and the floors and the ceilings. But does that priority extend beyond that piece of the business? Are there other priorities for you to improve visibility and revenue growth, improve linearity—whether divestitures, acquisitions, change in business model—that you've contemplated?

Greg B: Well, the floors and ceilings in E365 are front of mind because that's now the majority of our ARR. And the majority of E365 is the majority of ARR or about to be. And the majority of that has the floors and ceilings.

And each such negotiation, we and the account are considering the future. And everyone's so enthusiastic about going digital that pacing it in a way over multiple years makes sense for them and for us. It's really striking that, stepping back from my vantage of so long at the helm here, never have we had the quality of visibility and linearity that we have now as a result of this.

But hang on! I sort of think that rather than, say, well, how can we extend that to the rest of our business? We're more inclined to say, OK, but think of our incentives each year. We want to improve our margins by 100 basis points. But subject to that, we want to grow as fast as we can.

Bentley Q3 2024 Earnings Call Transcript

And now that we have, likewise, improving our linearity and visibility every year, subject to that, how can we grow faster? And that would speak to opportunities that we're availing, like the acquisition of Cesium, like the asset analytics that it facilitates, where we can get a tiger by the tail and win some of these big procurements, for instance, on digital twins in asset analytics.

And, ideally, as I mentioned, it brings in lumpiness and so forth. But we're balanced with the improved visibility of the mainstay business. Perhaps that will be a good mix. I would like to see our new management—and I'm glad to see our new management, excited to see our new management—going for it with some of these big opportunities, of which the Cesium acquisition is representative.

Michael F: Yeah, it's very helpful, Greg. And one more, if I could—maybe for all of you, if anybody wants to kick in. But I don't want to imply that digitization asset lifecycle management is a partisan issue. But it does seem as if Europe has led the way, from my perspective, on moving forward with digitization asset lifecycle management. Do you sense any daylight between the parties' views here in the United States on those priorities?

Greg B: Well, in general, as you might know, I look forward to greater private investment in infrastructure because going digital is the greater priority when there's private investment. In the U.K., for instance, you refer to Europe, but the U.K. government is a new government that campaigned on limits to public spending. But now, since taking office, has said, on the other hand, for infrastructure, for rebuilding Britain, we need to spend more, and we invite and encourage private investment.

It wouldn't seem that that's a natural bedfellow with our new administration in the U.S. But doing more with less, a greater emphasis on digital, there is upside for us to learn in the U.S. And we look forward to the opportunity for such engagement at the new federal level in the U.S.

Michael F: Great. Thank you all.

Eric B: Thanks, Michael. Next question from Dylan Becker from William Blair.

Dylan Becker: Hey, guys. I appreciate the question here. Maybe for Greg and Julien, as you think about the expansion of the ecosystem and interoperability of

Bentley Q3 2024 Earnings Call Transcript

the platform that we just talked about, would love to get your sense on how you're thinking about the evolution of the partner channel and the opportunity there.

I know we've called out a few on the geospatial side, but as you think about the evolution of asset analytics, digital twins, partnerships feel like that could be a big enabler of leveraging the data more effectively—would love to get your general sense on that.

Greg B: Well, I would say, how about Google as a partner? Who, on the one hand, tremendous cloud and AI capabilities, but they have this data that we can help to apply in this specialized realm, from their standpoint, of infrastructure engineering. So, the partner spectrum is really interesting. And I'm very interested to have the engineering firms, as you know, long term, become the digital integrators for the owner-operators.

And part of our Cohesive investment is to get smart about that. It's a long-term investment. We don't have to speed it up. It was kind of slowed down this year a bit. And that's OK because it's long term. And Julien, as far as the ecosystem openness and Cesium—Cesium has tentacles everywhere. It's the household name in immersive, geospatial 3D tiles, and helps us with lots of more surfaces of contact, I think. I believe that can help open up asset analytics opportunities, especially. But Julien, perhaps you've seen some of that?

Julien M: Yes, indeed. And I think that the rich and lively ecosystem of application developers that already exist around Cesium is going to open a lot of new opportunities for partnerships. Now, the platforms, as we're bringing them together, are going to power a lot of ISVs and vendors to develop with and around our existing portfolio. And what we'll be looking at is trying to pick the meaningful partnerships we can do to bring new data types, new capabilities to the portfolio and the platform that will, then, unlock new insights that we could then leverage with asset analytics, for instance, but also empower rich ecosystem to strive on top of our application and existing user base.

Eric B: Thanks, Dylan. Last question comes from Joshua Tilton from Wolfe Research.

Joshua Tilton: Thank you for sneaking me in. And I have been jumping around a bunch of prints this morning, so I apologize if this has already been asked. But,

Bentley Q3 2024 Earnings Call Transcript

Greg, I thought it was very interesting, you talked about how your visibility, you feel like it's never been better than it is today. I want two follow-ups on that, maybe.

The first is, does it continue to trend in the right direction? And how do you think about that as SMBs become a larger portion of the business, where I would feel like maybe visibility around those businesses is lower? And two, how would you characterize your customers' visibility into their businesses over the next 12 months? Are they equally as confident in their visibility as you are in yours? Because I would argue that feels a little bit more important, given the type of business model that you guys are running.

Greg B: Well, Josh, we still are primarily enterprise oriented. And literally the bulk of our revenue comes from accounts spending \$250,000 a year and more. And so, under E365, the annual renewal, now, is a negotiation about how do you feel about the future? So, we are in hundreds of these enterprise-scale negotiations per year. And generally, they're in double-digit modes in terms of their expectations for what they think they should spend and will spend on digital tools increasing each year.

So, they're willing to enter into an opportunity to limit how extreme that can be, and, in turn, grant us a floor. So, we do get lots of information that way about what their expectations are about the future. And it gives us the confidence we're expressing here today about next year and the foreseeable future.

You're right that that doesn't take in the SMB. Here, in SMB, I think there is greater volatility. I'm sort of saying, Josh, I don't mind taking on some more volatility, given that the bulwark of our business has become, through the E365 consumption and the floors and ceilings, a very visible, linear way of smoothing out the quarters, although there may be a certain ramp because of the seasonal annual renewal quarter.

But other than that, over multiple years, we have greater visibility. And we can take on some risk there for now, for instance, in SMB, in asset analytics. And our new generationally succeeded management are doing that well already, I think. And both SMB and asset analytics are examples of that—going for things which can balance out our flywheel with potential for inflecting our growth rate upward. We're doing the right things, I believe, in that respect.

Bentley Q3 2024 Earnings Call Transcript

Joshua T: Super helpful. Then maybe just a very quick follow up. If I remember correctly, I think even you guys were a little skeptical of the SMB opportunity when it started. Is that just out the door? Are we full steam ahead? And does your focus internally shift with that view as well?

Greg B: The skepticism is out the door with me, Josh. I'm exaggerating a little bit. But I'm very committed to direct sales model, having, in our history, been 100% indirect at another point in time.

Remember, the direct sales model is one of the reasons we can be confident in our goal of adding 100 basis points to our operating margins each year because the cost of direct sales doesn't go up corresponding to our NRR, if you like. It has built-in economic leverage in scaling up.

But the opportunity, now, is the SMB business is also a direct sales business with digital engagement. And so, building out that toolset and apparatus and mechanism for self service, we're just entirely enthused about that now and are pretty far along on it. Still lots more to do, but we're dealing with engineers in firms small enough to buy something on their credit card.

And, being engineers, they really don't want to talk to a salesperson. They want to try it out, see it, exercise it, and get some help, which our Virtuosity subscription provides expert assistance and so forth. And it's just turning out to be welcome in having been institutionalized.

And I'm glad I didn't hold us back in my—it's another respect in which the fresh thinking has reinvigorated our company, and I want more of it going forward.

Joshua T: Super helpful. Thank you.

Eric B: Thanks for the questions. That concludes our call today. We thank each of you for your interest and time in Bentley Systems, and we look forward to updating you in the near future. Thank you.

Greg B: Cheers.

Werner A: Thank you.