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ANSYS, Inc. (ANSS) CEO Ajei Gopal on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.42 beats by $0.16 | Revenue of $345.5M (17.93% Y/Y) beats by $11.1M

ANSYS, Inc. (NASDAQ:ANSS) Q3 2019 Earnings Conference Call November 7, 2019 8:30 AM ET

Company Participants

Annette Arribas - Senior Director, Global IR

Ajei Gopal - CEO

Maria Shields - CFO

Conference Call Participants

Kenneth Talanian - Evercore ISI

Ken Wong - Guggenheim

Saket Kalia - Barclays

Jay Vleeschhouwer - Griffin Securities

Matthew Hedberg - RBC Capital Markets

Jackson Ader - JPMorgan

Richard Valera - Needham & Company

Steven Koenig - Wedbush Securities

Rob Oliver - Baird

Andrew DeGasperi - Berenberg

Tyler Radke - Citi

Mark Schappel - Benchmark

Adam Borg - Stifel

Operator

Welcome to the ANSYS Third Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Annette Arribas, Senior Director, Global Investor Relations. Please go ahead.

Annette Arribas

Good morning everyone. Our earnings release and the related prepared remarks document have been posted on the home page of our Investor Relations website this morning. They contain all the key financial information and supporting data relative to our third quarter financial results and business update as well as our Q4 and full year 2019 outlook and the key underlying assumptions.

I would like to remind everyone that today’s presentation contains forward-looking information. In addition to any risks and uncertainties that we highlight during the course of this call, important factors that may affect our future results are discussed at length in our public filings with the SEC, all of which are also available via our website.

Additionally, the company's reported results should not be considered an indication of future performance as there are risks and uncertainties that could impact our business in the future. These statements are based upon our view of the business as of today and ANSYS undertakes no obligation to update any such information.

During this call and in the prepared remarks, we'll be referring to non-GAAP financial measures unless otherwise stated. Please take any reference to revenue to mean revenue under ASC 606. A discussion of the various items that are excluded and a full reconciliation of GAAP to comparable non-GAAP financial measures under ASC 606 is included in this morning's earnings release materials and related Form 8-K.

I would now like to turn the call over to our CEO Ajei Gopal for his opening remarks. Ajei?

Ajei Gopal

Thank you, Annette, and good morning, everyone. Q3 was another exceptional quarter for ANSYS. We surpassed the high-end of our guidance in both revenue and earnings per share. Our annual contract value or ACV, came in at a robust 14% growth in constant currency. Based on our continued outstanding financial performance and the ongoing strength of our pipeline, I'm excited to announce that we are again increasing our 2019 revenue, EPS and ACV guidance. Maria will provide the details in a few minutes.

Q3 was about execution across all aspects of our business and all our normal routes to market. This strong across the board performance highlights the robustness and the resilience of the ANSYS business. Considering sales activity from a geographical perspective, the Americas have contributed strong consistent performance throughout the year. As we had expected, Europe had a slower first half of the year, but Q3 was strong and we expect Q4 to also be robust based on some larger deals in the pipeline.

Asia has also performed well this year, but full year growth in China is expected to be muted as a result of the ongoing trade restrictions. Our guidance, of course, takes this consideration into account. Our channel, which continues to represent about a quarter of our sales activity, grew consistently with our direct business. From an industry perspective, the semiconductor and high-tech, automotive and aerospace and defense verticals continue to lead the way.

As has been the case for many quarters, our larger deals are driven by the strength of our multiphysics portfolio. In fact, over 80% of our largest deals in Q3 included four or more products across our physics suite. Our enterprise and strategic accounts performed well and included three customers with orders in the eighth figure range. Let me share a few of our Q3 successes. A leading innovator in high tech materials and processes signed a $12 million multiyear agreement to develop next-generation OEM component. With increased access to simulation, more engineers of the company can use ANSYS to provide tailored solutions for its customers. Through a new multi-million dollar deal, ANSYS multi-physics solutions are enabling and electronics leader to be the first to market. This company has demonstrated that ANSYS can materially reduce the number of physical prototypes saving $5 million in one of its business groups alone.

Another large technology company signed an eight-figure agreement to drive innovation in new markets while growing its footprint in existing business segments. The company is using ANSYS from silicon through the entire platform to innovate, reduce time to market, and mitigate the risk of next-generation mobile phone and data center chips. Only ANSYS could fulfill its demand for fast, high-fidelity, multi-physics modeling resulting in a nice win over our competition.

On our recent call, I've highlighted specific product or solution areas in the ANSYS portfolio. For example, in Q1, I discussed our leadership in electronics with products such as ANSYS HFSS and ANSYS RedHawk. On our last call, we discussed our multi-physics autonomy solution, which includes core products like ANSYS HFSS, coupled with leading technologies that we've obtained through recent acquisitions including medini and OPTIS.

With so many recent advances in ANSYS Mechanical, as well as the acquisition of LSCC, on this call I'd like to focus on our mechanical and structures products. ANSYS was founded as a mechanical and structural simulation company, and nearly 50 years later that product line continues to accelerate. Customers use our mechanical simulate to validate the design, structural integrity, and the performance of their product across a broad spectrum of applications, from jet turbine blades to offshore oil pumping platforms and everything in between. That's due in part to our ongoing focus on accuracy.

We are also consistently driving new functionality and ease of use into ANSYS Mechanical including innovations that we added in Q3 for streamlined and simplified workflows, as well as the prediction of electronic hardware failure gained from our acquisition of DFR Solutions. Those enhancements and many more are resonating with new and existing customers.

Our recent acquisition of LSTC is further broadening our footprint in the structure space. LSTC is the world's premier provider of explicit dynamics and other advanced finite element analysis technology. LSTC's flagship product, LS-DYNA is used to simulate high speed, short duration events, for example, a cell phone drop or an automotive crash. In fact, the automotive industry has widely adopted LS-DYNA to accurately predict a vehicle's behavior and the effects on occupants during a collision.

Over the years, LSTC has evolved its solutions from a leading explicit dynamic solver to a broad multi-physics suite that can solve a range of use cases, from automotive impacts, to airbags, to aerospace and defense applications, and beyond. The LSTC technology and customer use cases are complementary to and dovetails nicely with the broader ANSYS Mechanical products which solve for longer-term phenomena like structural loads and vibrations.

While ANSYS has partnered with LSTC for nearly 25 years, we had focused on a limited set of LS-DYNA used cases and not on the primary used cases such as automotive crash testing. Now that LSTC is part of ANSYS, our comprehensive go-to market capabilities will enable us to better serve the automotive, aerospace and defense and other markets with the full breadth and depth of the LS-DYNA suite. And by combining our product portfolios, we will be able to solve even more challenging customer problems than either company could individually.

Industry legend, John Hallquist founded LSTC and he will remain part of the ANSYS team. Both LSTC and ANSYS share a similar culture. Based on a profound respect for technology and an unwavering commitments to customer success. And I'm excited that the combination will allow ANSYS customers to deliver more sophisticated products faster and more efficiently than ever before.

We also called on our acquisition of Dynardo, a leading provider of multidisciplinary analysis and optimization technology. An existing ANSYS partner, Dynardo developed a state-of-the-art solutions for optimization, uncertainty quantification, robustness, sensitivity analysis and data mining. And while this acquisition isn't financially material, adding Dynardo’s products into the ANSYS portfolio will give customers access to the full suite of process integration and robust design tools.

Empowering users to identify optimal product designs faster and more economically. I'm delighted to welcome the LSTC and Dynardo employees into our ANSYS family. We also continue to make strong progress with integrating technology from our earlier acquisitions into our portfolio, as we saw in our newly released ANSYS 2019 R3. On the materials side, we introduced ANSYS Granta materials data for simulation, which increases the number of off-the-shelf materials available directly in our flagship products. With DfR solutions, we have upgraded the preprocessor and core solving engine using ANSYS technology. Our sales teams have embraced these upgrades, helping us to expand existing accounts, open sales opportunities at new customers and accelerate pending deals.

On the partnership side, we recently announced an alliance with Microsoft to help mutual customers improve operations through Digital Twins. This collaboration will empower customers to more accurately predict an assets future performance and reduce unscheduled downtime expenses using Azure Digital Twins and ANSYS Twin Builder.

We also announced an exclusive partnership with Motor Design Limited to distribute its Motor-CAD software. Motor-CAD enables design engineers to evaluate motor topologies and concepts across the full operating range. And to produce designs that are optimized for performance, efficiency and size. By combining their electric motor design software tool with our multiphysics analysis capabilities, we are extending simulation into the design phase of the electric machine product lifecycle.

Our previously announced partnerships continue to build momentum. In its most recent earnings call, PTC reported 126 transactions, a 66% increase in the number of deals from the previous quarter for Creo Simulation Live, its CAD solution powered by ANSYS Discovery Live. PTC expects the adoption to further accelerate in its next fiscal year.

Turning now to our environmental, social and governance initiatives, STEM Education remains a key element of our ESG focus I was excited last week to attend the opening of ANSYS Hall, a new engineering building complete with state-of-the-art space on the campus of the Carnegie Mellon University here in Pittsburgh. As part of our partnership with CMU, we are providing students with access to the ANSYS portfolio, enabling them to prepare for life outside of academia by solving real world engineering challenges.

We have also expanded our Women in Technology effort through a grant to the Lila Poonawalla Foundation which provides scholarships and training for aspiring female engineers in India. These initiatives are incredibly exciting to all of us at ANSYS as we help to train the next generation of engineers and scientists.

In summary, I'm extremely proud of our accomplishments in the third quarter, and frankly, for all of 2019. We recorded another quarter of double-digit top line growth and best-in-class margins. We are in a growing market with a winning strategy of pervasive simulation and a world-class product portfolio bolstered by a strong pipeline and an established track record of execution. That gives us tremendous confidence as we close our 2019 and prepare for 2020.

And with that, I'd like to turn the call over to Maria. Maria?

Maria Shields

Thank you, Ajei. Good morning, everyone. Now, let me take a few minutes to add some additional perspective on our very strong third quarter financial performance, and provide color around our outlook and key assumptions for Q4. Consistent with our standard practice, my comments will be in terms of non-GAAP, unless I state otherwise.

Before we dig into the details, I'd like to point out that we have increased our 2019 guidance, not only to include the impact of our recently closed LSTC and Dynardo acquisitions, but also to take into account the strength of the stand-alone ANSYS business and our improved outlook on the organic pipeline of opportunities.

Our record Q3 results reflect continued customer and business momentum combined with solid execution across the enterprise. We finished the quarter with constant currency revenue growth of 19% and operating margin and EPS results that were also above the high end of our Q3 guidance ranges. The revenue performance in Q3 was driven by strong sales execution including a larger dollar value of multi-year lease transaction than we initially forecasted coming into the quarter. This is reflected in the strong lease revenue growth that we reported for Q3 and a continuation of the growth trend that we have seen throughout this year.

The combination of our success in delivering on our 2019 financial commitment and the strength of our sales pipeline gives us confidence that we are on a path to continue to execute against our strategic priorities and to deliver another year of record financial performance in 2019.

Key financial metrics for the quarter begin with total revenue of $345 million. Q3 ACV totaled $291 million or constant currency growth of 14% with 73% of ACV in the quarter coming from recurring sources. The increase in software lease license sales, combined with strong maintenance renewals, contributed to building our deferred revenue and backlog to a Q3 total of $650 million, a 19% increase over last year’s comparable balance.

Moving on to profitability, in Q3, we continue to build on our great first half financial performance with strong top line result that helps to drive a third quarter gross margin of 90%, and an operating margin of 43%. We also reported record third quarter EPS of $1.42, which increased 8%, despite an $0.08 tax benefit in the prior-year quarter related to entity restructuring activities.

With respect to taxes, our effective tax rate in Q3 was 21%, and, for Q4, we expect our rate to be in the range of 20% to 21%. Our cash flow from operations grew 9% and totaled $120 million for the third quarter and $360 million for the first nine months. And we closed Q3 with the total $733 million in cash and short-term investments.

Now, let me turn to the topic of guidance. We are pleased to yet again increase guidance for the full year, while also initiating our Q4 outlook. First, focusing on the existing business, we have increased our full year outlook to reflect the very strong performance in

Q3, combined with positive business momentum and our ability to continue to execute and deliver on our commitments as we look ahead to close out 2019.

Second, we've incorporated contributions to our full year guidance from the recent acquisition of LSTC and Dynardo, deals that have both closed in the past week. This includes an incremental $10 million in revenue for 2019, as well as the impacts from both the use of the capital and the issuance of new debt and equity to fund the acquisition.

In connection with the acquisition of LSTC, we recently added $500 million in term debt at an initial interest rate of approximately 3% and we also issued 1.4 million shares. Before I get into specific numbers, let me just provide a brief comment with respect to the impact of the ongoing trade discussions between the U.S. and China.

Consistent with what we had previously communicated, our outlook for the remainder of 2019 takes into consideration our reduced expectations from China. We are also assuming that the current export restriction and the entity lift will remain in effect throughout the remainder of this year. Moreover, we remind investors that China accounted for less than 5% of our total revenue in 2018 and accounts for approximately 4% of our revenue in the first nine months of 2019.

Now, let me move to the details of our outlook. For Q4, we expect non-GAAP revenue in the range of $454 million to $479 million and non-GAAP EPS in the range of $1.87 to $2.05. For the full year, we're increasing both revenue and EPS outlook to non-GAAP revenue in the range of $1.490 billion to $1.515 billion or constant currency growth in the range of 16% to 18% and EPS in the range of $6.20 and $6.38.

We are also increasing our ACV outlook for 2019 to a range of $1.460 billion to $1.480 billion. This represents constant currency ACV growth of 12% to 13%.

With respect to annual operating cash flow we are also increasing the midpoint of our outlook by $7.5 million for 2019 to a range of $485 million to $510 million.

Looking ahead the Q4, we're expecting operating margins of 45% to 46.5%. And for the full year, we're increasing our forecast for annual operating margin to a range of 44.5% to 45%. Further details around specific currency rates and the other key assumptions that have been factored into our outlook for Q4 as 2019 are contained in the prepared remarks document.

Just to close this out on the topic of guidance, our outlook for the remainder of 2019 factors in everything that we are currently aware of with respect to ongoing trade discussion, geopolitical situation, and customer sentiment across our geographically and industry diverse customer base.

It also reflects continued investments related to several business infrastructure and digital transformation project, increased sales commission and personnel-related costs as well as the financial impact of the two most recent acquisitions.

As we look ahead into 2020, I'd like to remind you that our recent Investor Day, I've shared our longer-term financial metrics in the form of an ACV target for 2022. Given the increased variability in revenue under ASC 606 due to the accounting treatment of multi-year leases, we provide ACV as a supplemental financial matter to help evaluate the performance of the business.

Coming over the long-term, ACV and revenue lead to the exact same number. However, it is important to know that there will be years where ACB growth lags revenue growth, as we will see in 2019; and other years were ACV growth will lead revenue growth. Consistent with this dynamic, we will continue to encourage you to gauge the operating strength of ANSYS by focusing on our annual ACV performance in addition to our other key financial metrics. In line with our practice from the past few years, we will provide more detailed guidance on 2020 once we finalized our annual planning process and close out 2019.

And in summary, we delivered another quarter of excellent financial performance with strength across our key financial metrics: ACV, top line growth, operating margin, EPS, operating cash flow, and deferred revenue and backlog. The strong third quarter and year-to-date results give us confidence that we are on a path to deliver on our increased 2019 financial commitment as well as our longer term 2022 financial target.

And, operator, we will now open the phone line to take questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Ken Talanian with Evercore ISI. Please go ahead.

Kenneth Talanian

Hi. Thanks for taking the question. Maria, could you give us a sense for the inorganic contribution to ACV in 3Q? How you're thinking about for 4Q and how much of the ACV guide increase was organic versus inorganic?

Maria Shields

Yes. So, with respect to Q3, the ACV was you had about 3% to 4% of the quarterly growth was from the acquisitions. You saw we broke out relative to the two new acquisitions were for the remainder of 2019 we broke out separately in the prepared remarks. So, with respect to their contributions, it's about $10 million from those two for the remainder of the year.

Kenneth Talanian

And you're looking at it from a perspective of both revenue in ACV for the $10 million or…

Maria Shields

Yes, yes.

Kenneth Talanian

Okay. I mean just as a quick follow up on that. It looks like LSTC was more in the range of $60 million in terms of ACV. I would have thought the ACV portion in 4Q would be a bit higher than what we're recognizing on revenue?

Maria Shields

It's only two months. It’s only two months.

Kenneth Talanian

Okay. Thank you.

Operator

Our next question comes from Ken Wong with Guggenheim. Please go ahead.

Ken Wong

Hi. Good morning, guys. This question is for Ajei. So, we all get asked about the sustainability of the (inaudible) momentum that you guys have been having. Any reason to think that the surge in activity these past 18 months would impact next year's pipeline and beyond?

Ajei Gopal

Thanks for the question. And so, as you – as I said at the Investor Day, which we had in September, we have started to focus on these larger accounts or these so-called enterprise accounts. And we've increased the of the number of those accounts from just a handful, a little over a dozen a couple of years ago to around 85 today.

And as I mentioned during Investor Day, and I think I walked through a case study of a particular customer, which shows how by focusing on that customer as we would with an enterprise – as we do with enterprise accounts, by focusing on the customer, we were able to deliver significantly incremental value to that customer, a customer based upon the capability and the full suite of our portfolio. And that translates into incremental growth opportunity.

So, for that particular customer that I walk through, we had a modest growth for a number of years. And then as we started to focus with them on an enterprise account, we grew ACV by about 10% in the first couple of years as an enterprise account. And then, subsequently, we've grown ACV at about 17% CAGR over the couple of years afterwards. And there's still a significant opportunity ahead because of – in the case for that particular customer, there are opportunities of that in a number of other areas. And we're seeing the story being repeated across our enterprise account base. By focusing on the accounts, we can deliver incremental value to our customers, and, of course, that translates to incremental growth. So, that's the dynamic that you're really seeing taking place in our business as we look forward.

Ken Wong

Great. Thank you.

Operator

Our next question comes from Saket Kalia with Barclays. Please go ahead.

Saket Kalia

Hey, guys. Thanks for taking my question here. Maybe for you, Maria, this might be a tough – this may be tough to break out because so much of what ANSYS does is multi-physics. But a couple of the big deals this year feel like they've been geared towards sort of a semi space or have been very electrical tool, heavy. So, I guess, I'm wondering if you could just talk about the general growth in the business maybe segmenting between the electrical portfolio versus all the other physics if that makes sense.

Maria Shields

Yes, Saket, but what I'll say is we don't report on any individual physics family because that's not really the lens through which we view the opportunity. You mentioned in your in your comment about multi-physics and that’s really the strength of the breadth and depth of our portfolio and how we think about our go-to-market opportunity. One data point I'll point you to is the comments that Ajei had in his prepared remarks is that if you think about the large deals in Q3, 80% of those deals included products from four or more major, physics families. So we really are going to market in enabling our customers to solve incredibly complex problems because the problems are really multi-physics and no longer single-physics-oriented.

Operator

Our next question comes from Jay Vleeschhouwer with Griffin Securities. Please go ahead.

Jay Vleeschhouwer

Thank you. Good morning. Ajei, let me start with you and ask how do you see any or all of your newer businesses being leading indicators of or leading-edge drivers to new business meaning specifically Minerva for SPDM, Granta for materials, and even LS in the mechanical area. Do you see any or all of those, perhaps, becoming the good leading indicators of new business?

And then secondly, just a follow up on a comment you made regarding the channel business. It's quite interesting that proportionately it's staying the same in spite of your obvious focus on large deal business. So, what have you done or what do you intend to do to sustain that momentum in an SMB to continue to grow that business particularly from a multi-business perspective and not just a single solver perspective in the SMB market?

Ajei Gopal

So, Jay thank you for the questions. So, if I just focus on the second one for a moment and talk about the channel, you're absolutely right. The channel has grown consistently with the direct business. And as you would imagine, the channel partners, the channel partners tend to – given our go-to-market, some of them tend to be more transactional in nature. It’s smaller deals in nature. Some of them, of course, have very strategic relationships with their customers. It really depends on the channel partners.

And as Rick may have mentioned again and during our Investor Day when we were talking about our go-to-market strategy, we continue to invest in the channel partners and we have continued to increase the number of channel partners as well as for the channel partners are seeing significant opportunity.

So, they themselves are increasing the number of people within the individual partners of selling our technology. So, there’s more feet on the street in the aggregate from the channel partners selling our technology which typically ends up at a – at sort of these lower transaction levels up.

Furthermore, as you know, our go to market is differentiated. And so – so, we have – we have a – an opportunity to yet address the enterprise accounts. But with our momentum motion and our inside sales activity, we can address more of this volume business more of the transactional business.

And so, we have – our go-to-market and one of the hallmarks of the state of the business is the fact that we have this pretty sophisticated and well-developed go-to-market that allows us to address needs of the largest customers as well as the more transactional business that we've discussed. And they're both very important to us, and we continue to make sure that we're successful across both of those motions which you saw this year and I made clear in my commentary.

With respect to your first question regarding the products, certainly some of the newer products that we have in the marketplace and perhaps some of the acquisitions, you're absolutely correct. Our strategy as I've described is to make simulation pervasive which means we want to make simulation capabilities. We want to inject them into multiple ecosystems into multiple use cases.

If you look at some of the work we've done with our platform and in particular with Minerva that allows us to take the ANSYS simulation capabilities and to inject it into other phases of the product lifecycle, and to be – and to drive the broader use simulation and certainly our acquisition of Dynardo fits right into that. So, that gives us access to more customers, helps us solve more problems.

And some of the acquisitions that we've done, you mentioned Granta, I think material is a very important aspect of the end-to-end product equation. In many ways, material is a lifecycle unto itself. It's very closely related. It's almost a platform unto itself so it's very closely related to a Minerva activity. But materials gives customers a real understanding of where the true costs are and what the design implications are, and that exposes us at the different levels in an organization in a customer as well as the different sets of customers.

You mentioned LSTC, and I was pretty broad in my comments. I think in my script I went through this in some detail. But the fact is that the LSTC technology because of the nature of the technology and because of our go-to-market, we have not been focusing on the core LSTC use cases that like for example automotive crash testing.

And now that LSTCand LS-Dyna is part of the ANSYS portfolio, we have an opportunity to position the breadth and the depth of LSTC across industries – of LS-DYNA across multiple industries and by putting our technologies together we think we can solve – we can help our customers really solve the most amazing problem and do so very efficiently.

So we're excited about those acquisitions. They all fit with our strategy of pervasive stimulation. They fit with our go-to market and our go-to market supports the acquisitions and then their relationships that these customers have with their own channel partners with their own customers further supports our go-to market. So it's a mutually reinforcing outcome that we are excited about.

Jay Vleeschhouwer

Thank you very much.

Operator

Our next question comes from Matthew Hedberg with RBC Capital Markets. Please go ahead.

Matthew Hedberg

Hi, guys. Thanks for taking my question. There's there's been a lot of consternation over the macro environment but clearly I think the breadth of your portfolio and global diversity was able to offset any of that weakness. In your prepared remarks you talked about China. It seems like that's factored into your guidance. But I wanted to dig in a little bit more in the UK, obviously there’s a lot of questions on Brexit. But then Germany we’ve had some really strong results. So maybe a little bit more on European results relative to sort of that and what's factored into your outlook.

Ajei Gopal

Yes, so as I said in the – and I’ll let Maria also jump in, but as I said again in my script, the second half of the year – I mean Europe had a pretty decent Q3 from a sales activity perspective and the second half of the year in Q4 we're expecting to see – we have some more larger deals in the pipeline. The revenue, when you look at it from a revenue perspective, because of the volatility of ASC 606, you'll see some variations in revenue which may not necessarily align exactly with sales activity. But to give you some perspective as I said, we expect the second half of the year to be stronger in Europe, and with some large deal activity. As I said the Americas have been pretty strong throughout. Asia has been pretty strong. Maria, do you want to add in?

Maria Shields

Yes and I think if you just look at the UK, it’s a comparable. So, it is indicative of what you're going to see relative to some of the variability that ASC 606 introduces depending on the timing of when deal take. So, I would not read into the UK. And as Ajei said, our plan all along as we've been communicated since we first guided on 2019 back in earlier in the year is that the pipeline and the deal opportunities were really back end loaded, and a lot of the those are just aligned with the year-end planning and budgeting cycle of our large customers.

Operator

Our next question comes from Jackson Ader with JPMorgan. Please go ahead.

Jackson Ader

Great. Thanks. Good morning, everybody. Thanks for taking my question. The first thing as a follow-up to an earlier question on LS-DYNA, and Ajei, you mentioned – so you weren't necessarily partnering with them or in the use cases of their traditional craftsman solvers. So, can you just help us maybe understand, if you were to go into an automotive or an area of customer or potential customer and say and look to sell kind of a broad-based deal, what would the conversation actually look like once you came to crash and impact? What was the work-around there previously?

Ajei Gopal

So, thanks for the question. To make sure that you understand the context, our focus, as I said, from a go-to-market perspective was not really on the automotive – on the automotive customers or the automotive crash testing. A lot of that activity was effectively taken by DYNA through some of their other channel partners. And we had (inaudible) throughout the channel partners. It wasn't really a focus of ANSYS. So that wasn't our primary business.

And so, in those areas, as you could imagine, because we were – we would partner where we would work with the customer. They would take advantage of the technology – of LSTC’s technology, DYNA, perhaps, working with another channel partner and that's how we would kind of our customer. The automotive crash test use case wasn't really something that we were majoring in, but that wasn't our focus and that wasn't where the ANSYS LSTC business was. And that obviously is an area of tremendous strength for them. And they come with not only amazing technology, but they also come with great relationships and customer relationships in that space.

Operator

Our next question comes from with Richard Valera from Needham & Co. Please go ahead.

Richard Valera

Thank you. Thank you. Good morning. Ajei, based on your prepared remarks, it sounds like you're continuing to see really good demand from the auto industry, but I think a couple of your design software peers have called out at least selective weakness with some of their auto customers. Can you just give us an update on your review of your auto customers and your opportunity in the auto space and your sense of how that's going to look over the next one to two years?

Ajei Gopal

Thanks again for the question. We can – I can address it from the perspective of what we see in the marketplace. And perhaps, I can set the context, as I talked about some of the conversations that we are having, that I personally have had, and certainly our sales people are having with our customers in the automotive space.

When you consider the aggregate of what the automotive customers are dealing with, with electrification – and, by the way, electrification is not uniquely something that's being driven by the automotive companies in and of themselves. There's also government regulations and other activities that are driving their desire to meet certain deadlines, and dates, and so forth. But if you consider electrification, you consider the opportunity with autonomy.

As just two examples, there is a profound change taking place, and there is a significant level of investment that we are seeing and interest that we're seeing in making sure that they can address these upcoming needs or these upcoming demands for the portfolio. In many cases, a – an activity, a focus on electrification might – isn't just about the battery. It's a much – it's about a broader outcome. Because building an electric car requires different points of optimization than building an internal combustion engine car. The transmit – everything is different or many things are different.

And so, there – and that opens up incremental opportunities for us. So, from our perspective, the fact that we've identified electrification autonomy, and we have compelling solutions in those areas in addition to the rest of our multi-physics solution, we believe, positions us very well. Those are growth areas. People are spending R&D dollars in those areas to be competitive in the future.

And we have technologies and solutions that addresses those customers. And so, when I talk to automotive customers, the conversation often starts with electrification or autonomy. We may eventually get into other conversations of traditional – that we've traditionally had with them about structural integrity or air flow and combustion in other areas. But, certainly, we start with those areas. And those can – we see those as continued areas of interest for the automotive companies.

Operator

The next question comes from Steven Koenig with Wedbush Securities. Please go ahead.

Steve Koenig

Thank you. Appreciate the middle initial too. Congratulations, ANSYS, great quarter. I'm going to focus my question here on Maria. So, maybe just some housekeeping first, Maria. Any changes in Q3 duration of contract length and billings terms? And any trends that you might be seeing there? I have a few companies that are seeing more annual billings and less multiyear.

And then just, also, can you remind me what approach you're taking to the larger deals, particularly here in Q4? Are they probability weighted? And more generally, what are the puts and takes that you factored into the Q4 guide? Thank you very much.

Maria Shields

Yeah. So, with respect to duration, Steve, what I would say is we're not seeing any extension duration. Just to give you a couple data points, at the end of Q3, if you look at deferred revenue, the current is about 5.2 months, which is about the same as it was last year at this time. The long-term deferred is about two months.

And to some of those larger deals that Ajei spoke to in his prepared remarks, those, on average, are two to three-year deals. So, the larger enterprise deals and the strategic accounts, we're still seeing that they are choosing multiyear as opposed to annual. Annual, we are still seeing though in the momentum and the more traditional SMB space. And when you think…

Steve Koenig

Got it.

Maria Shields

About what we are bringing to Q4, obviously, we've got a pipeline. Rick and his team are very seasoned. And so, some of them, they balance some of the risk around holidays and around how many people need to be involved in the approval process and so, we try our best given that the larger these deals get, if one slips to Q1 for whatever reason, it can have a significant impact under ASC 606. So, we try our best to factor in everything that we know about macro as well as individual deals that really could have any impact on the quarter and try to use the best judgment we can when we're formulating our guidance.

Steve Koenig

Great. Thanks, Maria. Congrats again.

Maria Shields

Thank you.

Operator

Our next question comes from Rob Oliver with Baird. Please go ahead.

Rob Oliver

Great. Thanks, guys. Good morning. Appreciate it. My question is for Ajei. Ajei, just around Discovery Live, I appreciated your comments relative to the PTC partnership and I know Discovery Live is an important part of your goal to be more pervasive within large accounts. I just wanted to get a sense for the progress of Discovery Live and any early signs on penetration within some of the larger deals. Thanks.

Ajei Gopal

Thanks for the question, Rob. So, again, I hate to go back to the Investor Day but we had a pretty robust discussion about Discovery Live at Investor Day that was about a month ago, a month and a half ago. So, the dynamic remain – remains the same with we’re tremendously excited about the technology.

Our customers are excited about the technology. We've got – we've got initial penetration into the enterprise accounts and something like I think 20% of our enterprise accounts in terms of that initial penetration and we continue to develop against an extremely aggressive roadmap.

And where – the technology is moving in the right direction. We're excited about adoption. It's just very early in the cycle of the product. It's a brand new product. It's creating a category in a marketplace that historically relatively conservative in terms of adoption of new technology. So, as we've said repeatedly, it will take time for this product to develop. But all indications so far are positive and we are excited about where we are in the marketplace with this essentially breakthrough technology.

Operator

The next question comes from Andrew DeGasperi with Berenberg. Please go ahead.

Andrew DeGasperi

Thanks for taking my question. I guess I wanted to switch gears into HPC. I think at the Investor Day you mentioned 100 customers on Azure. And I'm just wondering if you're thinking about opening that up to other hyperscalers?

Ajei Gopal

Thanks, again, for the question. Yeah. So we have – our technology is able to work across the different providers and we're not tied to any individual cloud provider. That being said the answer is cloud itself is running on Azure, but we have the capability to run on any type of provider.

Andrew DeGasperi

Got it and then maybe just a quick comment on PTC acquisition of (inaudible) Does that mean anything in terms of your relationship with them on Creo?

Ajei Gopal

Well, I mean, I think that firstly, I think it's tremendous technology and capabilities from what we understand. Obviously, we're not in that space and we're not in that market so I can't really – I don't really have – we don't have a formulator opinion per se on the technology. But from everything that we've seen it's amazing technology. It's a great – it's a great product. And it's certainly as PTC absorbs as I think they just closed the acquisition a few days ago. As they absorb this we'll continue to have discussions and conversations with PTC about our relationship and how our relationship broadens to take into account whatever changes they may have made to the portfolio.

But that being said, PTC has an aggressive roadmap with respect to Creo Simulation Live. They continue to see traction in the marketplace that we've talked about. And then I talked about that Jim Heppelmann has talked about in his calls. And they have a robust roadmap that includes that includes the next generation of CSL. So, for example, I think in next year or March of 2020, they're going to expand to include CFD use cases from where they currently are. And that obviously expands the applicability of Creo Simulation Live.

So we're very excited about the relationship with PTC. We think that they're executing as they need to. And obviously, we'll continue to discuss with them as they start to absorb the terrific Onshape acquisition.

Operator

The next question comes from Tyler Radke with Citi. Please go ahead.

Tyler Radke

Hey. Thanks. Good morning. I was hoping that you could just expand a little bit upon your commentary and expecting strength here in Q4 in Europe. I think a lot of companies have called out kind of the opposite with some of the macro challenges, but is there a specific end market or vertical you're seeing the strength? I know you had a pretty large deal with a large automotive company over there last quarter. You’re kind of expecting the strength to continue from that market, or is it more across the board?

Ajei Gopal

So, yes, we obviously – my comments are based upon our understanding of our pipeline. So it's not – it's not a general comment about macro conditions. It's very specifically about our pipeline.

So perhaps our pipelines are different from other vendors’ pipelines and that might account for the differences that you're pointing out. That's point number one.

With respect to your second question about is any particular area, again my expectation is that we will see next quarter along the lines of where we've seen in the past in terms of the split across industry verticals. So we're not seeing a particular vertical change dramatically. And it's highly unlikely that these changes are going to happen in a month over month as we look at the end of Q3 to the early part of Q4.

As you can imagine, many of these customers who are in our pipeline for Q4 have been in our pipeline for some period of time. These are not new deals that come into the pipeline in Q4 and close in Q4, especially these larger deals. And so, we have pretty good visibility and a finger on the pulse of some of those deals. We're not expecting any profound change in the industry verticals as we look forward to Q4.

Operator

Our next question comes from Mark Schappel with Benchmark. Please go ahead.

Mark Schappel

Hi. Good morning. Congratulations on the nice job in the quarter. Ajei, question on Dynardo. I was wondering if you could just provide a couple of real world examples of how you expect customers to use the solution.

Ajei Gopal

Hey, Mark. Thanks so much for the question. So, as I said Dynardo is a process integration and an optimization tool. And their flagship product is something called optiSLang, which is essentially a design optimization solution. And so, the idea is as a designer you can provide – you can try to solve for a multi-objective optimization problem.

So you can establish a set of boundary conditions and use cases and you can use Dynardo to drive the simulation to get to an optimal point where you're trying to get to with sensitivity, reliability, design capabilities, and so forth. So you can drive that optimization and you can you can use line to be able to change these simulation flows so you can automate the design space exploration.

So effectively, what it's allowing you to do is very rapidly chain together different elements, different simulation elements, solve for a point of optimization that you're trying to get to in an automated way and that allows you to reduce development time and of course it can accelerate product design. So that's the nature of the technology and – engineers will use it to try to rapidly get to a conclusion that they're trying to drive but it drives an enormous amount of simulation, it triggers off an enormous amount of simulation in order to get to that design point.

Mark Schappel

Thank you.

Operator

Our next question comes from Adam Borg with Stifel. Please go ahead.

Adam Borg

Great. And thanks for taking the questions. I just have two quick ones. First, just it's great to see continued momentum with you called out three eight-figure deals. Any way to quantify the type of (inaudible) you're seeing in total contract value of these deals versus these deals previously? And then secondly just on the motor-CAD OEM relationship, really interesting, what led you to look to OEM CAD software around electric motor design and are there other areas to OEM, other types of CAD software as well? Thanks so much.

Maria Shields

Yeah. So with respect to your first question, yeah, relative to the largest accounts I would say double-digit growth, absolutely, especially as we expand our footprint across more users and more applications. And with respect to the OEMs, we've been OEM-ing and partnering not just with CAD players, but with many other technology companies throughout our history. As you heard, LSTC as an example, has been partner of ours for 25 years. And we've got others and the Motor-CAD design opportunity was just one that – where we've got a used case scenario with common customers and it made sense for them to be able to leverage their technology and our global go-to market.

Ajei Gopal

Yes. And just to amplify what Maria said, I mean with Motor-CAD, that technology helps us in the electrification space. And we talked about electrification as being one of the important growth drivers. And they've developed upfront design capabilities that are in the area of electric machines. And that integrated with our technology will really allow these electric machine designers to rapidly – yeah, to be able to build the – to build electric motors and machines more quickly.

So, to give you an example, they can do things like fast thermal analysis from their front-end. So, it's a more -- it's a pretty sophisticated technology. It couples electromagnetic thermal mechanical modeling capabilities. It's really designed for the rapid design and deployment of electric machines across these different operating conditions. And what we can do is dovetail our technology really nicely in -- with what they have. So, our customers can benefit from a more streamlined electric machine workflow.

Operator

This concludes our question-and-answer session. I would like turn the conference back over to management for any closing remarks.

Ajei Gopal

Thank you, operator. So our strategy which is to make simulation pervasive is working as evidenced by another quarter of double-digit revenue and ACV growth combined with best-in-class margins and continued strength across the business. That, coupled with the exciting opportunity to unite the incredible technology, talent, and customer relationships of LSTC and Dynardo with our global distribution platform and resilient business model, gives us confidence for the future. Our continued focus on execution, our investment in the business, and a healthy sales pipeline provide a solid foundation for us to deliver another year of record financial performance. And they set the stage for us to execute against our recently announced 2022 financial targets.

I want to thank my ANSYS colleagues from around the world for once again delivering these outstanding results. And with that, I'd like to thank you for listening and please enjoy the rest of your day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.