

## ADSK (Update)

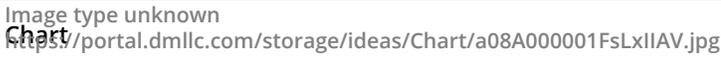
**L LONG**

Autodesk Inc

TMT

05/22/2018

**PRESENTED**
**CURRENT**

DATE	05/17/2018		PRICE	\$157.20	MARKET CAP	\$34.45B
PRICE	MARKET CAP	ENT VALUE	Image type unknown Chart 			
\$136.52	\$29.91B	\$25.60B				
P/E RATIO	BOOK VALUE	DIV YIELD				
N/A	\$N/A	0%				
SHARES O/S	AVE DAILY VOL	SHORT INT				
219.10M	2,290,728	2.58%				
Autodesk, Inc. engages in the designing and developing multimedia software products. It includes Autodesk 360 cloud services, AutoCAD civil 3D and LT, 3Ds Max, Maya, and Revit. The company was founded by John Walker in April 1982 and is headquartered in San Rafael, CA.						

Please note, this is an update to [Autodesk Inc \(ADSK\) – Long](#), presented on 11/10/2017.

Publicly traded companies mentioned herein: Autodesk Inc (ADSK), PTC Inc (PTC)

## Highlights

The presenter remains long shares of Autodesk (ADSK), gaining confidence in ADSK's ability to benefit from its transition to a subscription business and realizing higher ARPS (average revenue per subscription) while also growing subscriber numbers. He models \$11 - \$12 of FCF per share in fiscal 2023 (calendar 2022), assuming subscribers grow from 3.7m today (fiscal 2018) to 7.1m in the exit year, with an 8% ARPS CAGR over 5 years. A 25x FCF multiple yields a \$300 price target on fiscal 2023 numbers.

- The presenter sees both subscriber counts and ARPS improving. He largely maintains his original estimates of 600,000 – 700,000 adds per year. This will be achieved by transitioning 1.8m users who purchased perpetual licenses over the last 5 years into the subscription product, while adding 1m in new users over the next 5 years. He notes in fiscal 2018, ADSK added over 600,000 subscribers, of which 300,000 were net new from market expansion. As such, he sees subscribers going to 6.5m.
  - There remains significant enterprise “underlicensing” that will be discovered and corrected as part of the cloud and subscription transition.
- The remaining 600,000 subscribers needed to hit the 7.1m target can come from combating piracy. Given there are 12 million unlicensed “pirate” users, a 5% conversion would allow ADSK to reach 7.1m subscribers.
  - Of those 12 million unlicensed users, ~4 million are in developed nations and the company can identify ~1.3 million of those via IP address and other tracking methods. In general, pirates in developed markets are easier to convert into legitimate licenses, especially as IP tracking and telemetry further proliferates.
  - ADSK has not historically focused on piracy mitigation, but is now treating it as an actionable issue. Starting this year,

- ADSK will introduce product pop-ups into its software that will be seen by the end user, making them aware if they're using a non-compliant or unlicensed product, as opposed to the past, when only IT departments were notified. This should spurn some users and organizations to transition to legitimate subscriptions.
  - ADSK's piracy rate was historically in excess of 70%, compared to the ~40% seen by other software providers. There should be some easy steps for ADSK to take to become closer to peers.
- The presenter thinks one major catalyst can come from the transition to Windows 10. He notes that Windows 7 support will be discontinued in 2020, and many legitimate licenses as well as unlicensed products will have to (re)subscribe at that point.
- On the pricing side, the presenter remains bullish on ADSK's ability to mix pricing higher, which should contribute to the 8% ARPS CAGR:
  - Customers who have historically received the lowest prices saw a 5% price increase in May 2017. Moving forward, the company has discussed the strategy of a 5% price increase in Year 1, followed by two years of flat pricing, and then a year of 10% pricing. The presenter speculates that there can be another 10% pricing increase in year 5, for a 5-year CAGR of 5%.
  - ADSK is being more aggressive in combining products into its Suite format and making it more expensive/less attractive for customers to purchase single products.
  - Channel discounts are being mitigated, as the presenter expects the channel sellers fee dropping from 30% to 15%, and eventually 10%. In addition, regional price discrimination is more prevalent now. Currently, large multinational organizations can buy product in lower-price markets and ship them around at "essentially zero cost," but will now be forced to adhere to regional pricing standards as the software moves into the cloud.
- ADSK "competes" with companies like PTC. However, the presenter notes suppliers in this space tend to operate within their own silos and don't have heavy crossover. In addition, education and legacy file formats make software choices "sticky." However, customer behavior is similar, and he takes note of PTC's recent successful efforts to reprice its large enterprise customers. PTC has removed up to 25% of previously enjoyed discounts, as well as pushed 15% more subs, for 40% total upside.

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