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Citrix Systems, Inc. (CTXS) CEO David Henshall on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.52 beats by $0.26 | Revenue of $732.9M (0.06% Y/Y) beats by $17.85M

Earning Call Audio

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Citrix Systems, Inc. (NASDAQ:CTXS) Q3 2019 Earnings Conference Call October 24, 2019 10:30 AM ET

Company Participants

Traci Tsuchiguchi - Vice President, Investor Relations

David Henshall - President & Chief Executive Officer

PJ Hough - Executive Vice President & Chief Product Officer

Mark Schmitz - Executive Vice President & Chief Operating Officer

Arlen Shenkman - Executive Vice President & Chief Financial Officer

Conference Call Participants

Mohit Gogia – Barclays

Kirk Materne - Evercore

Karl Keirstead - Deutsche Bank

Ittai Kidron - Oppenheimer

Mark Moerdler - Bernstein Research

Mark Schilsky - UBS O'Connor

Heather Bellini - Goldman Sachs

Traci Tsuchiguchi

So, good morning, everyone, and thanks so much for joining us today. Earlier this morning, we reported our 3Q fiscal 2019 results. You can see those on our earnings number that are posted on our Investor Relations website and has been furnished with the SEC. Also all of today's Analyst Day materials are currently posted on our Investor Relations site as well. On the front page, please scroll to the bottom, you'll see view all of the slides that will be presented here today.

We know it's a busy time right here in the heart of earnings season, so we've tried to keep the content tight, while also addressing a lot of the fundamental questions you all have been asking over the last year.

This meeting has been as you know in the works for quite some time. But we're pleased this morning; you'll be able to hear from our most seasoned executives as well as the newest members of our executive leadership team.

So, following the presentations from David, PJ, Mark, and Arlen, we'll have everyone grab some lunch that'll be set up in a buffet outside come back eat your lunch in here and we'll do a question-and-answer afterwards. And then we'll ask that you hold your questions until a mic gets to you so that we can hear it on the webcast.

As you would expect, we'll be making a number of forward-looking comments. Let me switch to the forward-looking statements where we inherently have risks and uncertainties. For this and more information on the reconciliation of GAAP to non-GAAP measures, please see the back of the presentation material that's on the website or with our most recently filed SEC documents. This event is being webcast and is available for replay.

And with that, I will turn it over to David Henshall, our President and CEO.

David Henshall

Thanks Tracy and good morning everybody. It's great to see a packed house here and also welcome to everybody that's joining us live on the web around the world.

So, as Tracy said, we're going to give a formal update on the business and talk a little bit about -- more about really just the -- we've got the operations the products and the financial outcomes not just of where we are right now, but the status on the transformation we've been driving across this organization over the last couple of years, and then how to think about the rate and pace over the next -- really over the next five years or so.

Also give me a chance to introduce a couple of new members to the leadership team, really excited to have these folks joining the team in their new roles. Right after me you'll hear from PJ Hough. PJ has been with us for three years now. Some of you actually know PJ. PJ is our Chief Product Officer who runs all products across the company.

Mark Schmitz will come and talk about operations also with the organization for about three years now, but has stepped into a much broader capacity as our Chief Operating Officer, focused on really scaling people, product, systems, et cetera that are going to be necessary for us to continue the transformation going forward and doing it in actually an accelerated pace from where we've been over the last couple of years. And then, Arlen Shenkman, just recently joined as our Chief Financial Officer also running Corporate Development and Strategic Alliances across the Board.

So, we'll dive into each one of those areas and try to keep this actually pretty tight and concise over the next hour and a half or so. And as Tracy said, we'll open it up to get into a more interactive dialogue across the topics that are covered today and also talk about Q3 where it makes sense.

So, it's pretty interesting as you step back and you think about this company, I mean we just celebrated our 30th anniversary earlier this year. So, we've been at this for a long period of time. This actually covers -- pictures of covers in annual reports over that period of time. And what's fascinating is that we have really been focused on this fundamental value proposition of connecting people and information, doing that on demand and in a secure managed available way.

It's just been a real maniacal focus for us for our customers around the globe regardless of the shifts in the technology landscape and the types of pressures that all of our customers face across the Board.

It's allowed us to really create and lead in some pretty important categories around virtualization, app delivery, DDI how we're thinking about defining the broader workspace right now going into the future.

All of our customers have really trusted us over the years to manage what's mission-critical for their business, whether that's applications, business processes, information access, et cetera, and that's allowed us to continue to leverage this position of strength into where we are today.

So, let's focus to 2019. I'm really proud of the fact that we're now servicing customers in over 100 countries around the world. In fact we have hundreds of thousands of independent customers. Within that number, I'd say about 100,000 is what you consider to be enterprise-class organizations. Just about all of the Fortune 100 are Citrix's customers.

Kind of an underappreciated asset that the company has is the fact that we have ballpark 100 million people leveraging our technologies on a regular basis to access information to drive their business forward. That means those tens of millions of clients that are out there on endpoint devices that are running Citrix today.

It gives us a really unique Trojan horse to be able to deliver new technologies with a much lower level of friction and allowing people to consume that at the same time in a much easier way.

We finished this year somewhere around $3 billion in total revenue. You've seen the shift in the P&L which Arlen's going to talk much more about. Obviously, subscription ARR the best way to measure the progress of our transition has been on fire lately. It's approaching

$700 million in total revenue growing at 40%. And that's just a clear reflection of what's going on across the financial side of the transformation of the business.

We'll exit this year with ballpark about two-thirds of new product bookings coming via subscriptions means we're well over halfway through that part of the transition. So, all of these headwinds to growth that we have talked about for the next -- well, really for the last couple of years are abating at this point in time allowing us to inflect and start driving up into the right from a growth rate standpoint.

And at the end of that you'll see a much cleaner P&L, faster growth, higher profitability, but much more predictable and easier for us to layer upon new incremental revenue streams from a customer point of view.

So, we had a lot of progress. And it's interesting it's actually my 67th quarter end with the company. And so I've seen a lot of these transformations with the business. And the one question I still get pretty constantly from investors is I don't understand why Citrix is still growing.

I thought apps were actually moving to the web. And so if that's the case what is the fundamental value proposition for Citrix? And so if I just net it out. And you saw this if you looked at the slides earlier today, just netted out a really simple almost financial terms for you. This is why we are growing pretty simply. And we'll talk about each one of these throughout the course of the morning; we'll drill down into that.

But at the simplest level we're addressing a much larger value prop than ever before. Customers have used us for virtualization historically. But as you look forward, it's really a broader story than that focused on mobility, focused on analytics, focused on managing devices, and a whole host of other areas around productivity and engagement. So, it's a bigger opportunity.

The customers that have been with us for a long time are spending more. We've done a progressively better job all the time, which Mark will cover around cross-selling products, so consuming multiple independent point products at the same time.

Penetration within those big customers is still growing. Virtualization is a growth market. It's growing. We created it, we leave it, and we're investing to maintain or even accelerate that lead going forward.

Despite the size of the customer base, we're adding thousands of new customers every year, about 3,500 year-to-date. So, we'll exit this year with probably 5,000 or so net new customers that we haven't worked within the past.

And then of course as customers start consuming some of these new services, most of these will fall under the banner of Citrus Cloud, we're going to add a lot of incremental value to them. Value in a way that could be everything from optimizing that existing virtual ops in desktop infrastructure they might have as a legacy customer to net new services around mobility, around analytics, around endpoint management, a number of other areas that we'll talk about more. So, at the end of the day, bigger opportunity, large and growing customer base, selling higher ASPs. That's pretty much the easy story.

So, the second part of that is well if that's the case, who's actually buying? Simple answer is just about everybody. Largest companies in the world rely on Citrix. It's a critical part of their IT and security infrastructure. There's a lot of conversation that I've heard over the years that assumes that we are just focused around financial services and healthcare which are important verticals, but they actually don't represent the majority of our overall business.

The other verticals of course where security and compliance is absolutely critical to their business and therefore, our solutions are a perfect fit. And they'll continue to be going forward.

Also the ways that we're able to really bring together the infrastructure that simplifies it for IT environments, so they can remove cost, so they can make it easier for people to consume information, so not just security and cost-cutting.

Left-hand side of the chart -- actually we skip over here. Talking about the types of challenges, this is probably an easier way to look at it because frankly this is a summary of most customer conversations that we'll have on a regular basis.

Security compliance as I said cost-efficiency. Those are all super important. Actually outside of this chart though represents what I guess people have probably described today as business transformation. It's an overused term that really encompasses a number of different areas. But it's focused on how do I get closer to my end user? How do I provide incremental services to my customers? How do I turn business agility from a project?

Imagine just on-boarding and off-boarding users, offshore development, M&A integration. These are projects, but they're becoming much more of a core critical competency for a lot of businesses because, the cycles that we're in are moving faster and they have higher volatility than they have in the past. So we no longer have the benefit of just thinking about these things as a one-off. It needs to be fundamental for the way a lot of our customers operate. And the workspace really supports all of these in a pretty pronounced fundamental way.

So, we step back and then we think about our customers. Our largest customers are extremely loyal in the business. Our top 10 customers as measured as those that generated the most total net bookings dollars in 2018, every one of them has been with us for over a decade at this point in time. And also, it's true for about 70% of the top 100. So, our biggest customers are very sticky. They've been with us for a long time. They're spending more money. Yet at the same time, as I said a minute ago, we're continuing to add more and more to grow the base of that pyramid and allow those to become tomorrow's largest customers.

And over that period of time, it has allowed us to really step back and deliver a very sustainable, very predictable growth from the business, up into the rye. And this was the picture you're looking at just the financial outcome since we're a public company roughly 25 years ago. In fact, this is true regardless of the various economic cycles that we've been in, the various changes in the technology landscape. Simple fact that we just added value to a lot of customers and our products are sticky.

The only two times that we've had a year that went down was due exclusively to a divestiture. Back in the 2001-2002 timeframe, we sold some products to Microsoft. And of course those of you who have been close to the company recently, 2017 when we divested the GetGo business to really focus maniacally on the broader Citrix Workspace strategy. So, that's how we thought about delivering the business over the last many years.

And I'd say, in the last two years, I would describe the company is focused on three big motions, three big transformations. These are the ones that I guess will usually be covered by PJ Mark and by Arlen going forward. But the idea of moving from products to platform, let me just give you a background in context. So about three years ago, we were organized across a number of different business units, product leaders et cetera. And we're building products which is great to drive incremental focus on those areas but it's really hard to drive more of a horizontal approach, a suite of bundle or platform. And so we reorganized the company.

We brought in PJ to run products wall-to-wall across the organization. We went from a product stand-alone to an integrated single business. And the outcome of that is we're able to operate with a much, much higher level of innovation than we ever have. Our rate of new patent filings is triple what it was at that period of time. At the same time, we're pushing out faster new product introductions at a much higher product quality index. So I'm very happy with the progress there.

On-prem to cloud is really about meeting customers along that hybrid cloud journey. We'll talk about what most people realize is that the pace of change inside of our customers is actually pretty slow. And this is really where the services inside of Citrus Cloud come together. Citrus Cloud today is a collection of roughly a dozen of services for those customers that are looking to move their existing infrastructure to the cloud. Those customers are looking to consume net new areas and even a set of solutions for those that just aren't ready to move yet, things that we can do to optimize your on-premises deployments because everybody wants to move. It's just the practical realities of doing that are so much challenging for a lot of customers. And giving them the tools to do that on their pace, while migrating them onto the platform gradually is a core part of the strategy.

And then of course, over the last couple of years, really accelerating the perpetual to subscription motion, which Arlen will go into with a lot more depth. So, it's important I think to just spend a minute, thinking about where customers are coming from and why all this matters so fundamentally to them, because, in the industry, we talk a lot about these different areas of technology. We always talk about mainframe to client server clients, serve to PC et cetera. And it was only about five years ago that just about every organization was entirely focused on that bottom era, I guess, we can call it the PC era, where data was on-prem in data centers were on-prem, core set of ERP systems it really brought together, all of the transactional information in the business. Data repository was inside the corporate network et cetera.

Then about five years ago, and it's really only been about five years that we have started to move into what everybody in the industry talks about is the cloud mobile era, where now devices are truly ubiquitous. And they're changing constantly all the time to be able to consume and pull information as well as sources of information that are feeding back into the infrastructure.

Services are now obviously a third-party, whether we're talking about just the latest SaaS services that's being acquired and deployed by the marketing department, as well as of a placement and disruption for a lot of the core systems that are out there. And then of course, infrastructure as it exists, in a public, private and hybrid mode. And all these things have created a tremendous amount of promise and opportunity of course, but for most companies, they're still living down at the bottom. I mean, this is what a large majority of their infrastructure still looks like today. And their pace to move forward is probably described more as glacial than anything else. It's just the realities of dealing with this.

So while at the same time, the promise of where we are is pretty pronounced and the complexity that this causes is also a big problem. This new area takes security and distributes it from the core corporate network out to the endpoint. Data security is now distributed. You're relying on your third-party providers for services and all of these other things. Your attack surface is dramatically different than it was just a few years ago. And so, the industry has created a lot of point products to help manage this fundamental set of problems. You see these apps come up all the time, productivity apps, things whether they're just new mail clients, business file, sync and share, others. And then of course tools to help manage and search across all this sprawl.

It's a terrible staff that today people spend about one day a week looking for information. An entire day just trying to find the latest file, the e-mail they were looking for because of all this distribution that's out there. Obviously, as people have moved outside of the office being able to understand who they are, what they have access to, what their rights are, created IM as a separate category. SSO is a way to abstract away some of that inherent complexity kind of put a skin on the top of it, so people can consume information with a little bit less overhead attached to it.

With device for all of course comes the need to manage independent devices. So a number of different strategies out there obviously, to lock down the device itself, really create a new corporate-owned device, manage the information that's on it, create multiple profiles, all the things that have happened around endpoint management of course.

App delivery. We know it well. Now obviously, it's created a way to help simplify some of these challenges from an IT standpoint. PDI is a great example that falls into this category as a way to bring all these disparate applications together in a way that IT can manage more effectively, can secure, can optimize, can deliver it and drive that forward.

Clearly new frets across the security landscape things that didn't exist a few years ago, but have really come up because of the availability of cloud services, the new work styles distribution, these are ever-changing and creating a fair bit of complexity because of all the promise that has existed within this mobile and cloud area.

Then of course delivering applications, app delivery networks and all of the associated services here, it's only been within the last couple of years that networking was something that we've had kind of in and out of the data center in a traditional way. Today, as PJ will go through more than ever, you've got a horizontal approach. We're connecting across data centers, across applications, across services. And they need to manage and maintain all of that is incredibly challenging. And it just makes it that much harder for all of our customers.

And so when you think about that customer that is living still a little bit in the PC or client-server era, managing all of this incrementally has caused a lot of complexity and it's slowing them down that much more. This idea of promise of all the power of the cloud in a lot of ways just forces more focus internally, trying to manage all of the piece parts, that exists here is an increasing challenge. And this isn't just about onboarding new technologies, but it's about the necessity to actually integrate them together, to hire people to maintain and manage these things. And the ongoing challenges it comes as they migrate at a different rate and pace going forward.

So, the reality though is that the typical customer in the Citrix Universe has over 500 applications, over 500 applications in their infrastructure operating today. Some of the largest financial services firms, folks that are represented here live in person, the number is 20 times that. I'll meet with a lot of the IT organizations for your companies and we talk about the thousands and thousands and thousands of different apps that are out there. And they're across all kinds of different architectures. It's not just consuming net new SaaS to actual mobile apps, it's across the gamut.

And the reality is that, most of these applications are still going to be here years and years into the future. They're just hard to replace.

Your IT organization is spending on average about 90% of the budget maintaining what exists today. That just leaves a little small sliver to try and drive innovation, adopt net new, really move the business forward. The needs aren't going away; just the complexity is underneath all that.

We work with customers. We had a customer conference just a few months ago. And so, whenever we're having the similar conversation, I always try to describe the data center. I use this archeological dig comparison. When we do that, the main point, the takeaway of that is, is that applications that you put in place years ago are still there.

They're still in the infrastructure. They just get layered on top. So all these great new applications you're adopting today, things that you think of as disruptive, are actually creating a lot more complexity in many cases, because they're layered on top of each other.

Great example, I was with the financial services company down the street about three weeks ago. We are going through what their new initiatives are. They're talking about business transformation and they toured me around, how they've redone a lot of their real estate in an open seating plan. And it's great. They're really trying to move forward, not only to drive their own business forward but to actually attract and retain this new generation of employees.

And as we finish the conversation, it segued into the fact that they still have mainframe applications that were built in the '60s that are running inside the data center, for a couple of reasons. One there's nowhere to put that information. They don't know how to do the data migration in the first place. And it's not a huge priority. It's still operating providing a fundamental level of value to the company. And so, even though they want to adopt all this net new, they still struggle with that challenge of complexity that exists.

It's a big, big problem. And when you put it together, all those piece parts that I showed you on that spidergram, the research shows it would cost a typical company about $1,000 per user per year. The promise of the cloud and all the cool stuff that comes with it, it is actually pretty expensive. And of course that's just in addition to the cost that they already had on maintaining and running the existing business.

So let's back to that whole run-grow equation that most IT organizations struggle with. Just too much money is spent maintaining the complexity that exists, not enough money to be able to simplify and move that forward. And so, that's the challenge from an IT standpoint.

What PJ will talk more about is that there's a lot of challenges on the demographic side as well, from the end user point of view. We've got huge shifts happening across organizations. And I'm sure everybody sees in their own company right now that traditional work models have really just evaporated pretty recently.

Less than half people are working inside of an office tethered to a machine. Everybody is a little different than they used to be. You have to approach almost every individual inside of a large enterprise today as a mobile worker, because they're working in different places, different devices, different work styles.

And some companies are actually employing this almost as a business strategy. I was at this customer conference, I was using eBay as an example, an example that they in-sourced some of their support as a way to just drive efficiencies and cut cost.

And when they in-sourced that, what they did was they leveraged Citrix's infrastructure to tap a part-time stay-at-home work force. The group that would never be in the office in a traditional environment, they can now access in a way to cut cost, way to drive more efficiency and actually bring them back into the workforce where they might not have been able to do that in the past. That's about attracting and retaining people.

And I'll tell you what I meant, spending time with not just CIOs, but a lot of CEOs, the reality is that we've got a global talent shortage right now. It's one of the reasons why unemployment is as low as it is. And when that happens, all that does is generate increasing costs at a pretty rapid basis and attrition keeps going up across the board. So we're looking for ways to just engage people more and more across the board.

We fundamentally believe that enabling people to do their best work is a technology conversation. Its things that we can do to engage people better, give them the tools to be productive on their terms. And a lot of that comes back to this idea of employee experience.

And we use this team pretty loosely. You're going to hear that over the course in the next couple of hours. We're not just talking about look and feel, but really fundamentally stepping back and understanding what are the things that people are trying to get done? What are the business processes that can be automated? What are the systems that we can bring together to abstract away a whole bunch of complexity for IT to allow them to go faster, allow them to cut costs allow them to be more secure?

That's a big part of what we're doing right now, because fundamentally it's a conversation much more about productivity and engagement. PJ will go into this in detail, but this idea of unengaged or disengaged employees is really a global epidemic right now.

Gallup has done some work and they talk about this as a $7 trillion problem, because most of the people are just not working that hard. It's probably not fair to say working hard, it's probably more fair to say they just don't have the tools, the systems to be productive where they need to be. We're making it just harder than we have to. That's one of the things that you'll hear more about, how we think about it and what we're doing to help solve and fix this problem.

It bears out when you call up some of the actual statistics about this. People will tell you, I got the right tools; I'm going to be very productive. I don't have the right tools, it's really going to hurt. More than half the people think that their tools are on the far right-hand side of this chart.

Stats will show you, the research that people are doing all the time into this idea of productivity, it's going to point out the fact that most people in a typical office environment are productive less than 10 hours a week. In some cases, it's less than three hours. So it's a pretty big problem right now and we're looking for ways to really drive that forward.

And so, part of what we're here to talk about today and for those of you that have followed the company much more closely is that, we fundamentally believe there are opportunities to solve these problems. We think there's a better way. That's the real idea behind the Citrix Workspace, the things that we're doing as a company to really bring this together.

And so it started with this concept of this spidergram, where we've got market-leading capabilities in a number of these point products. And so we thought, there's an easy first step to start to aggregate this together to allow a lot of our customers to pull out some of those point products and just consume the individual components that are part of the overall platform.

I'd say this is our first step. This is what we had talked about as organizing IT. So internally, we'll say, organizing IT is the first step. Bring these apps in these disparate pieces together. It's easier to manage, it's more secure, we can cut costs, we can drive that level of benefit for the typical IT organization.

Second phase, of course, is like, how do you organize work within that. And that's where the Citrix Workspace came together in its current form couple of years ago where it's now focused on a single unified and secure way to manage all applications, whether those are virtualized apps, SaaS, mobile, native, you name it.

Ways to connect into your information, your files, whether those reside in Citrus cloud, box, Dropbox or a number of on-prem repositories, but getting that single way to access that, solving some of that problem of searching for information, of course, making this ubiquitous across different device types so that devices can be transient, move in and out.

We build security within a lot of this, whether that's just security as a way to access, to manage devices, to enforce policies, et cetera. And as we do that, we've been able to collect an incredible amount of valuable information. Our analytics touches information that's happening across the network, the device, the app, the user and many other different attributes. And not just capturing that in a way where we can turn it into a report, but use it as a way to really close the loop and drive actions. And PJ will go into much more detail about that.

And then, of course, evolving our networking portfolio to really be focused on application delivery, application security and many of these things that really drive the workspace forward. So that's where we were moving from organizing IT to organizing work.

And then this last phase is what we've announced this year. And this is much more about how do we use that level of intelligence to really guide and automate work going forward and transform the workspace into this fundamental platform that is really targeted towards how do you add value across all employees, regardless of whether you're power users, you need all the power of virtualization, or frankly whether you're just an employee that needs a couple of SaaS apps and Office 365.

I need to add value across the entire spectrum for all applications, of course, and then using analytics in a more profound way to really drive a lot of those outcomes and actions and be much more predictive on ways that'll influence immediately the productivity of individuals.

And, of course, built entirely on the cloud, so that we can allow customers to leverage the infrastructure that makes sense, allow much more flexibility in terms of scaling up and scaling down as they look forward and manage that dynamically.

And to understand where we're coming from, let me just take a second to talk about, I guess, you call it our world view. But the way we think about technology inherently, because it's different than a lot of our competitors, do we assume that people are in the middle?

I mean, this is a little bit more about human-based computing. Thinking about the empathy for, not just technology, but what are people actually trying to do? What are they trying to get done? How do we make them more productive and more engaged? And so on the left it's -- I guess that's representative of different devices and sources of information.

We believe that devices are going to continue to be ubiquitous. They're very, very transient. They're always going to be changing. And the scope of which you just can't try to lock down. This idea of locking down a device in a way that kind of recreates a corporate-owned device, it's just going to create the opportunity for people to work around it. It adds more security problems, more complexity. There's got to be a more flexible approach to that.

Frankly, the same thing holds true on the infrastructure on app side the idea that these things are transient. Applications that are hot today may or may not be here five years from now. We see this transition on a regular basis, because we need to create that platform that allows people to consume new things as they come along, but also migrate into new areas in a much less frictional way going forward.

And of course, when it comes to the infrastructure and some of the other providers, the realization that your partners today you need that level of flexibility to continue to move and optimize where it makes most sense for your business, because most of our customers aren't selecting Azure or GCP or AWS. They're utilizing services from all of the above and they'll continue to do that for reasons that are important to their business. And those reasons may change over time. And it's important to recognize that as we build up our platform from the ground up.

And so just to really summarize this and just put it in a very, very simple terms, we're adding value in a couple of different ways. This is -- think about this is value for shareholders, revenue growth, profit et cetera. Over the years, we built a $3 billion business, largely based on virtualization. Unfortunate enough to attach networking is a form of virtualization or workspace delivery. But overall, we've only been able to touch about 30% of the seats inside of our existing base.

Now 30% of the available seats within our current customer base are Citrix customers. That number is growing each and every year. And we're doing things to continue to increase the average revenue per seat by adding in new capabilities around the Workspace platform, intelligence, optimizing SaaS mobile analytics et cetera. That's one vector of growth and we're seeing a lot of what's driving our resurgence in the last couple of years, really based probably on this single vector moving up and driving a higher usage for customers.

But the way to think about the platform as we describe it is much more about how we drive this wall to wall attach, really driving productivity across the board and that's creating that fundamental platform that I've talked about and you'll hear much more about that services the needs of all users, all application types really across any industry. We're focused on building a vertical platform that can much easier add incremental services on top of the seats that are existing today. That's where the less friction comes in and we can continue to segment users in a way that provides the most value for those individual customers. Whether those need yesterday's virtualization solutions, whether those are consuming Citrix TAZ or Windows virtual desktops or partner solutions that help verticalize and drive this going forward. That's inherent platform approach that we've been driving.

So we're looking to add value across both of these axis. And that's where the strategy is right now and that's how you should think about it as you listen to the next couple of presentations, because as we execute against this, this just allows us to grow our TAM pretty significantly.

As I mentioned today, internally we'll talk about virtualization as amazing technologies, but a bit of a specialized use case targeted towards the most complex, the most secure, the most powerful solutions and as a category, not just Citrix, but everybody. That category touches about 20% of the available knowledge workers in the world. That number is slowly growing. As I've said a couple of times, virtualization is a growth market and it continues to expand. But when we think about this, this is the simplest way to articulate the Workspace platform. It's like how do we not only grow the virtualization part of the pie, but obviously continue to expand around that entire circle. That's the untapped opportunity that we look at today.

And so the categories we compete in as measured by Gartner they're big. That's our traditional categories, virtual client, computing the ADC, business file sync and share et cetera. And whether these numbers are precise or directionally correct, the point is they're very big markets. They're growing. And we've got plenty of headroom to be able to expand into that.

But as we start to go through some of these areas we've been executing on over the last couple of years, you see this number continue to expand whether we're looking at more of a software-defined perimeter. It's a fancy term for networking being disaggregated away from hardware into -- moving more into software services and analytics, bringing in capabilities to secure SaaS applications more natively to connect people to cloud apps. It's the first click on the Workspace.

And then really we -- where we are today, targeting areas around productivity and integration and things that were just not possible when we were focused purely on virtualization, it further expands that overall pie. And so as we continue to execute forward, we're just going to expand our addressable market by as much as a factor of three from where we were just a couple of years ago. And that's were we're focused on driving forward. That's what you'll hear more about today.

These three big initiatives that have been really front and center across Citrix for the last couple of years. Products to platforms, which really extends our value in a number of different ways, the on-prem to cloud journey, which will support our customers across this hybrid approach, which will be dominant for the next several years, and then, of course, expanding our business model in a way that provides leverage, growth and predictability going forward.

And then lastly, I mean internally we talk about three primary business outcomes. These are the things that are inherent in a lot of our products right now with the focus on experience, experience for the end user and to a degree experience for the IT organization. Simplified complexity, make it easier to consume and that drives value productivity engagement. Choices about infrastructure, choice of device, choice of cloud providers and the recognition that those things will change over time, so it's critically important for us to maintain that, and then, of course, inherent security that is built into everything that we do right now both from an individual security product standpoint and a secure architecture.

So thank you very much. That's my quick introduction. Now I want to call up PJ Hough. PJ will do a more deep dive into the ecosystem and the product technologies.

PJ Hough

Thank you, David. Good morning everybody. I'd like to walk you through a little more detail on our product strategy and really position it in the context of what we see as the key trends in our industry, where the market forces are and what the big opportunities are for us and frankly for our customers as we move through this transition.

As David indicated, one of the things that we certainly see our customers getting which is the move to the cloud. And this has actually caused customers in many cases to reevaluate, not just how they get to the cloud, but what they do in preparation for getting there. And we recognize that for many customers, it's going to be a long journey and that there are things that we can help them do that really honor the environment that they're going to be in which is hybrid and multi cloud. And it recognizes the fact that they're going to maintain a significant footprint on-prem even as they continue on their cloud journey.

A second key focus area for our customers today and one that comes up in every conversation that we have is around security, enterprise security. And how customers deal with the potential of the opportunity of the cloud of the potential of a mobile and flexible workforce and at the same time providing the governance and controls that they need to deliver their business securely. And then finally, one that has I think resonated deeply with us and a conversation that we are having with every customer who's undergoing some form of digital transformation is how they think about the employee productivity.

The numbers that David shared are stocked with regards to how employees today are viewing the tools that they have to help them do their job. But maybe more importantly in a tight labor market, everything that you can do to attract the right talent, to retain the talent and then help them be productive, actually flows directly to the bottom line in organizations. And we see market differences between organizations that have managed to capture that employee productivity and organizations that are not quite there.

So I think the cloud journey provides a substrate against which we can talk about much of the transitions that are occurring in our industry. And it's not specifically just about the move to the cloud, it's about the mindset shift that happens in organizations when they go on that journey that causes them to reevaluate, the things that they've historically done, the constraints they've applied to their business and the way they've thought about how to operate their business. And how the cloud has somewhat liberated thinking across a wide array of elements of their infrastructure.

If you think about the world that our customers now live in with regard to moving to cloud they have a lot of choice. You look at the cloud platforms, you look at things like the hypervisors or how they think about building out their data center infrastructure. And for each one of these as the customers move on that journey to the cloud, you should not think about it as a like-for-like. The cloud is actually enabling new scenarios opening up new opportunities for customers to rethink how they engage with their employees, how they deliver services to customers, and how they operate their business.

A really good example of this is the work that we've done recently in partnership with Microsoft, around Windows virtual desktop on the Azure cloud. And it highlights that as you think about moving to cloud there are new ways to think about delivering windows as a service ways that we are familiar with and the ways that Microsoft has invested in that really demonstrate that both of us are taking a different approach to thinking about how that might appear to an enterprise customer in the future. So why don't we just take a moment and watch a quick video of Brad Anderson describing that partnership and the relationship between Microsoft and Windows and Citrix.

Video Presentation

So, I think Brad hit on a number of really key elements in here that, I want to highlight for you. The first is that both Citrix and Microsoft are partnering together to leverage the cloud to do new things and really, really reshape the way that customers consume our combined technologies. So I think that deep technical engagement is obviously foundational to our partnership.

The second thing that he talked about was our field engagement, and how we go to customers together in a way that actually brings the best of Citrix and the best of that Microsoft platform to the market. And I think I use that as a great example, because I think that nourishes the depth of our partnership, and collaboration that's occurring across the various aspects of our business, but also how that transformation is not just a replay of what we had in on-prem software and solutions. The cloud is enabling us to really rethink ways to do that and basically broaden the market for both of us.

So I want to talk a little bit about the quality of experience that David mentioned employee, mobility and I don't just mean mobile devices, I actually, mean the mobile workforce, the distributed workforce. And then finally enterprise security. When we talk to enterprise customers today there are these challenges that they face. We're in an interesting time with regard to the trends related to IT and enterprise in the world. We've actually hit a flat spot with regard to technology delivering productivity gains to organizations.

You can go back and map productivity improvements in organizations and output over the last several decades and you can map the key inflection points to the transitions to new technologies. Well, we've sort of hit a flat spot. We've now introduced a lot of new technology and we're not seeing a correlated growth in productivity. Something has actually flipped. A second key factor here is the shortage of talent. McKinsey estimates that in the U.S. we're going to be short 95 million medium to high-skilled employees next year, just in the U.S. alone. And the C-suite customer's that we've talked to say that 61% of them believe that access to developer talent is going to be an impediment to growth for them. And I use developer talent as a proxy for technical skilled workers as they sort of penetrate the workforce.

And then finally, we have this issue with low employee engagement. The Gallup number is startling. It's – the number could be as high as 85% of the employees in organizations are disengaged. That means that – think about it, 15% of your employees are fully engaged on helping you deliver your business. Well, and somehow we have to take a look at the IT systems that we've put in place, because they do contribute. The third highest-ranked factor by employees for why they stay at a company or why they leave after their salary and their manager is the tools that they have to do their job.

And when you think about the environments that we've given to users over the years, it's not fair to say that, that's where we are. We've actually heavily invested. You look at these large new complex cloud-based applications, we look at the deep investments that organizations have made we're just not seeing the return. It seems like we've substituted one set of issues for an equivalent set of challenges that users have as they move between old legacy applications and what I would even consider today quite modern and SaaS applications inside the enterprise.

At the same time, and maybe this is at the heart of the challenge we face. In the consumer world, we have all seen the technology evolve on a different path and in fact enable us to do things that are completely different. Think about the apps that we have that are tailored to our personal experience that have a feed of information that comes to me that matters to me and that helps me understand what's going on.

The number of apps that we now have in our personal lives that actually have notifications that appear at the right time that remind me to leave for the airport to tell me to check in for my flight that help me manage the stream of activities that I could possibly spend time on that actually organize them in a way that helps me organize my personal life.

Think about the number of apps that now have a one-click experience book the hotel room, reserve the ticket, select my seat. Most of us don't have that for booking conference rooms or other resources within our organizations by contrast. And finally we're now in our personal lives very used to interacting with services that actually are getting better the more we use them. They have recommendation engines. They help us find our next movie, our next book, our next album to download. And yet, at work we really struggle to provide those same tools to employees that help them guide themselves through their day at work.

And so this is really where we're focused on building the Citrix Workspace. We really have thought about the problem in a very different way with regard to helping deliver that consumer-like experience for our employees, across all of their devices. We think that's critical because in fact we see more device diversity than ever before. We also see people working from multiple locations on multiple devices. So, how do you maintain context for an employee such that as they move from working on the train to their office, to working from home that they actually carry their work with them in a way that makes sense. We want to simplify access to all those applications through a very simple single sign-on experience. So, that I don't really think about the fact that, I'm switching apps or accessing multiple applications.

David highlighted the problems of search and finding the right information. We believe that there's a better way to deliver the right content to employees that help them find the things they need to do their job more easily. And at the same time, we recognize that we have to underpin all of this experience with a security and performance investment that really provides that context for work.

So let me quickly show you what the key elements are in our Workspace experience. And by the way this is screenshots of our product that we will be delivering before the end of this year in that next wave of product delivery. So the first thing, you'll see highlighted in the intelligent experience is integration of assistance and search as a first-class experience.

We often know that people start their day by launching applications to look for work, but we also know that they often have a goal in mind. And how do you get that and from goal to action as quickly as possible? How do you make it easy for them to express what they need to do?

The second thing that you'll see here highlighted and actually given I would say private place in the center of the workspace experience is this contextual personalized feed of work that I need to complete within the organization. It's a balanced mixture of things that are pushed to me that I have to complete and do as part of my job and a set of feeds that are poised to me by me based on things that I'm interested in understanding and knowing about the organization.

And not only is this feed contextual it's also actionable. Right here you'll see in blue the verbs where I can approve or process the work right here within the feed. You'll also see that we've elevated recommendations in the Workspace. We actually understand the types of actions that might be relevant for a particular employee. What's the next best thing I do at work? Think about that moment, while you're transitioning from completing a task to doing the next task. How do you choose what to do next?

Of course, people still need access to their applications and virtual applications, SaaS mobile applications are all fully integrated in here into that Workspace experience. There will be times when you will want to go into a deep application as the starting point, but we also recognized that it's quite possible that you can accomplish many tasks based on the activities that are delivered to you in the feed.

And finally, we have embedded micro applications into that Workspace experience that allows me to get the next level of detail inside the Workspace so that I really understand what's going on.

Actually let's take a quick look at more interactive demo that shows exactly what's going on in the Workspace. Here you see that we've really highlighted the apps, the content, the files, and if I'm accessing a desktop that I have access to that here inside the Workspace. Remember this experience was across all devices.

But really our goal is to drive up engagement and productivity. Not just have the Workspace to be a place that launches applications, but a place that I go during my day to actually get work done where I'm presented with the actions that make sense for me, where I can get to see the information that's coming from the systems of record in my organization, but that's in a much more simplified and consumable way.

Think about this particular example of an expense report coming from a large ERP expense management system. Typically today, you get the e-mail that drives you into that application or you have to search for the right context in user interface. We're able to extract that in these micro applications and make it easier for you to complete that task in a much easier way.

There's also information that often needs to be shared with employees about new employees, new training courses, et cetera. We believe we can deliver a bunch of that.

And then finally actions in here where I can not only consume information, but I can interact with those systems of recording in this case creating an incident that's going to go back into a complex system of record. And if you want to know what that complex system of record looks like this is an example. This is what the IT person in ServiceNow deals with when they receive that incident that allows them to process it.

So this doesn't replace systems of record for deep use, but for the casual user the person who just needs to create the incident or who just wants to approve the expense report, we believe we can mine and extract those interesting workflows out of those applications and deliver them as consumer-like experiences inside the Workspace.

Of course, delivering that same experience on mobile is critical to this plan. When I think about my own day and move in between meetings that's often my opportunity to understand what's most pressing what needs my attention and allowing on a mobile device for me to easily observe this type of information and move quickly between my tasks and move the workflow of the company forward. I think that's really crucial.

Here you see that we've integrated a digital assistant into the Workspace that can answer questions that we all struggle with. You know, what's my vacation balance? How do I easily get access to training? What courses are available? And over time this will become more refined based on usage.

As David indicated, our world view is very much about putting the user at that center of the complexity and addressing the problem from the perspective of the individual user. And really when you think about that Workspace think about it as a tailored experience that adapts to my usage over time much in the same way that we have social platforms and social tools that adapt to our usage.

And so over time my Workspace and David's Workspace will be quite different based on our usage, our patterns of activity and what matters to us in our roles. And the way we've encapsulated that is by in fact putting that Workspace that personalized Workspace at the center of that overall experience.

Now what I've shown you looks a lot like an application, but in fact with the way that we have decided to build this is to build it as a platform. We recognized that as a platform, we have the opportunity to build the next layer of tools that apply to all users inside organizations and that can be integrated into all of the applications and workflows that matter to them.

And what you see here on the slide are a list of some of the other applications that we expect that will be integrated into this platform over time. They're just indicative of the fact that many organizations have many of these tools and need to provide a coherent and consistent experience that sits on top of all of them.

So what does this mean from a business perspective? Well I think the first thing it means is you will see us accelerate the Workspace adoption across a wider set of users inside the organization. The workflows that I showed you and that simplified experience are not constrained by the 30% of VDI use cases inside the organization. They are generally applicable to all employees.

And what could argue that our biggest opportunity with Workspace in that context is to actually address some of these broad corporate-wide workflows whether it's employee on-boarding or you're improving your interview process or simplifying the way that you manage performance or other capabilities that could be delivered to basically every employee inside the organization.

And so therefore we see potential -- significant potential for seat expansion inside our existing customers as well as attracting net new customers that recognize this as a brand new opportunity for them to think about the Workspace that they deliver as the platform for work inside their organization.

Except from a product perspective when I think about the waves of adoption that we're going to see the first wave is the one that we're experiencing right now and the one that's showing up in our financials which is that move to SaaS, the move to subscription and obviously we're partway through that and it's well, well underway.

The second wave is I anticipate, we will start to see customer broaden the use cases for the Workspace inside their organization and thinking more wall-to-wall about the usage and the benefits that they can get from Workspace. And of course this opens up huge opportunities for us to take that platform that we're building and integrate it to deliver that complete experience for the widest set of users.

And third, is we're really opening up that platform and leveraging how we think about the kinds of solutions that not only we build, but that enterprises and third parties can also build on that platform. Recently about a month ago we held our first-ever Citrix developer conference where we invited 100 developers to come to our campus in Santa Clara and sit with the Workspace platform and our core engineering team.

You read about it in our investor letter. It was a great successful event and I think it pertains a whole new direction for the company with regard to engagements with a new set of partners who take this platform and take it deep into organizations where they as partners understand the workflows and business processes and what really matters in vertical industries and in other geographies. So really that's the -- that I think is the waves of adoption and the waves of potential growth that we see for Workspace in the coming years a very exciting time for us.

I'd like to switch gears now and talk about our Networking portfolio. And what we see happening in Networking which is actually a very exciting time. It's very clear that the Networking industry as a whole is moving from hardware and appliance to software. This is partly driven and accelerated by the move to cloud where frankly you don't get to deploy hardware, but you do get to put software services on top of cloud platforms.

Our investments over many decades in networking have all been software based. Even though we have delivered them as hardware appliances, our core intellectual property and investment has always been in software. And, therefore, this is a trend that we can participate in as customers move from an appliance on-prem based view of their network to a cloud and hybrid view of their network.

We've, of course, have optimized the Workspace to run on our networking stack and we have optimized our networking tools to deliver the best value, the most optimal performance and the most visibility and control of that Workspace experience. And we also see customers on the networking business transitioning also to a subscription model. You see this show up in the context of pooled licensing for our networking business.

So let's talk a minute about the technology shifts that are occurring and how they actually play to some of the strengths that we have with the assets we own in networking.

The first shift that we see happening is these large centralized applications when they move to cloud in many cases they're getting reengineered. They're getting redesigned to take advantage of cloud. Again this is another great example of how the transition to cloud is not moving from a static platform to an equivalent platform. Customers are using this as an opportunity to transform their applications that they build and leverage new capabilities that exist only in those cloud platforms.

I'm going to give it a quick example here that I think we'll all be very familiar with. The example is a very simple one of taking a photo and uploading it to a cloud service. When you take that photo today what really happens is it gets uploaded to the cloud service and we generally think, oh, it gets uploaded and it gets stored in the cloud. The reality there are new services that are getting built that process that photo in the cloud. An example is geotagging such that I can come back later and search for photos of Paris or New York and find the photos that I want, or maybe the photos are getting facially recognized, so that I can come back later and search for pictures of PJ and you'll find pictures that are all relevant.

These are independent services. They're all part of this much larger application that's being built in the cloud. And the way that they act is being constructed is not as a monolith, it's actually being constructed as a set of these micro services, these little applications. And what that really means is if you think about the traffic from a networking perspective, the traffic is no longer just flowing from my mobile device to the cloud, it's between all of these micro services inside the cloud. And so this new networking paradigm has actually not just permeated the edge of the cloud, it's penetrated the architecture of how applications are getting built.

And so when you think about an existing application that ran in a data center on-prem and now think about the places that people are building and running applications in the cloud, what you see is that that software element of networking now participates in many of these new environments. And this is the same technology. This is the same core Citrix ADC code base, the same core Citrix SD-WAN code base and that marks at the top is really where much of the magic is happening in cloud networking.

It is the fact that you now require a common way to orchestrate, have visibility and have control over not just the applications that are running in your data center, but also the applications that are running in cloud. And our customers, as they move to pooled licensing, have the flexibility to now take those applications on-prem, we factor them as they move to cloud and leverage that same subscription to Citrix Networking as they move the applications forward.

The policies that they enforce, the orchestration tool that they use to manage it, the visibility and control and security that they had from our networking products on-prem, all mapped directly into this architecture in the cloud.

And to the extent that you subscribe to the model that we do, which is on-prem stays for a long time while customers move to one or more clouds this model is going to be an enduring model for customers who consume Citrix Networking.

So in the same way that we saw the phased transitions occurring in Workspace, we see similar phases of adoption occurring with Citrix Networking. That first phase is really about customers moving to our subscription and moving to hybrid and multi-cloud. The second phase is really about rewriting those applications in a dramatic way, taking advantage of the cloud platforms and building these cloud-native applications.

I should comment that one of the things that has happened with the cloud native model, which is characterized by containers and technologies like Kubernetes is that those technologies have in fact in some cases flown back into the enterprise and back into on-prem.

So cloud native networking is not just applications running in cloud, its applications written to the pattern that's been popularized by the cloud. And so again we see even applications on-prem getting modernized using the same set of techniques and the investments that we've made are equally applicable to those on-prem applications as they are to the cloud applications.

And finally, we see the emergence of this new orchestration capability for clouds and for networks, which is that ADC gets delivered as a service. And that means that I have an intent based way of describing how I want my applications to perform and the orchestration of these highly sophisticated networking deployments of maybe tens or dozens or hundreds of instances of network, all can be orchestrated in a consistent way across my cloud, across my multiple clouds and my on-prem deployment. So that's a snapshot of where we see the transition occurring in our networking business.

Third, I'd like to talk a little bit about analytics and our investment in this area. Clearly this is a very exciting investment for us and one that underpins both the core of our workspace strategy and the core of our networking strategy moving forward.

There've been several significant changes that have occurred in the capabilities of platforms over the last several years that really make the potential of a new analytics platform come to life for us.

The first one is there is now a rich set of cloud-enabled AI and machine learning platforms that are available. And they really have changed the game with respect to the platform, on which you can build AI and machine learning enabled analytics and applications.

The second thing is as our users have become even more connected, we actually have a deep understanding of the work graph. We know what device you use, we know what network you connect to, we understand what applications we use, we see the content that you share, we understand where you're based, we've understand the patterns of work, and the more we understand about the people you interact with and the nature of work and combine all of that into analytics platform, it gives us the ability to offer enhancements to the environment on top of it.

And the final one is that we really do understand that context of work. When you think about the Workspace and us bringing context into the Workspace this really allows us to service new experiences for users that are powered by analytics in the background.

I want to give you a few examples of some of the -- I'll call them the services or applications that we're building on this rich, rich platform. So on the left what you see is the access to telemetry that we have that comes from our core products. And this is telemetry that we've been compiling and building up for many years whether it's the 100 million endpoints or the billions of data points we get from our traffic management solution or the petabytes of data that we see flow through our networking products on a regular basis.

We have an incredible visibility across users, devices, content apps and the network to understand what's going on. We've actually combined all of that into a common analytics platform and we're now building solutions on top of it that address specific problems.

The first one is how do we leverage that to make the environment more secure? Well, it turns out that user behavior analytics is -- pivots around the idea of understanding what's normal behavior for users and being able to recognize anomalies and deal with them.

And so what we have is actually built a system that not only recognizes when a user is doing something anomalous, but we actually have the points of control in the Workspace and in the network to intervene on the device. We can ask for a second factor of authentication, we can restrict access in some way, we can turn on recording so that we keep better track of what's going on. So in the context of security, we're able to deliver a much more comprehensive picture back to IT, because of the deeper understanding we have of the individuals in the organization.

Next, I'll talk about performance. I mean, this has often been a challenge for our customers to understand in a physical deployed environment, what's the performance like for an individual user. Is everyone getting the same performance? Are people legitimately complaining about something that's changed in the environment or not? And how do you arm IT with the tools that help them understand that?

Well, take that problem and multiply a tenfold by distributing the users, distributing the applications, allowing people to bring their own devices, and now try to get the same experience on top of that capability. And so we've really designed the performance analytics solution to address that incredibly wide and diverse set of infrastructure, application experience and give the IT organization a consistent and clear view of what they are actually delivering to their employees as an experience.

When you think about employee engagement and retaining your best employees, not only you have to give them great tools, they have to work. They have to work all the time. They have to work when I'm in an airport. They have to work when I'm trying to get work done from home, when I'm trying to get access to content, when I'm on the road or presenting to a customer. And so how do you understand whether or not as an IT organization your investments are actually delivering that correct set of capabilities.

And finally, I want to talk for a moment about productivity analytics, because this is the promise of taking all of this capability and insight and using it not just to drive what I would call optimization from an IT point of view, but to really drive productivity for end users and use this to feed insights to individuals that actually help them do a better job with working with the tools that are available.

We've already delivered security analytics and it's been adopted by many of our customers. We are on the cusp of delivering our performance analytics. And what you should expect to see is that productivity analytics is one of these investments that I think has a much longer tail in some ways, because we've just opened up a whole new way for thinking about how to leverage that analytics platform to deliver new capabilities to end users. And the more we engage with users inside the Workspace and the more we understand about what they're doing the more you'll see us invest in creating capability that delights users inside that Workspace.

So really on the left you'll see the capabilities that we're delivering from the analytics platform that are targeted at IT. But on the right, I think the long-term objective here is to really unlock the potential of that analytics platform to really deliver new capabilities to individual users.

How do I recommend the next best thing you work on? How do I anticipate the content that might be relevant to a project that you've been assigned to work on so that I promote that content and make it more easily accessible to you? How do we suggest things that you might want to go look at? People in the organization you might need to get in touch with? How do we begin to understand the opportunity for automation?

I met with an enterprise customer last week who told me that 98.5% of all expense reports get approved in the organization. Yet every expense report gets multi-layered, multi-level approvals that go all the way up and down through the organization.

Isn't it time that we thought about sort of reimagining how to make an approval process? Help us identify the anomalies? Not bog down with the busy work of approval? How do you separate those things and sort of modernize the way that we think about that? One of those activities like approvals can we automate and still provide the same level of governance and control and visibility to organizations.

We will understand more about how people use the framework and the applications we've built. We'll know which micro apps are the popular ones. We'll know where to invest more. We'll be able to guide IT to tell them, there's a set of activities that your users are working on that may not be as optimal as you could have them. We can guide ways to even guide the IT to help improve this overall experience.

So I think this gives you a sense of the relevance and importance of this very powerful analytics platform in the way that we are thinking about delivering not just new value to IT, but also really game-changing experiences inside the Workspace that move very much away from application launch and much more to a guided work experience platform for guided work.

Before concluding, I wanted to talk a little bit about ecosystems and our role in the ecosystems that exist in the IT landscape today. We started out by talking -- I'm hearing from Brad talk about our relationship to Microsoft. And in fact it's a very comprehensive picture of our participation in that overall Microsoft ecosystem, whether it's running our workloads on Azure, building together capabilities of Citrix Cloud integrations with Windows Virtual Desktop, our integration with OneDrive, the Office applications integrated into our Workspace experience or in fact our shared investments in device management an end-to-end comprehensive picture of our sort of relationship and engagement model with Microsoft.

It turns out though that we have other ecosystems, where that picture is just as comprehensive. And in fact with Google, we have the same relationship on Google Cloud, their G drive integration, their Google apps, and in fact that same device management posture for the devices in their environment.

If only life were simpler enough for our customers that they could choose one of these ecosystems and run their business, the reality is that most of our customers for a variety of reasons end up choosing both of those ecosystems and then having to deal with the places where they're not identical. It just not bodes through ecosystems, it turns out that there are other key ecosystems that we see in the landscape here that make this world a little more complex for users and in fact prevent them from picking a single vendor strategy that meets the needs of all of their users.

And ultimately, I think this is where the power of the investments that we're making at Citrix in our Workspace and then our underpinning networking really provide that integration platform for all of these ecosystems and applications that exist in your landscape.

Take a moment to look at this slide and look at the applications that are on this, and try to determine how many of them would have been on this slide five years ago, or how many of them will be on this slide in five years' time or will have been replaced by something else. The application landscape is one of the most dynamic inside an enterprise organization.

And having a partner that understands how to absorb new applications into the platform, deliver them in a consistent way with the existing applications you have, marry the mainframe from the 1960s to the modern SaaS applications that you've just consumed, deliver that in a consistent experience across all devices, across all your networks for all your users that really is the mission and vision of Citrix and the Citrix Workspace.

So when I think about bringing together all of our technologies clearly the Workspace is the prominent user experience that everybody sees. And that really is the embodiment of the strategy of the company. It is underpinned in a very critical way by our investments in networking that really help provide the security, the performance, the visibility in fact the confidence that IT needs to deliver that great Workspace experience.

And then the insight that we get from analytics drives not only the IT experience to evolve and deliver that in a better way, but over time it will also drive the user experience inside the Workspace leveraging our visibility and understanding of the vast set of information and data that we have in our customer deployments.

So with that, I want to thank you and I would like to invite to stage our Chief Operating Officer, Mark Schmitz.

Mark Schmitz

Thank you. So good almost afternoon everybody. I'd just like to give you a little bit of context for the role that I'm playing. As David mentioned, I've been with Citrix now for about three years and in this extended capacity for just a couple of months. I think there's a few items around my background that makes this fairly relevant to what it is that we're doing as a company in order to build on what PJ and David have already gone through.

So I've started in the early 2000s with Ariba, and I was fortunate to go through several of the transformations that helped build that company into what it ultimately became. The first was around extending from a single product into a suite of applications and the solutions for our customers to consume. The second obviously had to do with the movement of those from an on-premise business in a perpetual model into the subscription business that ultimately led to the acquisition of Ariba by SAP.

In SAP, I had a good fortune of also spending a little bit of time helping drive the operation for building the subscription business into what was a very healthy and long-standing perpetual business. So, helping SAP through that motion of expanding their customers who are very heavily perpetual and maintenance-based into consuming and driving subscription services.

So today I want to talk a lot about that. How we're actually transforming the Citrix business to help our customers realize the value that PJ just described. What are we doing internally to help build the cadence in operational performance to ensure that we're ready for our customers to move to the cloud.

So, I'll talk about a few of our key internal focus areas, the opportunity for our customer base. I think David mentioned we have an extremely loyal and powerful customer base. We need to extend that customer base to bring them into these new capabilities, so they can obviously grow with us as we expand.

I want to talk a little bit about the benefits that our customers are receiving as well as the expansion opportunity for us as a business. So, to focus a little bit on what it is that we're focused on as a company; number one is our go-to-market. This transformation started back in 2017 and we stand now today with internal processes and the salesforce that has been enabled, trained, and understands what it is we need to do to deliver subscription to our customers. Now, the salesforce is only one element of our go-to-market motion.

The second is around our channel. Our channel has also had to grow from their previous reseller type relationships in one of our ecosystems such that our channel partners are not only helping us position these solutions with our customers, but also helping our customers extend those capabilities and continue to drive them forward.

So, we spent a lot of time making sure that both the channel and our salesforce are working together. And as we focus on what's next for the channel, there's really two strategic areas in 2020 that we want to make sure is firing on all cylinders. The first is with our systems integrators. The SIs have a tremendous opportunity through this platform of digital transformation to work with our customers to take their applications, to take their infrastructure, and begin to move and migrate it to the Citrix Cloud.

Once that's done the work is not over. They have a tremendous opportunity to continue to grow all that application landscape and move those to the cloud while using Citrix as the front-end to really simplify the experience for those customers.

Our platinum providers as well our platinum partners are specialists in Citrix. They have long-standing relationships with our customer base and we believe they'll be able to make a significant improvement in helping us take what has not traditionally been our focus to-date, which is the installed base migration to the cloud.

We've really been focused on selling new licenses to our existing customers and new customers as well but really helping pull that installed base over into the Citrix Cloud and subscription world.

The next is around customer success. As we move forward in our subscription transformation, we know that customers are no longer making one-time buys and going off on other devices to run. We're playing an integral part in actually running and executing those platforms on their behalf.

In order for us to form a more strategic relationship with those customers, which is actually very important to a motion around expanding as that customer grows, we do invest in resources that are helping customers understand the change from just virtualization that they've been doing for a long time to many of these expanded services that I think David and PJ have both touched on.

So, we're making a significant investment to really get in front of our customers, understand what they're doing, understand the value that they need to do in order to get the employees engaged, to get the solutions adopted, and continue to grow their Citrix footprint.

And then lastly a key area of our focus is around pricing. We want to make sure that we're selling customers what it is they need and leaving on the table room for incremental expansion. We want to sell them a platform we want them to use and adopt that platform and as we see additional use cases that can help that customer grow, we want to make sure we're selling them that incremental capability as an add-on service such that their overall footprint can begin to grow quarter-after-quarter-after-quarter.

Moving on, I want to talk a little bit about what David mentioned earlier which is our installed base. As you can see from this Slide, we really are very diverse in terms of where our customers sit. This has a couple of pretty positive advantages. The first to really isolate some of the risk in any of these sectors having an interesting economic event. It allows us to really broad and be quite diverse in terms of the use cases that we see with our customers who are driving this technology into execution.

Our teams are able to look at each one of the customers that operate in these different sectors and actually build on those use cases and through that customer success vehicle really go out and help customers adopt new use cases. When customers adopt new use cases, we see seat expansion because we know that we can touch incremental users within the installed base.

If you look at another view of our customer base, we can see that seat penetration is averaging about 30%. That's a tremendous opportunity for us to go into our customers who are already getting lots of benefits primarily from our virtualization services and extending well beyond virtualization. So our virtualization is excellent because it continues to grow. It's a growing market.

Citrix has the ability and we're actually growing beyond what the market is doing today. We have the ability to add these incremental services onto that virtualization base and continue to grow those seats. Now in areas where we're even more heavily penetrated areas like health care, we still have plenty of opportunities. So at 50% penetration we can still do lots of things.

And a customer example here that I was involved in just a quarter ago was Springfield Clinics. They have been using electronic medical records to virtualize those and their physicians were using them. They had a CIO move out and their CIO -- or their CEO was looking to create a digital platform transformation and they relied on Citrix to do it.

So not only did we expand the Workspace, give the customer much more capability than they had prior we're actually able to extend that to every single employee within Springfield Clinics and go wall-to-wall, bringing the capabilities of Workspace for even those users that didn't necessarily rely on virtualization.

In terms of increasing our average transaction size, these seat expansion cases are doing exactly that. So as we go into customers and sell the power of the workspace, we're seeing those customers actually expand the users that are now leveraging the Citrix platform. This is driving a 20% increase in average deal size from what we've seen over 2016.

Workspace is helping drive this expansion and the added products around analytics, files mobility provides easy growth opportunities for us on top of the growth platform. Traditional users also are gaining significant benefits. Those users who may have been using virtualized apps or desktops are constantly beginning incremental capability from the product organization that is increasing the value of the applications that they're using. And this has afforded us not only the opportunity to increase the average transaction size, but also in our largest transactions we've seen 30% growth in million-dollar transactions.

Now the chart that you're looking at now is actually done in average contracts, our average annual contract dollars meaning that we're selling three and five-year transactions and as Arlen will explain a little bit later this is having a significant positive benefit in our unbilled bookings that you see -- that you don't necessarily only focus on when you look at our total growth.

Now customers wouldn't be doing all these things if there wasn't significant value in it for them. And it's not the value that we just market or that we just show on slides customers actually have to realize this. And if you look at the move from on-premise into the cloud we're delivering on the first thing which is to lower the total cost of running their Citrix environment. So by moving from an on-premise environment into the cloud we're seeing over 70% reduction in cost.

The employee experience we've heard so much about today those employees that are actually making choices on where they're going to work were seeing an 88% improvement in their engagement driving productivity even higher. And I think David mentioned that there's over 500 applications that many of our customers are actually using and have variable to their customers and roughly 34 of those applications are being touched by any individual user. There's a significant loss of time in figuring out which application use and when.

The Workspace is helping deliver those applications to the employee at the right time helping increase the overall productivity and obviously driving a significant positive return for those customers who are moving to Citrix Cloud.

But I'd like to just share one customer story here from EBSCO that may put this into a little bit more context.

Video Presentation

Mark Schmitz

Sort of the really interesting things about this particular customer story, as they share something that may if our customers we know are going through. That is a very complex mobile hybrid cloud universe, by which they’re using multiple cloud providers -- sorry, I won’t turn off – maybe even multiple cloud providers to actually run and digitize their business, but they're using Citrix now to place that in front of them.

And what I'd like to show now is really the bookings profile from this customer. So, they've been a long-time customer, a very good and loyal customer. You can see that they made consistent purchases over the last 10 years. Workspace helped us engage with this customer on a more strategic level. This allowed us to make a massive transaction that will actually partner with EBSCO to help them over the course of their future.

And this one-time transaction doesn't necessarily mean this is the end of their subscription growth. They have not bought everything. So if we go back into seat penetration, we have the opportunity to continue to grow. They mentioned that they were a conglomerate of over 40 companies as they acquire additional companies, it allows us to go sell those incremental users.

At the same time, we've simplified their ability to deliver applications to everyone of these companies by using Citrix Workspace. Now this is a bookings chart, but the most important thing to also understand here is that we've doubled the revenue on an annualized basis that this customer will deliver us -- to us versus the business as usual when they're merely buying as a tactical provider. And this expansion motion is really at the key to our subscription business.

You can see there's a little bit of curvature to the blue line, which represents new landed accounts. This is primarily driven by our seasonality. But, on the green line, which represents the expansion, you'll see that it begins to be very smooth up into the right. But this is because as we land a customer account and we're able to display and deploy the capabilities, there's very rapid adoption of the solution.

As the solution is adopted, we continue to see customers expand on an as-needed basis, not necessarily driven by the original seasonality. And this expansion is a true indicator of the health of our customers that are actually driving within our Citrix Cloud. And expansion is also driving multi-product solutions.

So as we go out and drive into our customers -- again, they don't necessarily own all of our 12 services that are in our cloud. If they're a customer who is only a virtualization customer, we're able to carve out the capabilities that they need and sell those incremental capabilities to their users through the Citrix Cloud platform. This is really leading the way to allow us to go into a multi-product solution for each one of those customers.

A great example here is Safelite. Safelite is a company that actually fixes broken windshields in automobiles. They have a tremendously large call center, whereby people call in to get their windshields replaced they then deploy a car out to the actual site so they can fix your windshield on site.

Prior to Citrix, the call center did in fact run on Citrix. But with Workspace, we're able to create the mobile experience for those vehicles that have then gone out and done the work to replace the windshield and bring everyone together into a single environment.

We then extended actually further with Safelite back into their insurance transaction processing group, which allowed them to then take the windshield that had been replaced and go further and extend the benefits to their insurance company.

So, to further expand on this let's look at one more customer example that shows what a deep relationship can do for us to expand that solution end-user community.

Video Presentation

So, I think this story represents a couple of really great use cases that put Citrix Workspace at the forefront of what we're capable of delivering. They talked about mergers and acquisitions and using Citrix really as the front-end to simplify the end-user experience for either company that is part of Worldpay, such that the end-user's experience is relatively simple while the back-end IT organization maybe relatively complicated as they figure out how to merge and integrate those systems together.

The second is this story really articulates how there's significant value beyond just virtualization and that the Workspace itself engages the employees and gives them a significant benefit when they come to work each day. They're truly using this to transform the way that they operate and ensure that their user experience is successful.

Now similar to EBSCO, you'll notice that the bookings opportunity for this customer was relatively flat over the first three years of our experience. Upon delivering the Workspace solution to them, we were able to sell them a much larger commitment over a three-year period. And again, in this particular case, we've driven the recognized revenue on an annualized basis well over 200% from where it was in the prior year. And these cases really show a very strong ongoing relationship with our customer and that's leading us to improve renewal rates as a company overall. So, we've spent a lot of time making sure that with our customers that are going to stay on-premise, that we're providing them significant value. So, we've done a couple of things. We've not only provided increased services with our standard support, but we're also building premium support options that range between 10% and 25% more on an annualized basis to give customers the same hands-on strategic relationship and experience that we're providing for our cloud customers. And over time, we'll begin to see the installed base reduce.

As we accelerate our transition motion which has not necessarily been the primary motion for our sales force and we actually go target existing customers, begin to move them to our Citrix Cloud, we should see an acceleration that will decrease the number of total users in the on-premises world, but obviously increase in our cloud environments. As we do that, I need to double down on what we're doing from a customer success perspective.

I mentioned this earlier that the key is actually enabling our customers to move to the cloud. Once they do that, we are spending a significant amount of time with those customers to ensure that they actively adopt the solution.

Active adoption means that we not only secure that customer for the long-term, but we also see a significant opportunity to continue to sell them incremental value-based services and expand the overall seat licenses that they're using, such that from a renewal perspective, we actually end up not in a transaction event at the end of their contract, but instead in a discussion about how they will accelerate and expand their current user community.

So with that, I'd like to invite Arlen Shenkman, our CFO to come finish the story.

Arlen Shenkman

Thank you. For those of you, who I haven't met, I'm Arlen Shenkman. I was with SAP for 15 years. I spent time as the CFO of North America as well as running corporate development and global partnerships. I was responsible for driving the inorganic parts of SAP's cloud transition, which included ensuring we had the right partnerships, relationships and investments in place to scale the business.

When I was the CFO of North America, we were able to double our cloud revenue to over $2 billion. I'm excited to be joining Citrix at this stage in its journey to the cloud. As you heard from us today we're focused on execution. We have work to do and like any transition to the cloud, there are always going to be periods that are marked by changes to our business model and changes to our financial performance. But that said, as many of you know, what emerges from the other side is often a faster-growing and ultimately more profitable company and one that adds significantly more value in its sustainable business.

So why don't we flip to the third quarter? As you know, we released our numbers this morning. The headline numbers were strong relative to our guidance and consensus for revenue margins and earnings both subscription and SaaS revenue accelerated to 43% year-over-year growth. And importantly, we continue to see strong growth in our ARR with subscription up 40% and SaaS up 52%. We believe ARR is a key metric for measuring our transition and I'll talk about this more as we go. We did see a slight tick downward in our total subscription mix for product. This is entirely attributable to the improvement in our SSP business. Overall, we're pleased with our third quarter results.

I want to remind you that, Citrix has come a long way. The business has been executing on a significant transition for the past three years. Our mix of subscription as a percentage of total product bookings is 58% this year, which is more than four times, where we were three years ago. Workspace is shifting even faster hitting a 75% mix in the third quarter. Subscription is now more than 20% of our total revenue and we're seeing significant growth in ARR as I mentioned.

As a result of the changes in the business model over the last three years, we're at a point where we see 2020 as a year in which we accelerate our revenue growth, and hit an inflection point in our business transition. As we progress through the subscription transition, we know it's important to show you where we see the arc of the transition and how this transition will impact our financials.

I want to highlight to you where we are today and where you can expect us to continue going. We expect 2019 to be the bottom for our year-over-year revenue growth. We expect revenue growth to accelerate in the second half of 2020. We expect 2020 to be the bottom in terms of operating margins with margins beginning to accelerate in 2021 and really hitting stride in 2022.

The key driver for our operating margin guidance is the impact of gross margins as we scale our SaaS business and I'll drill into this in a moment. We have ranges here for 2022 through 2024, and we'll finalize our 2020 guidance with our 2019 year end results in January.

Looking ahead, we expect to phase out new perpetual licensing for Workspace over the course of 2020 while providing customers that need on-premise licenses, a term subscription license. Overall, as you can see, our subscription acceleration will increase the long-term intrinsic value of the business by driving growth on the top line with operating leverage and scale falling to the bottom.

Let's turn to gross margins. Gross margins are a significant lever in the model and the main driver of our 2020 operating margins. We thought it would be helpful for you to get a better sense as to how we're thinking about this, particularly since we have a couple of dynamics that affect our gross margins.

First, we had an increasing mix of SaaS, which is a headwind to gross margins. However, as we continue to scale, we see those margins beginning to pick up. On the other hand, the networking business, our pooled subscription offering is sold with an appliance, making networking margins relatively constant over time. Longer term, we believe we have an opportunity to improve our gross margins as we scale the overall business.

As you saw in the earlier video with Microsoft, our relevance in enterprises continues as the IT landscape becomes ever more complex. Citrix remains the undisputed market leader in virtualization, which is a growing market. Our heritage in virtualization is yielding an enviable footprint across a wide array of large enterprises.

There is no doubt that this diversified footprint is a core reason behind the resilience of the business across economic cycles. This also provides us with an incredible opportunity to expand within our customer base as we layer in new features and functionality. Citrix has a solid foundation to increase our footprint with our existing customer base.

Workspace will continue to be a stable driver of growth for Citrix. With the third quarter reported workplace revenue, we are confident that mid to high-single-digit growth is the right way to think about annual Workspace growth with acceleration in the outer years.

As you saw from our third quarter, new product bookings in the Workspace grew double-digits and Workspace is now 75% subscription for new bookings. Citrix is uniquely positioned to tap into the potential of our customer base while also solving significant productivity and security pain points for our customers.

As our Workspace becomes more of a platform, it will be easier for us to layer over incremental revenue streams for customers segmenting users with technologies like VDI, Desktop-as-a-Service, Analytics and more.

Over the course -- of course, the Workspace is a major driver for our subscription growth and will continue to represent a significant part of our journey to the cloud. Yet, our overall transition to the cloud is accelerating as measured by SaaS bookings revenue and paid subscribers.

It's worth noting that there are considerable differences in the rate and pace of the migration of our Workspace business relative to our Networking business. While both businesses are transitioning, Workspace subscription bookings were 75% of total Workspace product bookings whereas network subscription bookings were 29% of total network product bookings this quarter.

We expect to exit this year with 60% to 65% of new product bookings from subscriptions. And with the Workspace already at 75% and increasing, we expect the headwinds to revenue growth to lessen over the next year.

Our subscription revenue continues to grow. We ended last year at $455 million of subscription revenue. The growth -- this growth represents a three-year compound average rate of 33% and the SaaS portion of our subscription revenue continues to grow, ending last year at 60% of overall subscription revenue.

The primary driver of our subscription revenue growth has been the consistent strength we've seen in our SaaS. Q3 subscription revenues grew 43%, year-over-year. SaaS revenue as of the end of the third quarter represented 63% of our subscription revenue. Let me drill down a little deeper into our SaaS revenue growth.

To date, SaaS growth has been largely driven by selling new seats, to new customers as well as selling new seats, to existing customers. In other words, our SaaS growth has not been driven by the migration of existing customers.

The other point worth noting is that, we're seeing very strong growth from our SaaS Workspace. The Workspace is growing considerably faster than our overall SaaS revenue, which includes the more modestly growing content collaboration offering.

We expect the concentration of Workspace in SaaS to continue to increase. In 2017, the Workspace represented less than 20% of our total SaaS revenue. Today, exiting Q3 that number has climbed to over 50%. And is by far the fastest-growing portion of our portfolio.

I want to spend a few minutes discussing the economics of our subscription transition. It's important to note, that we are really going through two transitions, one in the Workspace business, and the other in networking.

We are driving our business transactions and our long-range plan to these assumptions, on pricing economics for new subscription deals. Let's look first at the pricing economics of a new Workspace deal.

For Workspace we believe, on average our breakeven point for a subscription transaction versus a perpetual transaction will be 2.7 years. On the networking side the economics are different for a new customer.

Here it's gone to 3.5 years into the subscription transaction we hit the breakeven point versus the perpetual transaction. The key is, in both scenarios we exit with substantially higher revenue.

Let's shift from the business economics of the subscription model, to how this transaction is impacting our financial statements. Let's compare a three-year perpetual transaction with a three-year SaaS transaction and see how they impact our income statement, balance sheet and cash flow.

Let's start with the cash flow impact, which is reflected by the blue bars. In the perpetual license model, Citrix has historically billed upfront for the entire value of the contract versus a SaaS transaction, which is billed annually over the life of the transaction.

Now moving to the balance sheet, short-term and long-term deferred are represented on the orange and red bars, in the perpetual model. It's important to point out, that in the SaaS model, unbilled or pink bars are created, and these represent the value of the booking that has not been billed.

Note, that no long-term deferred or red bar is created in the SaaS transaction. Finally, from a revenue recognition perspective, the green bars are very different in the model. As you see the short-term deferred rolls, off the balance sheet as revenue is recognized. As the examples show, the impact of our bookings, coming from subscription will cause total deferred, to continue to decelerate, and unbilled subscription to grow.

So now that we've seen the economics and an example of, how the model impacts our financial statements. How should you think about measuring our business? One metric we've talked about is future committed revenue.

It's important to understand that in perpetual deals, we were almost always successful in billing upfront for the entire value of the contract including initial maintenance, which could be purchased for up to five years at the time of the initial transaction.

We benefited on the face of our financial statements from the short-term and the long-term deferred revenue, reflected in the upfront billings of these contracts. Today we are generally writing three-year SaaS contracts, billed annually which are not shown on our balance sheet.

While it is useful to look at future committed revenue, it's important to note, this is impacted by contract duration. This is why we believe ARR, is a more accurate measure, of the success of our transition.

The bookings mix shift. And the deferred revenue recognition means subscription revenue is expected to cross 30% of total revenue next year. We expect more than half of our revenue to be subscription by 2022, and this will approach 75% of total revenue in 2024.

We expect our product bookings after 2024 to be subscription. As we progress through this transition, we know, it's important to help you by anchoring around an important metric, like free cash flow per share.

Let's start with an important takeaway here. What we're reconfirming our commitment to achieve $10 per share of free cash flow in 2022. We wanted to share with you the correlation we expect to see between the mix of subscription revenue and free cash flow per share.

We believe the accelerated transition to subscription, jump-started by the phasing out of new perpetual licensing over the course of 2020 will allow us to achieve our 2022 targets.

We will exit the transition with stronger revenue and free cash flow generation. We believe ARR is perhaps the most single most useful metric to measure our performance in any given period. It normalizes for duration and is forward-looking.

I want to point out that not everyone defines ARR in the same way. Our definition of ARR is a bottom-up metric, built from actual customer contract data which we believe is a great forward-looking metric.

ARR captures how well we sold new subscriptions as well as how successful we were in renewing existing subscriptions, while removing the impact of duration and accounting and the impact of other accounting measures.

There are three components of subscription ARR which are consistent with the components of our subscription revenue, SaaS, subscription term licenses, and transaction-related activity, or what we refer to as Citrix service providers.

As you can see, we are seeing very consistent, robust growth in subscription ARR. And our growth is faster, when you look at SaaS ARR. We believe, ARR is the most important metric in measuring our success, in this business model transition.

We want to give you a view as to how we see the business evolving, over the next several years through the course of the subscription transition, and how we envision the business post transition.

Subscription revenue, the phasing out of new perpetual Workspace licenses in 2020 will drive an acceleration of our subscription mix -- of our subscription revenue as a percentage of total revenue.

We see this as a 50% to 60% mix in 2022, and 65% to 75% in 2024, exceeding 90% post transaction. We also see subscription bookings, being in the 85% to 90% range after 2022.

In revenue growth we expect to see an improvement in our revenue growth from the bottom we hit this year. So a moderate increase next year of 3% to 4% accelerating to north of 10% per year, after 2024.

On operating margin, we expect 2020 to represent the low point of our margin profile with our long-term margin acceleration between 34% and 35% after 2024. As you can see, we expect what emerges on the other side to be a more predictable, faster-growing, and ultimately a more valuable and sustainable business for us.

We remain vigilant in focusing on deploying capital to drive long-term sustainable value for our shareholders. We think of capital allocation in three primary categories. Our dividend, returning capital with a target of 75% of free cash flow in the form of share repurchases.

Historically we've done this in the form of regular programmatic purchases as well as accelerated share repurchases from time to time, and M&A when it adds value to both our business and our portfolio. And as you will see, this has resulted in significant capital being returned to our shareholders.

We have returned more than $5.5 billion of capital to our shareholders over the last five years. And will continue to do so. We remain committed to returning capital to our shareholders. Our capital return programs have resulted in a significant decline in our shares outstanding.

And as you saw in the third quarter with our announcement, our board has increased our share buyback authorization to $1 billion. So in summary, we want to leave you here with three key takeaways.

The first is that 2019, was a revenue low point. And in 2020, we expect to hit an inflection point. And our revenue growth will accelerate. ARR and subscription mix, are the key metrics we will use, to measure our success.

And are the best indicators of where we are in our business model transition. We remain committed to $10 of free cash flow per share in 2022. And we will continue to be committed to returning capital to our shareholders.

Thank you for your time. Let's take a break. Grab lunch. And we can answer some questions.

Break

Mark Schmitz

Yes. And start -- open Q&A here. Just -- we'll kind of make it interactive and there'll be handheld microphones that are moving around for anyone who has questions just raise your hand, we'll bring a microphone to you. We're going to do the mic just because we've got -- we're webcasting as well and we want to make sure that everybody online can hear the question at the same time. And I think it looks like we have about 30 to 45 minutes. So with that why don't we just jump right in. Sorry.

Question-and-Answer Session

Q - Unidentified Analyst

Thank you for hosting us today. It was a really excellent presentation, a lot of detail and we really appreciate that. I had two questions on the same topic which is, sort of, long-term growth how to assess it and how to think about it over time? In terms of just assessing the growth of the business, I understand subscription ARR does all the right normalizations. I understand that. But it seems like a big part of the story is actually moving the maintenance base to subscription over time. And so I was wondering if we shouldn't have a view of what that maintenance base ARR looks like today and how that might influence the overall growth rate? If you put those two pieces together what does that growth rate look like? That's the first question.

And then on the second piece if I look at the, sort of, long-term guidance and I look at the impact of the subscription bookings made the last two quarters, it suggests that you guys are growing in the high single-digits today and that it's going to continue for a prolonged period of time which is great sustained growth. What are the drivers that are going to allow you to sustain it because you're a $3 billion business? So sustaining growth at this scale is typically not many companies can do that. So is it pricing? Is it seat expansion? Is it the analytics story? What's going to give you that sustained growth over time? Those are my two questions. Thank you very much.

Mark Schmitz

Sure. Let me take the second question first, if my microphone's on. So if we think about the overall growth rate of the business you just take a big step back and look at the underlying markets that we're operating in. I mean, the largest one and of course the largest installed base is around virtualization. And that market is growing in the mid-to high single-digit range. And so the opportunity continues to expand.

And then I would point you back to those -- that slide that I had at the very beginning of my section where I just called out the fact that our customer base is expanding. We're addressing net new opportunities outside of our core markets that allow us to tap into new sources of budget revenue, et cetera. We're adding new customers. And then as we migrate folks to Citrix cloud on the new customer side you looked at Arlen's slides about how that customer lifetime value accretes over a multiyear period of time.

And then on the installed base piece, I mean, we didn't talk too much about that today, but that's because we've been intentionally focused on net new versus installed base migration. That will start to pick-up. It's been accelerating in the last couple of quarters and it will pick-up going forward.

The uplift that we see from what a customer is paying today versus where they're going. We've actually been yielding well over our target in the first few quarters. We're not talking about that as much simply because of the scale. And over time we do expect that that uplift will come closer to our 30% uplift targets, but there's a huge opportunity there.

And so as of today we're well below this 10% threshold of what would have been the installed base a couple of years ago that has migrated. I don't think we're going to break out an additional ARR metric. I think the broader subscription and subset SaaS really brings that all together. But overall, the categories we're participating in are continuing to grow in that mid to high singles. And so if I even step back and look at net new product bookings year-to-date across the Workspace and Networking in particular they're growing double digits and that's the best indicator.

And the first part of your question I'm sorry, did I answer that as well?

Unidentified Analyst

You did.

Mark Schmitz

Okay.

Mohit Gogia

Thanks for the presentation guys. It's really a lot you gave there. I so appreciate all the color. Mohit Gogia from Barclays. My question is for David and also PJ, if you can chime in. So initially, I think, you guys discussed that seat penetration, increasing that level of penetration is sort of like a core growth vector in the coming years obviously.

And I was wondering if -- and the platforms are moving from a solution -- set to a platform or other point product set or platform set is sort of like going to allow you to increase that seat penetration. But I'm just wondering many other vendors your competitors, obviously, and many other vendors we cover talk about that platform sell motion, right? So what makes you confident from a customer conversation and from your sort of, like the access -- the data access you have right now with the solutions. What makes you confident that Citrix is uniquely positioned to be able to provide that platform set?

David Henshall

Yes, let me start there and then PJ can add on. The -- a couple of things make us confident. We've been talking about platform it's not a new strategy. It's how we've described the business over the last couple of years. And really what that is thinking about virtualization as a component part of the ability to address the needs and users -- the needs of all users across the enterprise. So it's more about this general purpose and special purpose is the terminology you probably heard us use over the last few years.

What gives us confidence is that for 30 years now customers have entrusted us to deliver their most mission-critical applications. Those applications of all designs. And within that -- those things are relatively transient. I mean when you hear people use a platform today, most of those are frankly applications. And you look at the most prevalent, most popular apps from five years ago half of those we don't even use anymore.

And so they -- our point of view is that we need to provide that level of infrastructure where those can come and go over time. We've got 100 million people right now plus or minus that are using Citrix infrastructure today to be able to connect them from their enterprises and people and do it in a secure managed way.

That's -- and in many ways, that's almost a Trojan Horse that allows us to reduce the level of friction to be able to introduce new technologies to that base but also making it easier for them to consume those at the same time. PJ?

PJ Hough

Yes, let me just build on that. So I do think that thinking of our existing installed base and the virtualization footprint as a beachhead from which to build out the new set of capabilities is actually critical to us. And it's not just in terms of deployed technology. I think it's also about our understanding of that market, understanding of applications, understanding of that delivery. And what it really takes to succeed on the dimensions that we talked about, which are actually quite diverse and continuing to expand whether it's networks devices, platforms users, et cetera. So I think that's kind of key.

And then I think the second part is we've taken a very specific and I would say unique perspective with regard to focusing on making the individual successful inside the organization. So we're not really building a collaboration platform. We're not building something that is a shared experience for everybody. We really are trying to develop a point of view that says, having a tailored experience for the individual is the thing that's going to be a differentiated point of view over time.

And that requires you to have a lot of insight about what makes my role in the organization different or special or how I behave relative to other users. And this is where you're correct. Analytics is actually kind of key. We don't think of this as an orchestrated experience built by IT for the users. We think it's a curated experience that they initiate but then that that evolves over time based on my usage of the system just like all of the sort of modern platforms that we use today in our personal lives.

So I think it's a combination of I think leveraging the expertise and footprint we have with virtualization as a starting point but then having made a set of deep investments, particularly around analytics and insight that I think really drives us in a very different direction to some of the other players in the market.

Kirk Materne

Hi. Kirk Materne, Evercore. Thanks for the presentation today. I really enjoyed the platform overview. I think that's really helpful in terms of where your vision is going. I was just kind of curious maybe David and Mark could take this.

Just in terms of getting to that vision with customers and the go-to-market routes you have to have with them I think are very different than where you were five, 10 years ago, meaning this is a much more strategic discussion. It's maybe with the business owner not just the IT part of the business.

Where are you in that transition? Is the partner side of the equation set up yet, meaning are the Deloittes, the Accentures is going to make you all, the platform that helps customers stitch all this together?

And then maybe just one last one for Arlen, just on the return of capital to shareholders. Maybe what's the thought process on not taking the dividend up just to create a little bit maybe a broader investor base that would come in and look at Citrix not only as a growth vehicle but also maybe as an income vehicle? Just maybe the thought process on that, so two questions. Thanks.

David Henshall

I can talk to the go to market. So we started on this journey two years ago, when we started talking to you about getting to the C level executive, having a more strategic relationship and we have been transitioning the organization not only from a capacity standpoint but from a skill standpoint.

And so we've been on this journey for a while because we've known where we're going. Certain geographies aren't where we want them to be like maybe Indonesia is not -- with 200 million users is not where we want it to be. But our major geographies like Japan, Australia, the U.K. those have clearly started to make that transition. And our sales force has complemented that, right?

With that said, our partner organization, we've also been working on. And again that is somewhat of a journey but our partner organization, particularly our best partners have come along with us in a very rapid pace. And we are going to invest significantly on the systems integrator side because building micro apps around a platform is hugely valuable to them and to us and to our customers. So we're on that journey. But like you said, it doesn't happen overnight, right? So Arlen?

Arlen Shenkman

I'm not sure -- we thought a ton about dividend in terms of our long-range plan and planning for years. So I mean, certainly open to a conversation if you want to think about it. Honestly, I mean obviously, you -- it's apparent once you have a dividend its forever. And so there's a little flexibility financially.

But frankly in terms of this presentation, and how we're laying out, where we're taking the business, we didn't spend a lot of time thinking about the dividend.

David Henshall

Maybe I'll add, maybe one comment on the system integrators and on platform.

Kirk Materne

Okay.

Arlen Shenkman

Because I think it's important. I think one of the things that we realized when we began exploring this space with customers was the pace at which they would want to go, to build solutions on the workspace, was going to outpace what we could do, if we decided to build all of the integrations ourselves.

And so that's really the point at which we've basically flipped to thinking more about building as a platform, opening it up, and frankly creating market opportunity for industry specialists, and geographic specialists, to go deliver complete Workspace solutions, into corners of the market that frankly we couldn't reach any time soon.

So really that's a key part of our strategy is not just building that platform, but engaging with that community. The developer conference that we had, we had 100 attendees.

And it was one-third corporate IT developers, so who we want to ensure are capable of building solutions inside their own organizations, one-third ISVs who build solutions that are commercial, that we wanted them to build their solution on the Workspace platform, and integrate with us, and one-third global system integrators.

So very much a target for our platform, and I think one of the accelerants for growth, and taking this into some of the broader deployments.

David Henshall

In the back.

Karl Keirstead

Hi. Karl Keirstead with Deutsche Bank way in the back, maybe this question is for Arlen. Arlen your stock increasingly trades on cash flow. And so, I'm sensitive to your outlook on that metric.

And I'm frankly surprised by the acceleration you're modeling in free cash flow to $7 to $8 a share in 2020. That's way above what I was thinking.

And my base assumption at least was that, the weight of this transition would much like it is on margins carry through and weigh on cash flow next year, but that doesn't seem to be the case.

And you're suggesting that this year's a trough on free cash flow. And we get a fairly market acceleration next year. So do you mind just unpacking that a little bit? And what gives you that confidence? Thanks.

Arlen Shenkman

Yes. So I think look there's a reason there's a range in there. And there are a lot of moving parts around the transition, right? So we still have a subscription license. We have a SaaS license. We have customers who are continuing to come off of the Network business.

So there's a lot of moving parts in there. So I mean, I think, that that's one piece of it. We remain confident that as we go through the transition, those parts will continue to add value.

And then as we accelerate into that subscription transition, the cash will become much more significant. So in the short-term, I think, there's a range in there because of that. And in the long-term we feel confident we can get to the target of $10 in 2022 because of the ultimate transition.

And this year there's a little more room in that kind of swim lane. But we remain confident we can get there.

David Henshall

Okay. Karl, let me just address that specifically. And so one of the things that Arlen talked about in his presentation was, we ripped the band-aid off about three months ago to really drive a more rapid transition of -- especially the Workspace business.

And you saw that coming out of this quarter, at 75% of the mix. And we've been trying to thread the needle for far too long on that. And really holding back the pace of the transition and we are actively going to migrate that to 100% of that business, plus or minus next year.

So accelerating the transition allows us to get through that trough much, much faster. And the amount of cash that is effectively coming into the P&L, versus being deployed, hits that equilibrium point and starts to drive the acceleration going forward with the acceleration of revenue growth et cetera.

Karl Keirstead

Got it, thanks a lot.

Ittai Kidron

Hi, over here. Ittai Kidron from Oppenheimer again, thanks for the presentation. It was very helpful a lot of details. Clearly you've made great progress in -- on Workspace kind of driving that through SaaS.

And it's clearly, translating and having a big impact -- positive impact now finally on your numbers. My question is on the Networking side of the equation where you're far earlier in your transition there.

Help me compare and contrast, how I should think about the Networking transition going forward versus Workspace. Where are you in the portfolio and getting that transition accelerated from this point going forward?

That's going to have to carry a little bit more of the mix change going forward. And is there also sort of like a hard break-off that could happen over there in the same way that you intend to terminate perpetual licensing on the Workspace, could that happen on the Networking side as well?

David Henshall

Well PJ why don't you talk about -- remind everybody where we are from a product standpoint. And I'll come back and talk about the licensing side.

PJ Hough

So I think you're correct that we're -- it's not just we're earlier, I'd say the market is earlier in the transition to basically that software-defined cloud-based networking for enterprise customers. I think you really have to think about what's been happening with cloud in sort of two camps.

One is either net new applications that have gotten built on cloud platforms or new entrants into the cloud platform market. But for existing enterprise customers and their largest state of applications, that is a much earlier stage with regards to figuring out how to migrate. And frankly, that's the one where we participate the most, because it is really customers trying to protect the deep investments they've had in the delivery of those applications as they bring them into the cloud.

So from a road map perspective, I would say, we're well on our way to delivering the capabilities. And we actually have customers who, in Q3, were further down my waterfall model, basically cloud native networking customers who have bet exclusively on our Citrix networking solution. But they are, I would say, leading indicators of that transition, it is much earlier in stage. And so, that's I think where we are from a product point of view.

The part I feel good about is, given that we have strong software assets that are highly deployable across all the form factors you need, whether its appliance, or it's a container, or it's a virtual instance, or in fact bare metal, which we are now doing with some of the cloud platform partners. We believe that we can deploy the type of networking you need as you -- as the customers get there. They're just not there yet. And I think that's partly where we are.

I'll make one comment before I turn it over to David on the licensing, just my perspective, which is, given that there's a hardware component, I think it's going to be -- the transition to full subscription is going to have a different pace based on that. And that hardware business, as we talked about in a hybrid world, actually has some endurance. So that's still something we have to keep in mind.

David Henshall

Yes. I was going to reiterate that point as well. I mean, it's -- the underlying market is going to change at a much different rate and pace. So if you look at our disclosures, we've moved about 30% of new bookings towards subscription where we were roughly 10% or so a year ago. So it's moved up pretty quickly.

I think net new product bookings last quarter, for example, grew mid-single digits, somewhere in that range, which is probably in line with the overall market growth for that part of networking. But over time it's going to look more and more like software and subscription. And so, that is our expectation.

So how quickly we can get it above 50% is still a bit of an open question. That's one that is -- it's harder for us to force, just given the hardware components and other things. And one of the reasons why we continue to pivot those businesses a little bit away from being an ADC solution much more towards Workspace security Workspace delivery and optimization across really where people are going, versus just changing the architecture of where they've been. So that's probably the way I would infer that out.

PJ Hough

And we put the commercials in place to make that very attractive for our customers, right, so --

Mark Moerdler

Mark Moerdler, Bernstein Research. I want to thank you very much for giving all the data. That was a difficult process, explaining, building out all the data and everything else. And I think there's a lot here that can help people really understand what's happening in the transition and the fact that you're ripping the band-aid off on the process.

Two questions if you don't mind. The first is, Arlen, I would agree with you that ARR is the key metric people need to look at. One of the questions we do get from clients is the question relating to deferred and the other metrics that people have historically looked. And that when you have an Adobe style move from license-only to cloud, you get this big lift in deferred.

Can you give us a little color on why that's lagging a little bit in the process of how it's not growing or growing as fast as some people might expect? And then, there's another quick question beyond that. Where are you at this point in maintenance transition on Workspace? Is it 10% of the maintenance has started to move? Is it a smaller number? Any sense of where you are I think will help people realize how much still is ahead of you? Thank you.

Arlen Shenkman

Let me take the deferred and then I'll hand it over to Mark on the maintenance. On the deferred, so it's this piece of the business which is the pre billing on the deferred. So it's the headwind in the deferred. And so what -- essentially, because of those five-year contracts, because there's so much was pre-billed, because there's a history of that, then that builds up a significant amount of current and long term deferred.

And so, it's that headwind in the business that we're trying to eliminate so that we can come through this. And that's really what's driving the change. And I totally get that it's different than Adobe and Autodesk and everyone else, because very few people have the ability.

Most people, if they could prepay maintenance for five years, if you could get that cash in the door, you do it any day. It's just not a market practice anymore and we just have people continuing to do it, which is causing this kind of a lot of the two, which is confusing the story.

Mark Moerdler

That helps.

David Henshall

Yes. Let me put a fine point on that because I think it's an important one. So, just to reiterate that, I mean customers historically not only have purchased a perpetual license, but on average, a couple of years of initial maintenance. And two-thirds of those would have paid for the entire thing up front. Now, we're moving the entire business model to annual billings. That's why the growth in unbilled revenue has just accelerated so rapidly at the expense of deferred revenue. So, we talk about future committed revenue is kind of the combination of those $2-plus billion right now growing about 13% year-on-year. And those are -- that's really the one place that plus the impact on cash flows obviously in the short term are the areas that you see this pronounced change.

Arlen Shenkman

Then to answer your first question, I make around the installed base, we're somewhere between 7% and 8% of the maintenance base has begun to transition. Part of that though if you go back to the go-to-market portion of my presentation, it's because we've really enabled the sales force and directed their incentives towards new business. Over the course of 2020, we'll be opening that up such that the acceleration of the transition, the maintenance base should transition at an accelerated pace to where you've seen it to date.

Mark Schmitz

Next questions.

Mark Schilsky

Mark Schilsky, UBS O'Connor. Arlen, I think you said earlier that you were going to end perpetual licensing next year. When is that going to happen? Or are you going to put out an announcement to your customers sometime before then get them ready for that.

Arlen Shenkman

So, we're in a process now of ensuring that we have the right internal communications which we've started to cascade. We're obviously working on our compensation plans to drive behavior. We're working with our partners to drive behavior. We're not going to give an exact date. I can tell you that, we're obviously incentivized to make it happen as early as we can from a financial standpoint. We'll obviously be considerate of what's happening in the channel and the marketplace. And to answer your question, we've already started a cascade. We've already started to communicate and we're already -- we already have plans around how we will help accelerate that, but we're not going to give a hard date.

David Henshall

And just to be very clear on that point. We are not eliminating on-premise deployments. I think everyone knows that a lot of our customers are on a long cloud journey. And so, there's plenty of choice in terms of how they consume our products on-premise. A lot of those will probably utilize a term-based subscription as we go forward and we'll do the right thing for our customers. But when we're talking specifically about the financial model, this is the acceleration that we've started in the last two, three quarters and we want to drive that through next year.

Heather Bellini

I wanted to ask a little bit about -- Heather Bellini at Goldman Sachs. ARR is obviously an important metric as you guys all cited. I'm wondering, if you've given any thought to changing what you guide to and actually start maybe guiding to ARR as a metric that people can benchmark you off of. And then secondarily, we do get asked this all the time Dan and I were just talking about this.

You get questions from people where again going back to the deferred question, everyone understands they pay you less up front then obviously that impacts long-term deferreds versus people who were paying you up front before. But from a short-term billings perspective, I think that's one area if you could flush out a little bit more about the typical contract value or the dollars that you're taking in? I know you did that slide, but I'm just thinking about it from a short-term deferred perspective. So people can put that into perspective when they're thinking about that and how it impacts the cash flow. Thank you.

Paul Hough

So I'll defer to you on the value of the contracts. I mean on the ARR guidance, look, it's a new metric for us. We're obviously -- we started it two quarters ago. It doesn't mean we wouldn't provide guidance, but I don't think we have an intent right now as we get more comfortable with it, we'll think about that. But right now, it's a brand-new metric for us and we'll continue to report it and we'll consider that. On the pricing piece I'll give that to you?

Mark Schmitz

Well, I'll only add to his comment. As we go into next year, our incentives will line up with that whole thinking as well, so as we go to our sales force, it will line up specifically where he's at today.

Paul Hough

And then just on deferred, it's going to be a combination of long and short-term deferred will be impacted by seasonality contract what we're building up front how much is consumption based that we're building on a monthly basis. All those factors play in and that's why we're going to continue to give all the pieces, so that you can see all of them together in the context of future committed revenue.

A – Mark Schmitz

Next question. Any more questions?

Mark Schmitz

All right. It looks like we've actually reached the end of questions. So with that let me just say on behalf of Citrix and all of us up here, a huge thank you for everyone for participating here today. I appreciate you being here in person. I appreciate everyone who is joining us online. I think we're at a really interesting inflection point in the company's history right now and we're very much focused on driving this transition over the next couple of years. Thank you very much. Talk to you again in the next three months.