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Autodesk, Inc. (ADSK) CEO Andrew Anagnost on Q2 2020 Results - Earnings Call Transcript

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FQ2: 08-27-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.65 beats by $0.04 | Revenue of $796.8M (30.26% Y/Y) beats by $8.82M

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Autodesk, Inc. (NASDAQ:ADSK) Q2 2020 Earnings Conference Call August 27, 2019 5:00 PM ET

Company Participants

Abhey Lamba - VP, IR

Andrew Anagnost - CEO

Scott Herren - CFO

Conference Call Participants

Saket Kalia - Barclays Capital

Phil Winslow - Wells Fargo

Jay Vleeschhouwer - Griffin Securities

Heather Bellini - Goldman Sachs

Gal Munda - Berenberg Capital Management

Ken Talanian - Evercore ISI

Zane Chrane - Bernstein Research

Kash Rangan - Bank of America Merrill Lynch

Richard Davis - Canaccord Genuity

Tyler Radke - Citi

Operator

Good day, ladies and gentlemen, and thank you for your patience. You've joined Autodesk Q2 Fiscal Year 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, this conference may be recorded.

I would now like to turn the call over to your host, Abhey Lamba, VP of Investor Relations. You may begin.

Abhey Lamba

Thanks, Operator, and good afternoon. Thank you for joining our conference call to discuss the results of our second quarter of fiscal '20. On the line is Andrew Anagnost, our CEO; and Scott Herren, our CFO.

Today's conference call is being broadcast live via webcast. In addition, a replay of the call will be available at autodesk.com/investor. You can also find our earnings press release and a slide presentation on our Investor Relations Web site. We will also post a transcript of today's opening commentary on our Web site following this call.

During the course of this conference call, we may make forward-looking statements about our outlook, future results, and strategies. These statements reflect our best judgment based on factors currently known to us. Actual events or results could differ materially. Please refer to our SEC filings for important risks and other factors that may cause our actual results to differ from those in our forward-looking statements.

Forward-looking statements made during the call are being made as of today. If this call is replayed or reviewed after today, the information presented during the call may not contain current or accurate information. Autodesk disclaims any obligation to update or revise any forward-looking statements.

During the call, we will quote a number of numeric or growth changes as we discuss our financial performance, and unless otherwise noted each such reference represents a year-on-year comparison. All non-GAAP numbers referenced in today's call are reconciled in the press release of slide presentation on our Investor Relations Web site.

And now, I would like to turn the call over to Andrew.

Andrew Anagnost

Thanks, Abhey. Our great momentum from the first quarter carried into the second quarter resulting in strong performance with revenue, billings, earnings, and free cash flow coming in ahead of expectations. We also crossed the $3 billion mark on ARR for the first time, which was driven by solid performance across all regions and products. Our last 12 months free cash flow of $731 million is the highest amount of free cash flow we have ever generated in a four-quarter period in the company's history. We performed well in the first-half of the year demonstrating focused execution and the strength of our recurring revenue model.

Although we continue to execute well and are not materially impacted by current trade tensions and macro conditions, we are aware of the current business and geopolitical environment that is causing uncertainty in the market. As we look across the next six months, we are taking a prudent approach to our outlook for the remainder of fiscal '20. However, we think the uncertainty caused by macro-related events is only a short-term issue. We remain confident in our ability to achieve the fiscal '23 goals we have laid out for you. Our confidence is grounded in the value delivered by our products, their ability to help our customers differentiate via innovation and digitization, focused execution delivered by our partners and sales teams, and the significant strides we are making to capture the non-paying user community.

I would also like to point out that although there are headlines of some impact from the current environment on a few industry verticals, like manufacturing, we outgrew competitors and gained share in this space. The construction industry is also holding steady, and continues to invest in innovative solutions, and we saw ongoing strength in construction this quarter. Before I offer you more color on strategic highlights during the quarter, let me first turn it over to Scott to give you more details on our second quarter results, as well as details of our updated fiscal '20 guidance. I'll then return with further insights on the key drivers of our business, including construction, manufacturing, and digital transformation before we open it up for Q&A.

Scott Herren

Thanks, Andrew. As Andrew mentioned, revenue, billings, earnings, and free cash flow all performed ahead of expectation during the second quarter. Overall demand in our end markets was solid during the quarter, as indicated by our strong billings and revenue growth. Growth was driven by both volume and pricing, which is a result of the strong uptake of our products by new users, as well as increased usage with existing customers. Sales volume of AutoCAD LT also remained strong. This has historically been a leading indicator of potential demand slowdown. And as you can see, revenue from our AutoCAD and AutoCAD LT products grew 31% in the second quarter. AEC and manufacturing revenue rose 37% and 20% respectively.

Geographically we saw broad based strength across all regions. Revenue grew 32% in the Americas, 27% in EMEA, and 33% in APAC, with strength across almost all countries. We also saw strength in direct revenue, which rose 38% versus last year, and represented 30% of our total sales, up from 28% in the second quarter of last year. Before I comment on ARR, I want to remind you of how we define it. ARR is the annualized value of our actual recurring revenue for the quarter, or said another way, is the reported recurring revenue for the quarter multiplied by four. Total ARR of $3.1 billion continued to grow steadily, and was up 31%. Adjusting for our fourth quarter acquisitions total ARR was up 27%. Within core, ARR growth was roughly in line with total organic growth, and was driven by the strength in product subscriptions.

In Cloud, ARR grew 175%, propelled by our strong performance in construction. Excluding $98 million of ARR from our fourth quarter acquisitions, growth in organic cloud ARR, which is primarily made up of BIM 360 and Fusion 360, increased from 43% in the first quarter to 45%, which is a record for that product set. We continue to make progress in our Maintenance to Subscription, or M2S program. The M2S conversion rate of the maintenance renewal opportunities migrating to product subscriptions was in the high 30% range in Q2, which is higher than our historical rate. This uptick in the conversion rate was in line with expectations as our maintenance renewal prices went up by 20% in the second quarter, which made it significantly more advantageous for customers to move to subscription. Of those that migrated, upgrade rates among eligible subscriptions remain within the historical range of 25% to 35%.

Now, moving to net revenue retention rate, during Q2 the rate continued to be within the range of approximately 110% to 120%, and we expect it to be in this range for the remainder of fiscal '20. As a reminder, the net revenue retention rate measures the year-over-year change in ARR for the population of customers that existed one year ago or base customers. It's calculated by dividing the current period ARR related to those base customers by the total ARR from those customers one year ago. Moving to billings, we had $893 million of billings during the quarter, up 48%. The growth in billings was driven by strength in new customer billings and strong renewals with continued momentum in our core products. And as we have said in prior quarters in line with our plans, billings are also benefiting from a return to more normalized levels from multi-year agreements.

Remaining Performance Obligations or RPO, which in the past we have referred to as total deferred revenue is the sum of both billed and unbilled deferred revenue, and rose 28% versus last year, and 3% sequentially to $2.8 billion. Current RPO, which represents the future revenues under contract expected to be recognized over the next 12 months was little over $2 billion, an increase of 23%.

On the margin front, we realized significant operating leverage as we continue to execute in the growth phase of our journey. Non-GAAP gross margins of 92% were up two percentage points versus last year. Our disciplined approach to expense management combined with revenue growth enabled us to expand our non-GAAP operating margin by 14 percentage points to 23%, while absorbing two meaningful acquisitions. We realized significant leverage from our investments in sales and marketing and R&D initiatives during the quarter, and are on track to deliver significant margin expansions in fiscal '20 and further expand non-GAAP operating margin to approximately 40% in fiscal 2023.

Moving to free cash flow, we generated $205 million in Q2. Over the last 12 months, we've generated a record $731 million of free cash flow, driven by growing net income and strong billings. Lastly, we continue to repurchase shares with our excess cash, which is consistent with our capital allocation strategy. During the second quarter, we repurchased 253,000 shares for $40 million at an average price of $159.54 per share. Almost all of our repurchase activity during the quarter was through our 10b5-1 plan, which we entered into before the most recent market volatility.

Now I'll turn the discussion to our outlook. I'll start by saying that our view of global economic conditions and their impact on our business has been updated to reflect the current state of various trade disputes and the geopolitical environment and their potential impact on our customers. While we have not seen any material impact to our business, we are taking a prudent stance regarding customer spending environments in the U.K. due to Brexit, Central Europe due to a slowdown in the manufacturing industry there, and China due to trade tensions. These items individually are not material headwinds, but in aggregate are responsible for our guidance adjustment, which now reflects our current views based on what we know about the environment today.

Our pipeline remains strong globally, including in these regions, we began noticing some changes in demand environments in these areas toward the end of July. As such, for these affected areas, we feel it's appropriate to adjust our expectations for the rest of the year. As you'll soon hear from Andrew, customers continue to increase their spending on our products even in these areas and our renewal rates are fairly steady. Additionally, we are now assuming more billings will occur later in the quarter for the remainder of the year.

At the midpoint of our updated guidance, we're calling for revenue and ARR growth to be approximately 27% and 26% respectively, which speaks to the resiliency of our model versus prior cycles. The wider the normal range of our full-year guidance is a result of the greater uncertainty we're expecting over the second-half of the year. Additionally, currency now offers a headwind of about $10 million to our full-year revenues versus being neutral at the beginning of the year. As such, the low-end of our updated constant currency guidance is in line with the low-end of our initial outlook we shared with you at the beginning of the year, and it also reflects the potential for a slight deterioration in the environment from the current level.

While our billings guidance has come down by about $50 million, billings are still expected to grow by approximately 50% or 40% after adjusting for the adoption of ASC 606 last year. This supports our view of strong demand for our products even in uncertain environments. Regarding free cash flow, the $50 million adjustments to $1.3 billion is primarily a result of our updated view of billings and their timing. We expect to achieve our original target of $1.35 billion trailing 12 months free cash flow during the first quarter of fiscal 2021, and while it's too early to give you a detailed color on fiscal 2021, we expect to continue growing billings, revenues, and free cash flows while expanding our margins. This is supported by what we're seeing in North America, especially in AEC, where our pipeline remains strong and we have more visibility into our business within Central Europe and China. Construction is also performing very well as we continue to increase the value we're bringing to our customers, and we continue to make strides with capturing revenue from non-paying users.

Looking at our guidance for the third quarter, we expect total revenue to be in the range of $820 million to $830 million and we expect non-GAAP EPS of $0.70 to $0.74. Third quarter free cash flow is expected to be modestly above second quarter. The earnings slide deck on the Investor Relations section of our Web site has more details, as well as modeling assumptions for fiscal '20.

In summary, I want to remind everyone that since our business model shift, we have moved to a much more resilient business model that generates a very steady stream of revenue that is less exposed to macro swings than when we were selling perpetual licenses. So while we are adjusting our fiscal '20 guidance slightly, we're still expecting revenue growth of 27% for the year, margin expansion of about 12 percentage points, and we're confident of delivering on our fiscal '23 targets.

Now I'd like to turn it back to Andrew.

Andrew Anagnost

Thanks, Scott. As you heard me, we delivered very strong performance in the first-half of the year, and despite negative headlines from Europe and manufacturing, we are still seeing strong demand for our solutions.

For example, a large European automobile company recently signed a new three-year Enterprise Business Agreement or EBA despite a more challenging macro backdrop for their industry. They see the new agreement as an investment design, and they know innovation is needed to stay ahead of the competition. They view Autodesk as a market leader in this area and counting us to provide new innovative design solutions such as generative design. The EBA also offers for them the flexibility to access our entire product portfolio, including products ranging from manufacturing and agency collections to Alias, 3Ds Max, Maya, and Walt, while at the same time representing a more than a 130% increase in annual contract value for us.

We will continue to partner with them to ensure that they get maximum value out of our products and remain a leader in an industry that is undergoing significant change. Our customers know that at the end of every downturn is an upturn, and if they don't continue to innovate and use the latest technology tools throughout the cycle, they will be at a distinct disadvantage when growth returns. This underscores the importance of our products regardless of the macro environment as well as our customer's commitment to investing in technology to stay ahead as competitors.

Now, let me give you an update on some key strategic growth initiatives, we are focused on, specifically our continued traction with construction, gains in manufacturing, and leveraging our digital transformation to capture the opportunity within our non-paying user base. These initiatives are key drivers of both our near and long-term business. In construction, BIM 360 was the primary driver of our organic growth in cloud led by BIM 360 Design & Build. Our customers are continually finding value in this offering, and the PlanGrid team continues to see strong momentum. For example, Tutor Perini, one of the largest general contractors in the U.S. selected PlanGrid over some competitor offerings for two 500 million key projects. The team wanted to provide real-time up-to-date documentation and plans to the field. Senior management for these projects had used PlanGrid before at a different firm, and this relationship provided an opportunity to demonstrate plan for its capabilities for these two projects.

PlanGrid set up the projects by processing the drawings and pulling out title block information categorizing the drawings with tag and hyper-looking detail call-outs for 2,000 drawings in under an hour. This was an immediate time savings for Tutor Perini. Additionally, the field teams have access to new drawings, changes, RFIs, and some middles right away, and an easy-to-use interface. Going forward, we continue to look for opportunities to partner with Tutor Perini across all of their products and subsidiaries.

BuildingConnected and Assemble also performed well as we continue to focus on integrating these offerings. During the quarter, we integrated BuildingConnected's bid management solution with PlanGrid technology, enabling the seamless transfer of data from pre-construction to the building process. The integration allows construction project managers to automatically push design and pre-construction files from BuildingConnected to PlanGrid, saving time, reducing errors and further enhancing the cost savings associated with using both platforms. And as you recall, we integrated Revit with PlanGrid with the launch of PlanGrid BIM last quarter and have received tremendously positive feedback from customers regarding the update. In the first quarter after its release, the product is also being used in over 650 projects by more than 300 customers. These integrations are steady steps towards providing Autodesk construction customers with integrated workflows that connect the office, trailer, and field.

We are also continuing to see outstanding cross-selling with our recent construction acquisitions. For example, during the quarter, [indiscernible], an existing Autodesk customer expanded its relationship by adding BuildingConnected and Assemble solutions to reduce the time to open new locations and downtime to the construction updates and existing locations. And as a reminder, infrastructure is an area that we have seen in the past performed well during macro-related slowdowns, and we continue to focus efforts in this area. This quarter we secured a new Enterprise Business Agreement with Gannett Fleming. Gannett Fleming is a leading global engineering and architecture firm ranked Number 35 on the ENR top 500 design list. The Gannett Fleming Executive team considers a strategic partnership with Autodesk to be a distinct competitive advantage. With the EBA, Gannett Fleming now has direct access not only to the full portfolio of Autodesk technology, but also to a wide range of Autodesk services and expertise that will help them achieve their corporate growth and market expansion goals.

On the manufacturing front, revenue grew 20% in the second quarter, despite a more challenging manufacturing environment in Europe. Customers are seeing the benefits of our differentiated solution, and we continue to gain market share, while displacing competitive offerings in this space. For example, during the second quarter, a leading Swiss watchmaker selected Autodesk design and manufacturing collection to replace SolidWorks, given the flexibility offered by solutions. In addition, our investments in general design and Fusion 360 have resulted in competitive displacements not only in the CAD market, but also in the Computer Aided Manufacturing or CAM space with our lower barrier to switching vendors. As a result, we see displacements of competitors like Mastercam, and once we're embedded in those customer's downstream processes, we are increasingly penetrating design activities within those same accounts. Customers pick Fusion over competitive offerings due to its integrated CAD/CAM functionality, its compatibility with other CAD tools, ease-of-use, and attractive pricing model.

Now let's talk about progress with our digital transformation. Many of you recall that a key part of this transformation will increase the insight we have on our non-compliant user base. One of the initiatives we undertook to accomplish this started last year and has given us the ability to analyze usage patterns of our non-compliant users. Since last year, we have analyzed significant amount of data on these users, including how long they use the software and how their journey traverses across non-compliant usage to downloading free trials or using student additions. With this data, we can test different ways to convert them, including in-product messaging and leveraging our inside sales team. While still early in the conversion process, we have an increasing amount of data that allows us to take necessary actions to convert this large pool of potential customers.

In the quarter, we expanded our pilot cases for in-product messaging to many international regions, and enhanced our license compliance initiatives using our sales teams as well as being email campaigns. These conversions resulted in multiple deals, including two over a $1 million, one of which was in China. Our billings from license compliance initiatives were up by approximately 65% versus last year, although on a small base. So, as you've heard, we made great progress this quarter that enabled us to finish the first-half of the year strong. We continue to execute well in construction, where IT spending remains strong. We are making competitive inroads and manufacturing with our innovative solutions and are making strides in converting the current 14 million non-paying users into subscribers. We are highly confident in Autodesk's ability to capitalize on our large market opportunity, and are committed to delivering our fiscal '23 goals.

With that, Operator, we'd now like to open the call for questions.

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions] Our first question comes from the line of Saket Kalia of Barclays. Your line is open.

Saket Kalia

Hi, guys. Thanks for taking my questions here.

Andrew Anagnost

Hi, Saket.

Saket Kalia

Hey, Scott. Hey, Andrew. Hey, Andrew, maybe just to start with you, slightly higher level question on the macro, I know we spoke about some of the regional items that we've seen, whether it was the U.K., China or Central Europe, but I want to maybe think about the macro from a different lens. Clearly a lot of concern out there about the manufacturing economy, and as we know, not all of Autodesk's business is levered to the manufacturing space, but for the part that is, can you just give us some color on the verticals that Autodesk sells into, whether that's auto or aerospace for example, just to sort of get a sense for where Autodesk kind of sits with regards to different sub-segments of manufacturing specifically?

Scott Herren

Hi, Saket. Before we jump into that, I'd like to clear out something. We've heard that there's some confusion in our guidance metrics from the press release footnotes. So, and what our current guidance for free cash flow for fiscal '20 is $1.3 billion, we get there by saying free cash flow -- or cash flow from operations will be $1.37 billion, you'd net out $70 million of free cash flow to get to $1.3 billion. So, I think the footnote created confusion that the $1.3 billion wasn't already netted for CapEx. It is. So it's $1.37 billion before CapEx as cash flow from ops, $1.3 billion is the free cash flow guide for the year. Okay, go ahead.

Saket Kalia

That's helpful. Thanks, Scott.

Andrew Anagnost

Yes, it's good to clarify. So, let me address your question about verticals in manufacturing in particular. All right, first off, just let me just frame a few things. Our manufacturing business actually did pretty well. We grew 20%, a lot better than any of our competitors. That has a lot to do with the way we're diversified. It also has a lot to do with the price points and the upfront -- the reduced upfront cost of our offerings are pretty attractive to a lot of people, and we're also seeing acceleration in the CAM space due to the Fusion 360 portfolio and the way it integrates design and CAM along with the generative capability. So, we're seeing pretty strong performance in manufacturing, but to your point about which verticals we are exposed, our biggest vertical in manufacturing is what we call industrial machinery, and this is machinery of all manner and type. It's machines you'll see inside automotive factories, but it's also machines you see that package cereal or to wrap toys, or to do any manner of things, make paper, and large industrial machines. It's our single biggest segment.

Another really big segment for us is what's called building product manufacturers, and these are the people that build things that go into buildings, and they're also the people that build things that hang on buildings and prefabricate components of buildings, so think doors and windows manufacturers, think air conditioner manufacturers, think curtain wall manufacturers if you understand how skyscrapers are made.

Our smallest level exposure is actually in the auto and aero space, where other competitors have deeper exposure in terms of the engineering processes. We are definitely big in auto in some of the more forward-looking aspects of the auto industry. So we're embedded deep in the design departments, which are several years ahead of where the current production is and where production volume is. And we're also working closely with a lot of autos and some of their next generation production workflows. I think you've seen some of the things we've been talking about with generative with regards some of the work we've done with GM and some of the other automotives to kind of help consolidated multiple parts in multipart assemblies into a single 3D printed part. And we're definitely engaged in some of that work, but that's some of the hierarchy of exposure we have to manufacturing. Make sense?

Saket Kalia

That does. That's really helpful. Scott, maybe for you for my follow-up, a little bit of a different topic, but I'd love to talk a little bit about the remaining maintenance business. Obviously this is the last year of M2S price increases, as you've mentioned before. And that maintenance ARR sort of continues to decline in that high 30% range. How do you sort of think about that decline in coming quarters? And maybe just speak to sort of the profile of your remaining maintenance customers. I guess with the last 25% price increase should we sort of start to see a step up in that maintenance base decline or should we kind of think about it kind chugging along the way it has so far. Any color there would be helpful.

Scott Herren

Yes, sure, Saket. So this is the year -- by the way, it's a 20% price increase, not 25%. But Q2 is the first full quarter that that third price increase that we announced three years ago, it went into effect at the beginning of Q2. This is our first quarter with that, and we actually had some interesting results. The conversion rate of -- maintenance rates that came up for renewal actually increased, which is what you'd expect with the staying on maintenance going up 20%, from what had been about a third of those that come up for renewal converting to something in the high 30% range for the quarter. So conversion rate increased, as expected.

Interestingly for those that did elect to stay on maintenance, and some do, the renewal rate actually ticked up. I would've expected with the increase in price it to stay flat or maybe even decline, it actually, the renewal rate for maintenance for those that did not convert actually it ticked moderately, but ticked up slightly in the quarter. So we're seeing the exact same -- the behavior we expected when we laid out the M2S program. And at this point it's -- we have three more quarters to go, it'll actually overlap into the first quarter of next year before it's finished.

Saket Kalia

Got it. Very helpful, guys. Thanks.

Scott Herren

Thanks, Saket.

Andrew Anagnost

Thank you.

Operator

Thank you. Our next question comes from Phil Winslow of Wells Fargo. Your question, please.

Phil Winslow

Hey, thanks, guys for taking my question. Thanks for the commentary on Asia-Pacific and Europe. I wondered if you'd give is more color on what you're seeing in the U.S., particularly just into the quarter and in terms of the pipeline there, and particularly by vertical, that'd be very helpful. Thanks.

Andrew Anagnost

Yes, so the Americas and the U.S., in particular, were strong. We grew 32%. Our pipeline is solid in the U.S.; it's solid across the whole Americas. Our visibility is pretty good. We're seeing broad strength across all the segments. So we're not seeing any weakening in any kind of segment or by any types of vertical. So the U.S. business is looking solid. And it continues to look solid right now and until something changes in the environment. But we saw a great visibility in our pipeline to the U.S.

Scott Herren

Phil, the other comment that's worth adding on to that is, I think there was some concern that emerging markets might have underperformed during the quarter, and it's actually -- you have to dig into the appendix of our slides that we posted on our Web site, but you can see emerging markets actually grew north of 30%. And obviously there's -- a chunk of those emerging markets are in the Americas as well. So we continue to see, with the exceptions of three areas that we pointed out, we continue strength geographically across the board.

Phil Winslow

Got it. And also in terms of the breakdown, as Saket was saying, obviously your business is sort of like a matrix internationally and then by multiple verticals, and then multiple sort of sub-verticals within inside of those verticals. When you think about just manufacturing exposure versus, let's say, your commercial construction versus media and entertainment, is there one geography that's weighed more, let's say, towards your commercial construction and one more towards manufacturing? Any sort of color in sort of the…

Andrew Anagnost

Yes, absolutely. So that's an easy place, Phil, to give some color. So, construction, we're definitely leaned more towards the U.S., there's no doubt about it. On manufacturing we're definitely leaned more towards Europe. We've historically been more successful in Europe relative to competition than in the U.S. So when you see manufacturing slow down in Germany it slows down our overall manufacturing business. So Europe is definitely where we're more exposed in manufacturing. The U.S. is definitely where the bulk of business is for construction right now, though we're growing pretty quickly internationally on the construction side as well. But that's kind of the high-level breakdown.

Phil Winslow

Okay, great. Thanks, guys.

Scott Herren

Thanks, Phil.

Operator

Thank you. Our next question comes from Jay Vleeschhouwer of Griffin Securities. Your question, please.

Jay Vleeschhouwer

Thank you. Good evening. Andrew, a quarter ago, on the call, you made some interesting remarks regarding what you're calling your early warning system, this was in the context that you were talking about digital infrastructure and your customer engagements team. The question is, what is that system telling you in terms of some of the key metrics that it's set up for in terms of usage and other metrics. And is it thus far a U.S. oriented system or is it giving you signals globally that are helping you? And then secondly, a longer-term technology or roadmap question. I made some comments on the call earlier about your integrations thus far with the ACS acquisitions and the BIM and Revit, and so forth. What about the roadmap however between AEC and manufacturing, if you're going to pursue industrialization of construction you have to have that cross-segment integration. You haven't really spoken about it much, but perhaps you can talk about that roadmap?

Andrew Anagnost

Okay, all very good questions, Jay. So, first, let me talk about the early warning system and what it's telling us. So it is broad geographically. It tells us about multiple products in multiple geographies. And one of the things -- and what it's also intended to do is give us a predictor scores that are at risk renewals so that we go take direct action with regards to at-risk renewals. What I can tell you at a high level is it's telling us is there's no slowdown in usage of our products, right. And in fact, usage continues to grow across all types of products and all manner of verticals. So we're not seeing any systematic declines in usage or usage activity [indiscernible]. Our pirates [ph] continue to use our products robustly, and as do our paying subscribers, but remember that the core part of that system is designed to help our teams understand which one of our accounts are most at risk for renewal. And yes, you're right, we watch things like activations, we watch things like product usage, and we watch other things like access to support that allow us to kind of score these customers in terms of risk, but it's global, and we're not seeing any changes in the usage trends, usage continues to go up globally.

Now with regard to integration of the construction, I think you're actually pointing to a very important area, and it's one of the things that we're really focusing on behind the scenes, and it has to do with creating some workflows for the building product manufacturers, which includes, like I said earlier, curtain wall as well as the components that go inside of buildings. So what we've been working to do is expand the interlope between Revit and Inventor, so that you can actually take low-precision models from Revit, move them into the high-precision environment of Inventor, so that you can get -- do fabrication prep for things like curtain walls and other types of manufacturing components, and then actually move them back into revenue in the low-precision world in an account slated way, so the changes that happen inside of Inventor go back and update inside of the Revit model as well.

We've been improving those integrations continuously behind the scenes. You're going to see more improvements in those integrations in Q4, and a continuing roadmap next year. It's not completing fully industrialized workflows for construction, but it's a prerequisite to making sure you have a good BIM to manufacturing or 3D solid modeling workflows, so that you can actually do some of these more complex interactions between a building information model and a 3D model for manufacturing purposes. So, we continue to work on those Revit and Inventor integrations, and you'll see acceleration in that area.

Jay Vleeschhouwer

Okay. Thanks, Andrew.

Andrew Anagnost

Thanks.

Operator

Next question comes from Heather Bellini of Goldman Sachs. Your line is open.

Heather Bellini

Great, thank you. Just a couple of questions here, Andrew, I just want to make sure that your tone and your conservatism, it seems like you're not seeing the weakness here, so to speak, but you're just being more conservative in your outlook. I just want to confirm that that's how we should be reading your comments. And then, I guess one of the other questions would be how we see growth trending, and churn and see growth, which may be a precursor to a slowdown if you think of the fact that your products are deployed as increased deployment as people are hired into the industry? And then I guess the follow-up from there would be just from a linearity perspective after last quarter when you said linearity was a little bit more backend loaded, I know you guys were going back to, assuming the same linearity in Q3 this year that you did last year, is that where it actually came out of? If you can give us some color there, that'd be great. Thank you.

Andrew Anagnost

All right. So, what I'll do is I'll answer your middle question first, then I'll answer your first question, second, and I'll let Scott answer the third, okay?

Heather Bellini

Thank you.

Andrew Anagnost

So, your middle -- it's okay, see growth ensuring, no change, all right. We're seeing the same kind of see growth, where our renewal rates are solid. In some places, we are seeing improvements. So, all of those trends are consistent right now with a fairly steady environment. Like we said earlier, we've seen some indications in certain specific markets that lead us to be a little bit more cautious, particularly Germany and manufacturing, U.K. and Brexit, and you know, the state-owned enterprises in China, we simply cannot engage with them, and that's going to put pressure on our expectations relative to those markets. Even though emerging in China is a small part of our business, it's a small percentage. Over a couple of quarters, we could easily add up to $5 million in missed expectations, but there is a lot of noise. You can all hear it, it's all going on, there's change -- there is something new every day, all right, all you have to do is checking Twitter feed. So, there're all sorts of noise, and what you see us doing, and I want to make sure we put this in context. What we did is we took the high-end of our guidance down. So, we narrowed the range. The low-end of our guide on a constant currency basis is unchanged.

So, this is a prudent narrowing of the range to kind of reflect this noise we're seeing in the system. I think it's the right thing to do right now. I think it's appropriate, but even if you look at the worst case scenario on all of that, worst case scenario, we're coming in at 96%, at worst case of the numbers we set out there four years ago. I think that's pretty good. That's not just great modeling. It's actually great execution in flexible and adaptive execution, and it's that ability to kind of track the business to that kind of fidelity that gives us a lot of confidence in terms of what we're looking to see out in FY '23, and I want to make sure just since you asked the question, I want to reinforce a few things that are really important drivers around some of this stuff. First off, one just side comment, we could easily do some unnatural acts to hit that free cash flow number at what we stated previously in the last call. You wouldn't want us to do that. I have no interest in pushing an agenda in that direction, and we're just simply not going to do it. It's not good for the business, it's not good for the long-term health and for the long-term prospects of the business, and we have to pay attention to the long-term prospects of the business. So we're not going to do any a natural things to try to drive that free cash flow number up, and I think that's an important point. But the resilience in the model, because remember, as we move into next year the model transition is done, and we've got the resilience in the model us look out to FY '23, but look at just how the midpoint of the guide changed, half of that is due to currency FX, okay, a total complete short-term impact on our business.

The other thing I wanted you to be aware of in terms of what's kind of guiding us with the conservatism, and we're at pipeline solid, we're looking out pipelines, we've got more visibility to our business than we've ever had before, the pipeline looks good in countries where we're historically having problems. I think you might remember a year ago we talked a lot about Japan, Japan is doing great. So, we're seeing things like that, but more importantly, as we look out beyond the FY '20 guide into some of the FY '23 things, construction is doing really well. We believe the construction is going to continue to do well during the downturn, IT spending construction continue to grow during the downturn last time. In '07 and '08, Revit continued to grow for us. I think you're going to see that same thing, our performance on non-compliant users is getting better and better, and also, let's just say there was a protracted downturn. Something interesting happens in those downturns, infrastructure spend tends to go up. We've gotten in front of that. We've done some things in our core design products and our construction portfolio to ensure that we're good partners to the infrastructure business. So, we intend to capitalize on any infrastructure spend that could come out of a protracted downturn. So, you're right, we are simply being conservative and we're being prudent, because of the noise out there in the system and because of the weakness we saw in some places, where they can have impact on our expectation, was correct. We're growing robustly in all those places. We just have higher expectations for those places, and I think it's the right time to make that kind of adjustment, and it's all short-term, but we're still very confident about what we can do in FY '23.

Scott Herren

And Heather, I think the other…

Heather Bellini

Yes, Scott.

Scott Herren

Yes, in other part of your triple questions, that was around linearity, and I think the thing that we are seeing in linearity, and again in Q2, which was consistent with our expectations in Q2 was more sales are happening a little bit later in the quarter than what we had experienced in the second-half of fiscal '19. So, it's more like the traditional linearity that we had in the first-half of fiscal '19, and that's now built into our forecast for the second-half of this year. So it has a couple of effects when you do that obviously, and Andrew has talked about this a big chunk of the adjusted in our guidance is all tied to FX, but holding out aside, as linearity pushes on a little bit, it has an effect on billings, where billings covered layer in a quarter, and then you end up collecting some of those billings is kind of during the current quarter and the following quarter. So there's a little bit of an effect on billings and an effect on free cash flow as well from linearity, but that's the way to think about it. The midpoint of the guide is 27% revenue growth, midpoint of the billings guide is 40% growth even normalized for the 606 implementation at the beginning of last year, and the midpoint of the guide is 12 points of margin expansion. So it's a strong year. We continue to feel good about the momentum in the business.

Heather Bellini

Great, thank you so much.

Scott Herren

Thanks, Heather.

Operator

Thank you. Our next question comes from Gal Munda of Berenberg Capital Management. Your line is open.

Gal Munda

Hi, thank you for taking my questions. The first one is just in the manufacturing side. We see the manufacturing is going below the AEC part of the business, and I was just wondering if it's macro-related or is it maybe got something to do with the comments you made around the shift to the new platform, you mentioned that Fusion 360 is gaining market share, you mentioned that Fusion 360 is growing very, very strongly, and I'm wondering whether Fusion 360 by taking market share is also potentially taking market share from some older solutions, they have like Inventor, which might provide kind of short-term headwind to the revenue there?

Andrew Anagnost

All right. So, Gal, let me let me kind of answer that and cover that. First off, we grew 20% manufacturing better than any of our competitors, all right, better than the market. So, our performance in manufacturing is actually very strong. The relative difference in the performance between manufacturing and AEC is simply due to the fact that AEC is stronger. What we're seeing in AEC is Revit is not only being adopted very robustly, it's actually being mandated, or BIM is being mandated in more and more countries and for more and more projects. Japan in particular is an interesting place, where historically BIM was slow to be adopted, and it's starting to see an acceleration of adoption, and you're seeing BIM mandates showing up in Japan as well. So I want to make sure that we understand the relative performance difference between those two things, and our performance relative to competitors in the overall market.

Now, to your point about Fusion, one of the reasons why there is no cannibalization related to Fusion is because one every Inventor customer that's getting Inventor to the collection gets Fusion with it, all right, so they actually get both products. So, if you buy and subscribe to collection, you get all the things that are at collection, you actually get Fusion as well, and Fusion is a design app, can't do all the things that Inventor does. So there's very little kind of cross overlap between those two applications in terms of actually complete design things. The growth that you're seeing in Fusion is actually coming more from competitive swaps. We always like -- we've always given several examples of SolidWorks displacements, we've seen other placements as well, and this growth in the CAM space as well, where the integrated end-to-end solution and the price points are just really, really attractive. So, I just want to make sure that we put color on that, manufacturers doing great, the relative difference between AEC and manufacturing has to do with the fact that AEC is doing better, and it's doing better because of BIM mandates and BIM momentum, and we're not seeing any cannibalization from Fusion in our core Inventor business.

Gal Munda

Perfect, that's very helpful. And then just as a follow-up, could you comment a bit about the performance between the direct and indirect, so basically the channel and your own sales force, you basically mentioned that you had some significant EBA wins, maybe also comment a bit more on the e-commerce side of things, how the direct performance is going there?

Scott Herren

Yes. It's Scott, Gal. We talked about the mix being 70% through the channel, 30% direct, which is compared to 28% direct in Q2 of last year. So, it's grown a couple points. Our direct business actually grew 38% year-on-year. So we're seeing good strength in direct.

Within EBA, as we continue to do most of our EBAs in the second-half of the year, and within that, most of them in the fourth quarter and the second-half of the year. So the EBA business while we had good traction with EBAs in Q2, the quarters where we really start to see a lot more EBA businesses late in Q3 and then through Q4. The e-commerce business or e-store is actually growing very nicely year-on-year, again, growing off a smaller base, but growing very nicely year-on-year, and that's part of our overall digital sales approach, right, it's not just put up a store and try to drive people to it. We also use the e-store as the backend transaction engine for a lot of our inside sales teams. So, we're seeing very nice growth through that whole digital sales channel, which comes to us at higher net revenue content to Autodesk. So, it's actually performing quite well.

Gal Munda

Thank you. Thanks for taking my questions.

Scott Herren

Thanks.

Andrew Anagnost

Thanks, Gal.

Operator

Thank you. Our next question comes from the line of Ken Talanian of Evercore ISI. Please go ahead.

Ken Talanian

Thanks for taking the question. Yes, as you think about the uncertainty related to the second-half, could you give us a sense for how you see the billings impact related to demand patterns and linearity differ if at all between the larger EBA type customers and the smaller volume-oriented ones? And along those lines, how should we think about the EBA renewal opportunity in the back-half of this year versus last?

Scott Herren

Yes. Ken, we always have -- as I just mentioned, we always have more EBAs in the second-half of the year and in particular, in the fourth quarter than we do in the first-half of the year. That was -- we know when those EBAs are coming up for renewal, and we have the best insight of any of our transactions on what's happening with the EBA. So, we have a good sense of when those are going to close. That said, as always it's been pretty accurately reflected in our outlook. What you see in terms of the adjustment in billings of $50 million adjustment in billings, first of all, in context, it's a $50 million adjustment at the midpoint on a number that's greater than $4 billion, right, so it's a little more than a 1% adjustment in the full-year billings, half of that $50 million roughly is strictly FX. The remainder is really localized around the three areas that we talked about, around the U.K. with concerns over Brexit, and we saw that actually much more so in July than we did in the first two months of the quarter; same with the slowdown in the manufacturing base in Germany, and then with the state-owned enterprises in China. So the adjustment in billings is really a reflection of FX, and then those three kind of localized effects that I think everyone's feeling, not just Autodesk.

Ken Talanian

Understood, and if I may, given that you've already reached about $98 million in ARR from your acquisitions, and I think you're targeting $100 million for the year, how are you kind of thinking about the contribution to the year now?

Scott Herren

Yes, super happy with the way the integration has gone, and Andrew, I'll let you comment on this as well talking about the numbers. I'm super pleased with that, and the $100 million that you referred to was really what we talked about the PlanGrid. So it'd be slightly higher when you add BuildingConnected to that as well. I feel like we're on track. I'm really happy with the way those have performed so far, it's -- those are two really significant transactions to pull-in in the same quarter, and not -- we haven't lost a bit of momentum at either one of those. So feeling good about construction business overall, and maybe the interesting point before I hand off to you, Andrew, is not only have we done well with the acquired products, the breadth of the portfolio we have in construction now has created an updraft for BIM 360, and we talked about our Cloud, our organic Cloud ARR growth at

45% for the quarter, BIM 360 is one of the big drivers of that. So, we continue to see not just success in construction with the acquired assets, but a bit of a halo effect, because of the breadth of that product portfolio on our organic BIM 360 products.

Andrew Anagnost

You took all my interesting points.

Scott Herren

Oh, I'm sorry.

Andrew Anagnost

Yes, look, the construction portfolio is performing really well. That is very unusual to get this kind of first-half, you know, first two quarter performance out of big acquisitions like that. We're happy. On the integration side, senior leaders from the acquired companies are taking senior positions inside the construction solutions team. So, we're seeing better and better alignment between those organizations. We have a lot of confidence in where we're going with these things. You see continuing stream of product integrations. Our customers are getting comfortable with our roadmap. The reason customers accelerated their purchasing of BIM 360 is because basically they just -- they see us saying, doing, and acting in all the right ways. So, they're doubling down at Autodesk, and that's nothing, but an excellent sign for how this business is going to grow into next year.

Ken Talanian

Great, thanks very much.

Andrew Anagnost

Thanks, Ken.

Operator

Thank you. Our next question comes from Zane Chrane of Bernstein Research. Your line is open.

Zane Chrane

Hi, thanks for taking the question. I just wanted to dig into manufacturing little bit more. The 20% growth in manufacturing revenue really was driven by ARR added in Q3 and Q4 of last year. If I look at the annualized value of manufacturing revenue based on the number of days in the quarter, it looks like it's down about $4 million or $5 million in ACV compared to what it was at the end of Q4. So, and that's in contrast to pretty strong incremental growth in manufacturing revenue each quarter of fiscal '19, is the weakness in first-half on that incremental manufacturing revenue added? Is that due to increased churn or lower expansion with existing customers, or just a pause and adoption due to the macro uncertainty? Thank you.

Scott Herren

Yes, it's neither, Zane. So, to be clear, the 20% growth in manufacturing is in line with the growth in manufacturing we've seen historically over the last two or three quarters, that we're not seeing -- even in the markets that we talked about, the three markets that we talked about having localized impact, we're showing strong double-digit growth even in Germany, which of course is a manufacturing-based economy…

Andrew Anagnost

In ACV.

Scott Herren

In ACV. So, we're not seeing that kind of -- I'm not exactly sure the math that you did there, we're not seeing -- we can pick it up offline, and we're not seeing any acceleration or deceleration, significant deceleration on the manufacturing side. Renewal rates look strong across the board. New product subscription growth with -- back to one of the questions that came up earlier was in line and actually slightly higher is what we've seen in the prior couple of quarters. So, the manufacturing space continues to perform well, and I think it's a bit of a standout relative to our peers that are far more manufacturing-focused when you look at that growth rate.

Andrew Anagnost

Yes, just even to comment on Germany, and we'll just talk about it from a pure ACV standpoint. The ACV growth in Germany was still double-digit, high double-digit growth. What we saw was a gap between our expectations, and the growth we were seeing as we headed into the end of the quarter. We have high expectations for that market, and those expectations were not getting met in the same kind of pattern that we would have expected in past quarters, but ACV is growing across the board manufacturing. So, I think maybe it's something that would be absolutely good to follow-up on and make sure we got the math right there.

Zane Chrane

Okay. Then the next -- just a quick question on the gap between the results versus your high expectations going in, is the gap more driven by lower expansion than you expected or less adoption from potential new customers?

Andrew Anagnost

Yes. So it is mostly a cross-sell and up-sell opportunity slowing down a little bit, you know, I'll give one example as we look out into the end of the second-half, accounts in some of the European countries where we expected to see EBA conversions are looking like -- the more going to be subscription sales versus the EBAs. So what we're seeing is a little bit of change in behavior at the EBA level and at the up-sell and cross-sell level, and that's really what's triggering our caution. And in terms of what we saw during the quarter, we expect a certain level of uptick in the ACV as we get towards the end of the quarter, and for the manufacturing in Germany, in particular, we didn't see that uptick in ACV. We're still doing great growing, but we didn't see the uptick we expected towards the numbers we want to see. We took that as an indicator of some slowness.

Zane Chrane

Very helpful, thank you.

Operator

Thank you. Our next question comes from Kash Rangan of Bank of America. Your line is open.

Kash Rangan

Hey, guys, thanks for being completely detailed and transparent with all the disclosures. I was also curious, given that we've not seen any meaningful turn in the business so far, how confident are you that we have levels at the estimates, or is it potential no -- rather revisions potential based on what you might uncover in the quarter or do you feel that you've seen enough and you've scrub the model enough to account for -- whatever it is that you saw in July and that we should be okay from this point onwards?

Andrew Anagnost

Yes. So obviously we spent a lot of time scrubbing the numbers and looking at this and making sure that we were looking at this in a prudent way. We feel confident that we've set the guide, right, I mean, obviously we're one tweet away from something changing, you know, unless something radical changes in the macro environment we feel pretty confident given our pipeline visibility to what we're guiding out there right now, and again I just want to reiterate what we did is we narrowed the range from the top-end down, the bottom the constant currency stayed the same, right, prudent measured action relative to what we're seeing out there. We think we've got it right, and look, if something comes from our field, something will come from that field, but we feel like we've got it right and we scrubbed our numbers. Scott, do you want to comment…

Scott Herren

Yes, the only thing I would add to that, Kash, and it's a great question and I appreciate you asking it, so we can talk about it on the call, is that -- as we started to analyze, not just where we're headed in the -- with the strength of our pipeline and the overall strength in our renewal rates, which the renewal rate is becoming a bigger and bigger part of our business. Net revenue retention stayed in the same range. Renewal rates on a volume basis if anything ticked up modestly of course that picked up slightly sequentially. So, I feel good about the core business, and we talked about the Remaining Performance Obligations, even the current RPO, right? So those are -- they're going to turn into revenue in the next 12 months, growing 23% year-on-year. Who knows what the next Tweet will say, but we feel like we've built in and everything that we can see at this point. Yes.

Kash Rangan

Thanks so much again, and appreciate the transparency.

Scott Herren

Yes. Thanks, Kash.

Operator

Thank you. Our next question comes from Richard Davis of Canaccord. Your question, please.

Richard Davis

Thanks. Two quick questions, one, you had a little bit of kind of work on rationalizing kind of the overlapping features between PlanGrid and some preexisting functionality, how far are you on that? And then on the second question would be share repurchase, I think you said 253,000, how much is left, and can you accelerate that, can you surge that, or what's up of that? Those are two simple questions. Thanks.

Andrew Anagnost

Yes, Richard, thank you for that. All right, so first off, let's talk about how we position the portfolio to our customers and port position the breadth of our portfolio. I made it very clear that the BIM 360 products that's going to focus on project management, project-centric workflows, and all the things associated with managing projects from start to finish, and integrating them into the pre-construction workflow. PlanGrid is going to focus on field execution and all the things associated with field execution and the capturing of information in around field execution and communicating that information back up into the global project management environment. We've made progress on multiple fronts. Like I said earlier, we've integrated BIM into PlanGrid, and so, there is BIM PlanGrid integration. We've also integrated some BuildingConnected bid management function into PlanGrid as well, but one of the really exciting things that we're working on, and it's part of the integration strategy is that both the PlanGrid team and the BIM 360 teams have seen the next generation building BIM 360-docs solution we built as being the foundation of what we call a Common Data Environment. This is something that's specced out in the AEC industry. It's called the CDE. And docs is going to be the foundation of our Common Data Environment and both PlanGrid and BIM -- and on all the other core BIM 360 functionality are integrating into that platform, which gives us a great steppingstone, not only to satisfy some pretty complicated requirements around Common Data Environment, but also to bring the products together more rapidly. So, you're going to hear a lot of things from us in the second-half of this year, in the first-half of next year about how these portfolios are coming together, but our customers get it, they understand, and they are buying in more to our solution because they see us acting in the direction of what we said we're going to do.

Scott Herren

And Richard, on your stock buyback question, you're spot on, so we spent $40 million during the quarter, year-to-date we spent $140 million. There is no change in our stance on cap allocation. So we'll continue to offset the core support the growth of the company first, took offset the dilution from our equity plans and then return excess cash to shareholders. We've been doing that pretty effectively with a more opportunistic buying pattern. So, our price grid is based on some Monte Carlo modeling that we do. And during the trading blackout window, of course we have to trade under 10b5-1 plan. Our trading blackout window began in early July, right before the most recent market volatility. So the grid that we had set up didn't necessarily reflect the volatility that we round up experiencing. At this point, I think you should definitely expect us to be back in the market buying back stock.

Richard Davis

Thank you so much.

Scott Herren

Yes. Thanks, Richard.

Operator

Thank you. Our next question comes from the line of Tyler Radke of Citi. Your line is open.

Tyler Radke

Hey, thanks for squeezing me in here. So, you talked about how you think some of these macro issues, there are only a temporary thing or a short-term thing, I guess what gives you the confidence there, and then as you think about your lowered expectations, is it fair to say it's all coming from manufacturing, or is there any reduction in your view on AEC? Thanks.

Andrew Anagnost

Yes. All right, so first off, again, let me just clarify a few things that give us confidence about the short-term impacts. One, half of the change in the midpoint of the guide is currency effect, okay. So, let's just make sure we're all level set on that, remember, it's currency effect, I think that's really important. The only thing that gives us a lot of confidence is our pipeline visibility. We have more visibility, because of the changes in some of the models that we have in terms of our go-to market model with the rise of our mid-market programs and some of our direct programs, we have quite a bit of visibility into our pipeline, and we can see into our pipeline, we see robust pipeline, we have visibility all the way through to the end of the year, and also visibility beyond that. So we feel pretty good that some of these things are short-term effects. All right. In addition, we don't see anything slowing down with regards to construction and with regards to our piracy conversion work. So, if we just -- if we just look at high-level, those things are all kind of short-term impacts on our business.

All right, and what was the second part of your question, because I thought you asked another clarifying thing about what gave me confidence on the short-term?

Tyler Radke

Yes, that was just the confident that it's only a short-term macro part, and then on the -- I think you kind of answered it, but around the guidance, was it all a reduction in manufacturing, was there any reduction on AEC?

Andrew Anagnost

No. Yes, there is no incremental view in AEC. The change in guidance came from those FX effects and our view of the impacts of the softness we saw in manufacturing in Germany, the softness we saw in the U.K. and the gap between our potential in China and what we're actually able to execute on. Those are really the key drivers.

Tyler Radke

Okay, great. And if I could just sneak in one more for Scott, as you think about kind of some of the expense levers you have if you continue to see more softness, just what's kind of your willingness to maybe pull back on hiring, or being more conservatives, you have to keep free cash flow or profitability targets in place?

Scott Herren

Yes, it's a great question, Tyler. I think we've graphically demonstrated pretty effectively over the last four years, sound, spend, discipline. We continue to show to demonstrate sound, spend, discipline. We've effectively kept total spend flat for -- ex the acquisitions in Q4 we have total spend flat for four consecutive years. So, there will be a bit of an opportunity for us to take up spend at the same time we're increasing margins. If you look at this year, we talk about spend growth of 9% and margin growth of 12 percentage points of margin year-on-year. I expect margin to expand again into fiscal '21, although there is some pent-up demand percent having been flat for four consecutive years or some pent-up demand. So, spending will increase current course of speed, barring something significantly different happening in the overall macro environment spending will see a little bit of an increase again in fiscal '21.

Tyler Radke

Thank you.

Operator

Thank you. At this time, I'd like to turn the call back over to management for any closing remarks.

Abhey Lamba

Thanks for joining us. This concludes our conference call for today. If you have any questions, feel free to contact us. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may disconnect your lines at this time.