# Bentley Q1 2024 Earnings Call Transcript

**Eric Boyer**: Good morning, thank you for joining Bentley Systems' Q1 2024 results webcast.

I'm Eric Boyer, Bentley's investor relations officer.

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

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

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

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

I would like to mention that the *2023 Infrastructure Yearbook*, which explores the world's top infrastructure projects, is now available online at bentley.com/yii/yearbook. You can also order a printed version from the same link.

Additionally, we have published our 2023 ESG report, which is available on our investor relations website.

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

**Greg Bentley**: Good morning and, as always, thanks to each of you for your continued interest in BSY.

Eric, thanks for setting the stage for our focus today.

For all that we characterize and think of Bentley Systems as a no-drama company, we do realize that we've made news over the two-plus months since we've last been together.

And of course, I'm talking about our press release and announcement in London of our CEO transition plan. After this quarter, I will retire from CEO responsibilities to become executive chair. As I will continue to oversee investor relations, I expect our quarterly operating results presentations to continue foreseeably with the same format and lineup as today's.

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Given that I will turn 69 years old next week, I believe that my retirement as CEO has been reasonably anticipated. The timing purposefully follows the completion of transitions throughout our senior executive ranks since the IPO in 2020, in favor of a literally rejuvenating new—and I consider improved—cohort of leaders. The generational improvement at my current position, handing the reins to a first-time CEO, is de-risked for everyone, I think, by virtue of an incoming executive chair.

In that role, my priority will be to support Nicholas Cumins through and beyond the transition stage.

And in addition to management of our board activities, and investor relations, I will continue to be responsible for capital allocation decisions, including platform M&A. By way of capital allocation, for now, I am overseeing the asset analytics initiative, which we introduced this year.

A transition to executive chair is probably unsurprising upon retirement of a founding tech company CEO, and most of you have heard me looking forward, over the past few years, to this change at BSY. But I find it interesting to see that this seems to be becoming the norm more generally, as reported by board-level authority Spencer Stuart.

Of all CEO transitions in the S&P 500 last year, the average age of incoming CEOs increased to over 56. So, by contrast, we at BSY, with Nicholas at age 47, have purposefully prioritized the capacity to perpetuate our long-term continuity.

But our CEO transition is otherwise in common with the S&P 500 norm, as 78% of incoming CEOs, like ours, had never been CEO of a public company. And 74% were internal promotions, like ours. And the former CEO became executive chair, as will occur in our case, in 41% of all S&P CEO transitions.

Now, I should say that for our CEO selection, the sustainability committee of our board, over the past year, conducted a full assessment of candidates from first principles, including engaging top professional advisers.

Although I am not going to recount all of our criteria, of particular importance to me is the roundedness of our next CEO. You may have heard me admit to wanting to upgrade especially our marketing orientation, for better balance with our established engineering DNA.

Suffice it to say about Nicholas that his education was in law, although he correctly recognized the highest and best use of his talent and capabilities in software.

He left SAP for entrepreneurial opportunities in a couple of startups, including in programmatic advertising technology, before returning to SAP to lead its marketing cloud, including integrating major acquisitions.

But those of you in our audiences today have, by now, come to know Nicholas in the capacity of chief operating officer, to which he was promoted, on my part anticipating this subsequent transition, at the beginning of 2022.

And what you have come to know him for has been our consistent and continuing steady execution, under Nicholas' leadership of our collaborative and effective operating council, from which I have absented myself since entrusting our operations to Nicholas and his team.

As chief operating officer, our colleagues everywhere have already been reporting into Nicholas, except those in the corporate functions of finance and legal, who will do so beginning on July 1.

Consistent with the planned nature of our transition, Nicholas has already announced internally his pending organization structure as CEO.

Beyond execution, Nicholas has also brought structure and rigor to our planning functions, as we reprogram annually to optimize growth, subject to our institutionalized annual margin improvement.

Nicholas' remarkable capacities to learn, and lead, have been literally demonstrated through our coinciding track record as a public company.

Reflecting our global footprint now extending to a European CEO-designate, we chose to announce the transition during the opening for our new office in London, the U.K. being our second-largest country in revenues.

In keeping with our post-pandemic strategy to create magnetic offices to convene collaboration among colleagues, and for visitors, in London, we now occupy a top floor in one of the most significant new buildings in the city.

The project managers of builder Lendlease enthusiastically keynoted our opening event by explaining how our software made the construction of 8 Bishopsgate successful, despite the ambitious design and construction challenges they noted here.

They showed here how our 4D construction modeling software SYNCHRO, within Bentley Infrastructure Cloud, was uniquely instrumental to the project delivery of 8 Bishopsgate.

Like construction itself, as you can see, 4D is about the interaction of space and time. With SYNCHRO, Bentley Systems' strategy for going digital in construction enlivens infrastructure digital twins for their full potential, from design through operations.

Rather than regressing from 3D to 2D digital paper, we believe that adding intelligence from 3D to 4D, which we lead across infrastructure sectors globally, will steadily preempt and advance the future of digital construction. And Nicholas will have more to say about SYNCHRO's momentum.

Turning back now to 24Q1, the quarter was quite consistent with our overall expectations for 2024. As Werner will further detail, our profitability and cash flow are, for now, well ahead of that pace, with subscription revenues on track.

When we were last together, I described our objectives for Cohesive, rather than growth per se of a professional services business, as a means towards the end of validating the business model potential for an ecosystem of digital integrators to create and curate comprehensive infrastructure digital twins for owner-operators.

In fact, to the detriment of our overall revenue growth and owing to delays in accounts' implementation of upgrades of IBM's Maximo, the incumbent enterprise asset management system for most infrastructure owner-operators, the Cohesive digital integrator business is off to a slower start than in 2023.

Accordingly, within our prevailing 2024 revenue growth outlook, our revenue mix this year will be more subscription-intensive, starting at 91% in 24Q1.

Our key metric of year-over-year ARR growth merits a closer look in light of the factors we have planned to be different in 2024: lower contributions from programmatic acquisitions, intentional cannibalization in China, and the glide path of pricing escalation, with inflation subsiding.

And, indeed, in 24Q1, year-over-year ARR growth (business performance, including acquisitions) ticked down to 11%.

Because, over the trailing year, ARR onboarded with programmatic acquisitions has now become insignificant, the downtick in organic terms is of lesser extent.

Further excluding China's impact on ARR growth likewise shows more sustained momentum in the other 97% of our ARR.

And back to our reporting metric, business performance globally, our 2024 outlook of 10.5% to 13% ARR growth takes into account the evolution of parameters now generally governing our E365 consumption subscription contracts.

First, to report as usual on the quarter's growth in the scope and proportion of the E365 plurality of our ARR, here in green is the incremental magnitude of E365 accretion and expansion. Also as usual, a relatively small portion of E365 growth was from SELECT accounts upgrading, with the majority from accretion, or NRR (net revenue retention), in E365 accounts.

Last quarter, I observed that the 23Q4 decline in our overall NRR from 110% to 109% would not have occurred excluding China and Russia.

In 24Q1 China and Russia again factored in to the same extent, but NRR declined to 108%. As with ARR, this is also influenced by the direction of inflation, which impacts not only our annual pricing escalation, but also the background expectations which mutually inform negotiations of the step-ups in E365 floors and ceilings that now often extend over multiple future years.

Moreover, this year, a change in the seasonality of E365 consumption accretion particularly affected the first quarter. We alluded to this directionally last quarter, and I'd like to now illustrate more quantitatively this phenomenon.

Apart from any change in consumption, what we charge and recognize as revenue and ARR growth is increasingly attenuated by the ever-greater magnitude of E365 ARR that has recently become subject to an annual floor.

First, see here that, in 2024, a greater proportion of our overall ARR is consumption-charged E365, than in 2023. And the proportion of E365 ARR with no annual floor is now even smaller.

Incidentally, where there is a floor, there is almost always also a ceiling, as that's generally the incentive for the account to agree to a floor. And more or less institutionalizing floors and ceilings, to reasonably share with accounts the risks of consumption extremes, has been essentially neutral in its impact on our overall E365 revenues and ARR, as, at any given time, there has been relative symmetry between levels of usage below floors and levels of usage above ceilings.

For the small portion of E365 ARR without floors or ceilings, any and all increases in consumption will immediately increase ARR, not subject to reset seasonality.

And while aggregate consumption tends to grow throughout the year (at an average trend rate consistent with our NRR), the floors and ceilings don't adjust quarterly, but rather, only once per

year in advance coinciding with annual renewal and resets, which tend to be clustered in certain quarters.

So, the skewing of ARR growth across the quarters of 2024 is affected by the increasing prevalence, compared to 2023, and the reset timing of floors and ceilings.

Here's the distribution of the floor-bounded E365 ARR entering each of 2023 on top, and 2024 on the bottom, by quarter of annual reset. For the darkest portions, which reset longest ago, it is most likely that typically growing consumption will be, by now, above the floor levels and, hence, would constitute ARR growth—but that magnitude, and proportion, as you see, is lower than last year. More of the E365 ARR in 2024, in lightest blue on the right, has just reset and will not reset again until Q4 of this year, so trending consumption growth under those contracts will likely result in a concentration of ARR growth from rising above the annual floors later during this year.

Moving now within ARR growth from existing accounts' NRR to new logos that would most naturally start within small-medium business under our criteria, which classifies as SMB—those with ARR of less than $100,000 per year—I'm pleased to report that the indicators which I attribute to our success in competitive displacements are distinctly headed up in 2024.

After five straight quarters of contributing 3%, in 24Q1, new logos for the first time contributed overall ARR growth of 4%.

By the end of 2023, Virtuoso subscriptions, targeted primarily at SMB through direct digital experience, had captured over 600 new logos for eight straight quarters, and that count was steeply increasing.

In 24Q1, the exponential growth of Virtuoso subscriptions continued, thanks to a record number of new logos, with the cumulative number of accounts with Virtuoso subscriptions, almost all new over the last three years, at now over 9,000.

Finally, as to incremental growth: within our new asset analytics initiative that I previewed at length last time we were together, which is for instant-on digital twins monetized per asset, it has been a quarter of steady behind-the-scenes progress in technical, portfolio, and business development; and towards a concerted marketing launch with significant announcements still to come.

What you see here is a new Blyncsy offering to enable roadway owners to efficiently comply with new federal highway requirements, effective in 2026, to continuously maintain sufficient lane striping retroreflectivity.

For asset analytics, the largest new deal so far this year brings seven-digit ARR. You should expect to hear, throughout 2024, much more about growth and new investments in asset analytics.

And now, for operational perspectives and our congratulations, over to Nicholas. Thank you.

**Nicholas Cumins**: Thank you, Greg.

First, I want to thank again the Board of Directors for entrusting me with the responsibility to lead Bentley. I am deeply honored to follow in Greg's footsteps as CEO. Greg's leadership for more than 30 years has delivered remarkable success for Bentley Systems, positioning the company for continued growth as we help address the infrastructure sectors' biggest challenges. I look forward to working with Greg as he transitions to executive chair.

Q1 was a continuation of the same strong and steady macro trends that we discussed throughout last year—the most notable being the ongoing engineering resources capacity gap, driven in part by high demand.

In the most recent ACEC quarterly survey, U.S. engineering firms across all sectors once again highlighted lengthy project backlogs of one to two years, with expectations of higher backlogs 12 months from now.

This optimism is supported by their increasingly positive views on the U.S. economy, the design and engineering sector, and their own firms' overall finances.

Higher backlogs and engineering resource constraints continue to dominate conversations around the world as well.

In April, I attended FIDIC's Global Leadership Forum in Geneva, Switzerland. FIDIC, the International Federation of Consulting Engineers, represents over 40,000 firms globally, and the forum brought together an exclusive group of senior leaders from among these organizations. The resource capacity gap remains an underlying theme, with the CEO of one major firm commenting that the problem is getting worse, reinforcing the need—and opportunity—for digital solutions.

Moving to our performance in Q1, it remained very consistent with last year. Starting with our infrastructure sectors: once again, public works and utilities, our largest sector, was the main growth driver for the company. We continue to benefit from strong global infrastructure spending across transportation, water utilities, and the electric grid.

In terms of resources, we are also seeing trends consistent with last quarter. Seequent performed as expected, given the slowdown of new mine investments, but long-term mining sentiment remains strong. We continue to invest in new products and capabilities, especially in mining operations. This will further differentiate us from our competition and help users become more efficient, which is critical given the margin pressures they face.

As I highlighted last quarter, we are very excited about the growth opportunities for Seequent in civil as well, and we saw continued strength in Q1, including our first seven-digit deal for Leapfrog Works with a major civil engineering firm.

Industrial remained mixed, and the commercial and facilities sector remained relatively flat.

Moving on to regions, North America continued its steady performance with market sentiment nothing but positive. As Greg mentioned, consumption growth was impacted by resets in Q4, but we expect it to strengthen in Q2. Transportation continues to experience strong momentum from IIJA, and also from states spending more. We have momentum with U.S. DOTs adopting our software for digital delivery across design, construction, and into operations. This includes SYNCHRO, which I will discuss in more detail shortly.

Beyond transportation, there was movement in the U.S. with electrical transmission permitting reform. The Department of Energy will work to consolidate environmental reviews for energy transmission projects within a standard two-year schedule. We are cautiously optimistic that this could help facilitate faster buildout of new electrical transmission infrastructure within the U.S. over the long term, which our Power Line Systems business is uniquely qualified to support.

EMEA had a good start to the year, especially in Northern Europe, and was led by a particularly strong quarter in resources followed by public works. We see continued investments in infrastructure across Europe, and there are calls for even more in the face of climate change.

In Asia Pacific, India was once again the main growth driver, with continued momentum in water, now expanding from project delivery into operations, with digital twins of the water networks. The rest of the region experienced steady growth.

China performance was consistent with Q4. The headwinds remain the same, with difficult economic conditions, and continued geopolitical tensions. However, we did see renewal rates improving, which is encouraging.

Back to SYNCHRO, which is part of Bentley Infrastructure Cloud. As an open, collaborative, and data-centric environment, Bentley Infrastructure Cloud is the key to digital project delivery,

unlocking digital workflows that help firms increase efficiency and productivity, from design through construction and handoff.

Our focus in construction is on digital delivery versus general construction management software—that is, leveraging a digital twin to sequence and digitally rehearse every step of the construction process. This includes enriching the digital twin throughout that process, so that it accurately reflects the as-built asset, when handed over into operations.

One reason for this focus is the clear ROI it can deliver for users. A recent standout project is EchoWater, a large wastewater treatment facility in California. Engineering firm Project Controls Cubed leveraged SYNCHRO to develop a digital twin to manage 22 engineering projects across the facility. Various users—from designers to contractors—leveraged the digital twin, working in real time to prepare for and carry out all activities. The digital twin streamlined coordination and optimized construction sequencing, reducing overall program costs by an astounding 400 million dollars. As the planning director said, "It was an overwhelming success and really proved to everyone the power of Bentley's digital construction platform."

Results like this will further drive the uptake of Bentley Infrastructure Cloud, especially as the silos between design and construction break down, and engineering and construction teams unite in a collaborative digital twin environment. As users add model-based workflows to their traditional file-based workflows, they will increasingly benefit from digital delivery and gain a competitive advantage in delivering higher-quality sustainable projects.

Before I hand over to Werner, I want to thank Bentley colleagues for a strong start to the year. Thanks to their efforts, we are well positioned to take advantage of the many infrastructure opportunities before us in 2024.

Over to you, Werner.

**Werner Andre**: Thank you, Nicholas.

We are pleased with the strong start to the year, which puts us in a good position to achieve our full-year outlook.

Total revenues for the first quarter were $338 million, up 7% year-over-year in reported and constant currency.

Subscription revenues for the quarter grew 11% year-over-year, or 10% in constant currency, in line with our expectations, representing 91% of our total revenues, up from 89% in 23Q1. Our E365 and SMB initiatives continue to be solid contributors to our subscription revenue growth.

Perpetual license revenues for the quarter were flat year-over-year, or up 1% in constant currency. Perpetual license sales make up only 3% of total revenues and will remain small relative to our recurring revenues.

Our professional services revenues for the quarter declined by $6 million, or 22% year-over-year in reported and constant currency, driven primarily by weakness in Maximo-related work within our digital integrator Cohesive. First, 23Q1 was a difficult comparison, due to a particularly large Maximo implementation contract in the year ago quarter, and second, during the first quarter of 2024, our Maximo-related implementation work was negatively impacted by delays in Maximo version upgrade work, with such delays now likely to continue through the second quarter before the pace of upgrade projects is expected to increase early in the second half of the year. An advantage of later upgrades is that we will be better positioned to offer at the same time the transition from on-premise to our hosting managed services for Maximo, facilitating eventual integration with our iTwin environment. On a positive note, we were pleased that our Bentley software-related services grew modestly, as expected.

Moving on to our recurring revenue performance. Our last 12-months recurring revenues increased by 11% year-over-year in reported and 10% in constant currency, and represent 90% of our total last 12-months revenues. Our last 12-months constant currency account retention rate is up at 99%, and our constant currency recurring revenues net retention rate was 108%. Our net revenue retention is led by continued accretion within our E365 consumption-based commercial model. Ex China and Russia, our NRR was 109%.

We ended Q1 with ARR of $1.186 billion at quarter-end spot rates, with our E365 and SMB growth initiatives remaining the key growth drivers.

Our constant currency ARR growth rate was 11% year-over-year, or 11.5% excluding China. On a sequential quarterly basis, our constant currency ARR growth rate was 2.2%, and was fully in line with our expectations. As I mentioned during last quarter’s call, we expected our ARR growth rate for Q1 to be lower than last year’s sequential 3.1% growth rate for two primary reasons. First, our last programmatic acquisition with appreciable ARR contribution (which was 50 basis points) was Easy Power in 23Q1. And second, as Greg’s slides showed, we have an increasing percentage of our E365 accounts on consumption floors and ceilings, which impacts our quarterly ARR seasonality. With the fourth quarter being our biggest contract renewal quarter, many of these floors and ceilings have just reset at the end of Q4. These resets consider consumption growth expectations over the next year. As such, floor resets can be, and often are, above the consumption level at the beginning of the renewal period, with accounts growing into and above the floors over the renewal term. While our practice is to recognize ARR from E365 consumption and associated growth based on the annualized quarterly consumption, if a

consumption floor—which reflects the minimum contract value—resets at a higher level than current consumption, we recognize ARR at the new floor level at the time of contract renewal. As such, the higher prevalence of floors and ceilings tends to align an increasing portion of our E365 consumption growth with the contract renewal timing, which is heavily weighted towards H2 and Q4.

Lastly, we continued to be impacted by ARR headwinds in China, and a greater preference there for perpetual licenses. China represents 3% of our ARR.

Now, moving to profitability performance. Our GAAP operating income was $92 million for the first quarter.

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

Moving on to adjusted operating income with stock-based compensation expense, our primary profitability and margin performance measure. Adjusted operating income with stock-based compensation expense was $112 million for the quarter, up $22 million, or 24% year-over-year, with a margin of 33.3%, up 450 basis points. During the fourth quarter of 2023, we initiated a strategic realignment program to better align our resources with our strategy, address market opportunities, and to support our growth. Most of the realignment actions were completed at the beginning of 2024. Our first quarter profitability benefited from these run-rate savings, which we expect to fully reinvest into priority areas throughout the rest of the year. As we previously discussed, our priority investment areas are AI in product development and marketing. As a reminder, we calibrate our business to achieve our annual operating margin improvement objective by investing in long-term initiatives, rather than maximizing short-term profitability.

I will now briefly comment on our services gross margin. While our services revenues declined year-over-year by 22% for the reasons we discussed, we pay close attention to our services delivery cost structure to adjust for volatility in episodic services work. The net year-over-year services gross profit impact for the quarter was a decline of only $1 million.

Moving back to adjusted operating income with stock-based compensation. Our Q1 operating margin is typically a higher margin quarter for us due to Opex seasonality. And I do want to remind you of our seasonal pattern of expenses. We concentrate our annual raises for colleagues to occur as of April 1 of each year. And since approximately 80% of our cost structure is headcount and related support cost, annual raises have a significant impact on our operating expenses in Q2, Q3, and Q4, relative to Q1. This is further compounded by our larger promotional- and event-related costs, which are historically highest in the second half of the year.

With respect to liquidity, our operating cash flow was $205 million for the quarter, up $29 million or 16%, and benefited from the strong profitability of the quarter. For 2024, we continue to expect that our conversion rate of adjusted EBITDA to cash flow from operations will be in the range of 80%. Based on the expected seasonality of collections and expenditures, we expect that 65% to 70% of our cash flow from operations will be generated during the first half of 2024, up from our previous estimate of 55% to 60%. With regards to capital allocation in the quarter, along with providing sufficiently for our growth initiatives, we deployed $95 million paying down bank debt—and we have now fully paid down our revolving credit facility—$18 million on dividends, and $23 million in share repurchases to offset dilution from stock-based compensation.

As of the end of Q1, our net senior debt leverage was 0.1 times, and, including our 2026 and 2027 convertible notes fully as debt, our net debt leverage was 3 times. We continued our de-leveraging trajectory, de-levering 0.5 times adjusted EBITDA in the quarter, and 1.7x adjusted EBITDA since the beginning of 2023. With our strong free cash flow generation profile, we have de-levered and increased our balance sheet strength. And in April, we have now started to pay down our term loan while increasing our dividend, continuing sufficient share repurchases to offset dilution from stock-based compensation, and maintaining our programmatic M&A readiness. From a rates exposure perspective, now that we have fully repaid our revolving line of credit, all of our remaining debt is protected from high or rising interest rates, through either very low fixed coupon interest on our convertible notes, or our $200 million interest rate swap, expiring in 2030. We are very comfortable with our capital structure in terms of leverage, maturities, and especially interest rate exposure—and we have flexibility to optimize as conditions change.

And finally, we remain comfortable with the outlook we provided just over two months ago on our Q4 call.

With regards to foreign exchange rates: for the first quarter, the U.S. dollar has weakened slightly relative to the exchange rates assumed in our 2024 annual financial outlook, resulting in less than $1 million of incremental revenues from currency. Based on the most recent rates where the U.S. dollar has strengthened, if end-of-April exchange rates would prevail throughout the remainder of the year, our Q2 to Q4 GAAP revenues would be negatively impacted by approximately $6 million, relative to the exchange rates assumed in our 2024 financial outlook.

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

**Eric B**: Thanks, Werner. Before we begin with Q&A, I wanted to remind everyone that we issued a press release on April 19th regarding Bentley's policy of not publicly commenting on market rumors or speculation. Accordingly, we will not be commenting on any such matters.

Please keep your questions focused on our Q1 results and strategic progress. We also ask that you limit yourselves to one question so we can get through the queue. And with that, our first question will be from Matt Hedberg from RBC.

**Matt Hedberg**: Hey, good morning. Congrats on the results, and actually also congrats, Greg, on your run as CEO, and Nicholas, to this next phase of growth. I guess for you, Nicholas, we've known you for a while and you're a big part of the Bentley fabric. As we enter this next phase of growth, do you see any change in your philosophy in terms of where you might look for some additional growth or some additional synergies that might be a little bit different than Greg and sort of the prior growth phase?

**Nicholas C**: Well, as you said, you know, I've been the COO for a bit more than two years now. And before that, I was a CPO. So, you shouldn't expect any major change, either from a strategic or an operational standpoint. Our priorities remain the same when it comes to growth, E365, SMB, digital twins.

From a product standpoint, the priorities remain the same as well, as we move from file-based to data-centric workflows using digital twin technology, using, therefore, data, leveraging data for AI purposes. So, no major change, either in strategy and operations. The key word here is continuation.

**Matt H**: Got it. Thanks a lot. Congrats, Greg, to you too.

**Nicholas C**: Thank you.

**Eric B**: Our next question comes from Joe Vruwink from Robert W. Baird.

**Joe Vruwink**: Hello, can you hear me?

**Greg B**: Yes, Joe. Go ahead.

**Joe V**: OK, great. Hi, everyone. Just on the new logo growth in the quarter, I was wondering how much of that is specifically in the U.S. and you would say is related to this expanding ecosystem around safety OTs that's happening just as more engineering firms want to participate in infrastructure work?

And I guess related to the question, I think in the past when you talked about a new logo contribution within your growth algorithm, you would typically hedge that a little bit, just because smaller accounts might have propensity to churn a bit more. But if the new logo growth is lining up to support infrastructure activity, and the outlays for that are going to be higher each

year for the next several years, do you think new logos just become a more reliable contributor to the model?

**Greg B**: I'm going to ask Nicholas if he has a sense of the quantitative makeup of the logos, including the geographic distribution. I don't. I know that qualitatively, that phenomenon you mentioned of smaller firms, especially getting into linear infrastructure work in the U.S., is significant. But I don't have a feel for the relative magnitude of it. Nicholas?

**Nicholas C**: Our momentum in SMB is really around the world. It's not specific to North America. And in fact, in Americas, we have strong growth in Latin America, and the main driver there was SMB. So, we really see momentum with SMB around the world. We think—we think—it's because of the flexibility that we offer in terms of commercial terms between subscription with Virtuosity or perpetual licenses with SELECT.

We also hear from the accounts that they welcome an alternative to whatever they were using until now. So, we see momentum. Now that momentum, we've seen it again and again and again, we've had more than 600 logos for so many quarters, as Greg said during the prepared remarks. And Q1 was even more than we've ever had in SMB.

And what we can see is that on one hand, it's quite predictable now for us as a line of business in SMB to see that level of momentum around the world. The other thing we're looking into is retention, and retention is quite high, much higher than we had expected very, very initially at the beginning of the SMB program, which means this helps a lot in predictability and it helps a lot in linearity as well.

**Joe V**: Thank you very much.

**Eric B**: Our next question comes from Jason Celino from KeyBanc.

**Jason Celino**: Great, good morning. Greg, Nicholas, congrats. Nice to see the continuity here.

But my question is actually for Werner. The explanation of the resets and the mix of the year was really helpful. But as we think about the sequential error guidance, what does that look like for Q2 and the rest of the year?

**Werner A**: Yeah, so our growth on ARR sequentially now aligns a little bit more with the contract renewal timing. We previously gave guidance on what the contract renewal timing is throughout the year. So, that reset now that the correlation of ARR growth is more like 20%, 25%, 20%, and 35% throughout the year. So, we would expect that for Q2, the sequential quarterly ARR growth is picking up again.

And as we look into the ARR guidance for the remainder of the year, it is more back-half loaded, as we discussed last time. Our expectations did not change. There is still growth opportunity from our asset analytics business that's working on bigger deal opportunities. There is still growth opportunities from acquisitions. We expect acquisitions to be somewhat lower than it was in the historic past.

There's a little bit of a shift in the acquisition—more to earlier stage companies—but throughout the rest of the year, there's still like that tailwind from asset analytics and acquisitions coming in. And then, expectation is that we move back to the mid-range of the guidance as we move through the year.

**Greg B**: I was hoping that Werner would indeed mention our asset analytics initiative. All of that business is ARR. And we are working on, as I've mentioned, significant opportunities. It will be lumpy when they occur during the year, and it won't have any relationship to our established renewals, and seasonality is overlaid on that. But I do expect to be moving the needle with that by the time the year is out.

**Jason C**: Perfect. Thank you.

**Eric B**: Our next question comes from Siti Panigrahi from Mizuho.

**Siti Panigrahi**: Hey, guys. Congratulations, Nicholas and Greg. Great quarter, but can you comment on the trends in the international business, which is close to now 58%? So, what segments are more robust than others? And also, in terms of geography, how specifically, like U.S., Western Europe doing, and how do you see this election in different countries going to impact your business? Like India is almost wrapping up election, how should you expect post-election, and in the U.S. as you are heading into the election?

**Greg B**: I'm going to ask Nicholas to take that, but I, myself, wonder the same thing. India had led the world in growth rate through most of last year, and then declined for a while and now is roaring back. And I don't know if that has to do with political situation there. Nicholas, what do you think?

**Nicholas C**: Yeah. To the first question, Siti, I would simply refer back to the prepared remarks in terms of where we see growth by sector, and then by region. Specifically, to India, India was, again, a major growth driver in Asia-Pacific, even though it had normalized towards the end of 2023. We saw it taking momentum again.

And to the earlier question, by the way, SMB played a big part there. A lot of investments still in the water infrastructure, and as for the full ecosystem, not just the local authorities. And there

might be a pause, obviously, because of the elections on some new projects to be awarded, but it should be a momentary pause.

The good thing is our growth in India is really based on full ecosystems, all constituents, including the smaller firms. So, we expect the growth to remain strong in India for the remainder of the year.

**Greg B**: I guess something else to add about India is that India has benefited not only from its own indigenous investment program, but also from the resource capacity constraints elsewhere. India continues to produce more qualified civil and structural engineers, especially, and more of the work gravitates to India, thanks to our ProjectWise environment. That tends to be however—overflow would not be quite the right word, but that does fluctuate with workloads in the industrial sector, especially as we've observed it, so that superimposed on a steady domestic demand in India is a more cyclical international sourcing to India. And it's good to see it benefiting from both apparently, again, this year.

**Siti P**: Great. Congrats on the quarter end. Very impressive margin and cash flow. Thank you.

**Eric B**: Thanks, Siti. The next question comes from Clarke Jefferies from Piper Sandler.

**Clarke Jefferies**: Hello? Can you hear me?

**Greg B**: Yes, Clarke.

**Clarke J**: Thank you for taking the question. Greg, I noticed that you mentioned you'll be overseeing the asset analytics opportunity, and the prior question you mentioned moving the needle with some of these opportunities, even if they will be lumpy. I just wanted to ask, are there any other near-term 2024 opportunities? And I think, specifically, do you plan to accelerate the industrial or vertical coverage for asset analytics as a business model? Any preview of expansions beyond Blyncsy and cell towers that we've already talked about?

**Greg B**: Well, we have said that our programmatic acquisition priorities this year will be in this asset analytics space. We're working on consolidating our offerings there so that we can leverage and share platform capabilities, including the processing economics of AI and inspection to produce insights. And we're going to get very, very good at how reliable and fast and efficient is our processing, and it's our way of participating in the AI workloads, if you like, the compute loads.

And we want to have multiple vertical offerings. So, we have, as you say, only towers and Blyncsy so far. We'll target others, for instance, transmission and distribution infrastructure. And

we know there are the types of small companies that we had previously been participating in through our iTwin Venture fund in small investments. We're more interested now in outright acquisitions, as in the case of Blyncsy, and incorporating them to take advantage of these economies of scale.

One of the other aspects of economies of scale and asset analytics is offering to the engineering firms, who are half of our business, that they should be in the asset analytics business with their own proprietary analytics, laid on to the processes that produce the instant-on digital twin insights, where they can add their knowledge of particular assets and their services to interpret and prescribe and perhaps even design and construct the resulting improvements in operations and maintenance, to be able to offer them a full menu for any asset type where they may be the incumbent engineers serving the owners. We want to help get them quickly into the business, where they don't have to set up their own back office to do the processing and learn the technology of the AI. Ultimately, those go-to-market is leveraged in that respect and technology back office and the other respects. So, we have big eyes and, you might say, a big appetite to accomplish some more investments, including acquisitions. But we will also make, as well as buy, in the asset analytics area. We see it as all upside, and we have a good head start that has really reinforced our intention to invest there. But invest in corresponding with the ARR growth we gained from the offerings we have already.

**Clarke J**: Interesting. So yeah, shared infrastructure investments this year, but definitely ARR opportunity as well alongside it. Thank you very much.

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

**Kristen Owen**: Great. Thank you for taking the question, and good morning. Congratulations, both Greg and Nicholas. Wanted to ask about the resources growth and ask you to maybe double click on that, help us understand how much of that portfolio today is Capex versus Opex activity, and any updates that you could share on cross-selling synergies for Seequent across the broader portfolio.

**Greg B**: Nicholas?

**Nicholas C**: Yeah, the majority of our business in resources is mining. The rest of the resources sector performed as in previous quarters. But, in fact, mining also performed as in the previous quarter, which is, there's still a slowdown in investments in new mines or major expansion of existing mines.

Now, the interesting thing is, even with that slowdown, Seequent in mining is still growing faster than the company average. So, it's still actually a growth driver for us, even in that environment.

And that's because Seequent is not just used just for exploration of new mines or major expansions of existing mines, but throughout mine operations.

And in fact, we are a bit taking advantage, so to speak, of the slowdown, to strengthen our position with existing accounts. There's such a pressure to be more efficient—that's fantastic for the incumbent—to strengthen the position. And we are overlaying this with more investments from a product standpoint, especially for mining operations.

Now within Seequent—so, the majority of the revenue of Seequent is also in mining. But the fastest growth part is actually civil, as I commented in the prepared remarks. And that's also a continuation of what we've seen in Q4.

What's very interesting here is that not only is the geotechnical part of that business growing—and you could argue, well, that was the historical business that Bentley had for the subsurface, that we had transferred to Seequent—but what's more interesting, I think, is the geomodeling piece of civil is growing very fast.

Leapfrog Works, which I referred to, this is the adaptation of the core product of Seequent, called Leapfrog, for the civil industry.

And here, we're literally creating a market. And the value proposition we have is just very unique and very strong. It's because of a better understanding of the subsurface we can reduce the financial risk. We can reduce the technical risk of project delivery. We can also improve the carbon footprint.

And then, the other part of the Seequent business is in energy, energy transition in particular. It must have been almost two years ago, I commented on Seequent software being used for geothermal. And that's a strong part of the business. But Seequent software is used more and more for offshore wind platforms as well, to have a better understanding of the subsea-subsurface conditions if you're going to do fixed foundations for these offshore platforms. So tremendous growth opportunities beyond mining, with civil and with energy. But mining itself, even in the context of a slowdown, we're growing very well.

**Eric B**: Thanks, Kristen. The next question comes from Jay Vleeschhouwer from Griffin Securities.

**Jay Vleeschhouwer**: I'd like to ask a question about portfolio management. Last fall, you spoke at the infrastructure conference about a number of new industry solutions. I believe the number was eight at the time. More broadly, over the last year or so, we've spoken, Nicholas, you and I,

of your intent to simplify the portfolio, particularly with respect to the number of open modules you have, trying to improve the salability, for example, through the channel.

The question, therefore, is, can you update us on how the progress of portfolio simplification or reconfiguration is progressing? And, as that occurs, do you think that could play into some effects on consumption? Or that is to say, might simplification improve consumption over time?

**Nicholas C**: Absolutely, because as we simplify the portfolio, we simplify the way our accounts or users can discover new capabilities that they can benefit from. So, we remove friction in that discovery process. We make it as easy as possible for them to understand how else Bentley can help.

So that's one of the main reasons for the simplification of the portfolio. And simplification of the portfolio, just to make it clear to the others who were not part of that conversation that we had, Jay, doesn't mean that we are reducing our coverage, our comprehensiveness—not at all. Our portfolio comprehensiveness is what makes us very distinct.

What we mean by portfolio simplification is, just how can we make it easier to discover the breadth and depth of capabilities that Bentley has to offer? And it's true that the main mechanism that we use in order to simplify that portfolio is the industry lens. And it's both a lens that we're using from a go-to-market standpoint, so it's easier for you to discover for a given industry, such as, I don't know, electric utilities or water utilities, what Bentley has to offer. But we also use it from a product standpoint to make sure that our products integrate great with non-Bentley software, but they integrate even better with Bentley software.

And that's when we come into industry solutions specifically, the eight that you were referring to, Jay. There's another one that we launched just a couple of months ago, called electric distribution design. We did that at DISTRIBUTECH. And this is a bit of an abstraction, if you want, on top of many capabilities that we have, where we test the integration and we ensure the true synergies between our product capabilities to help solve a given industry business problem.

**Greg B**: I'll just do a little commercial for my asset analytics. I say mine because I'm going to be hanging on to that for a bit after the CEO transition, that the idea there is, where we have had a broad set of offerings, for instance, we talk about the solutions for dam safety, let us say.

For those asset types, where we can package it up to a standard price per asset to generate the AI insights—and we've so far done that with communication towers, obviously, and now with miles of roadway, where, for instance, the new offering we were talking about here is crowdsourced imagery to identify the reflectivity of the lines, how often do they need to be repainted, where it can be boiled down to something which can be programmatically delivered on a standard menu

at a standard price—we can package that up into asset analytics and have it be instant-on for any engineering firm that wants to add that, or offer that plus more to their own account. So, we're trying to find that which can be most digestible. And there's a lot more in common with communication towers from one to the next, and roadway miles from one to the next, than there is for dams.

So, we're imagining we can add more asset types to the asset analytics menu, the instant-on menu, yet try more so to shorten the sales cycle and increase the pace of monetization. But that's in addition to what Nicholas has described on the industry solution side.

**Jay V**: Thank you very much.

**Eric B**: Yeah, thanks Jay. Next question comes from Michael Funk from Bank of America.

**Michael Funk**: Hey, good morning, guys. Thank you again for the time. And Greg, thank you so much for the time you've given us over the years and congratulations to you. And you as well, Nicholas. So, Greg, earlier you mentioned greater focus on marketing is one thing Nicholas has brought to Bentley. So, to put it another way, I guess, where do you believe there have been deficiencies in marketing? And how can you improve?

**Greg B**: Well, Nicholas is a particularly good fit for our company because we recruited him as chief product officer. And he has a real zeal for product management. You've been hearing some of that, the chops and so forth that make a difference in how you fit into a company of engineers for engineers.

But, prior to being a public company, we felt more entitled to stay in our comfort zone. For instance, we never tried an SMB. As you know, we never had any e-commerce transaction ever until we were a public company at 36 years of age.

So, what's important going forward is that we identify what opportunities we haven't taken advantage of and be sure we configure ourselves to be able to be competitively superior there as well. And we've got a start on that with Nicholas, with excellent new marketing resources. We just announced in our company—I have to smile when I say this—we have a wonderful new chief storyteller who comes to us from Amazon and, prior to that, GE.

And I know Eric mentioned our *Infrastructure Yearbook* just published in hard copy. I hope everyone will take a look at that and read stories like that Echo project in water and others with SYNCHRO and so forth that are ready to tell, that are the reason that infrastructure improves our economy and environment at the same time. And we want to take the part of infrastructure engineers in telling those stories.

So, I think it's all green light. We're so pleased by the return on investment in SMB. It's just symbolic of something that we couldn't be bothered with at one point in time that's helping balance the business.

And balance, and roundedness, and both sides of the brain are what I'm expecting from your team, Nicholas. I'm pointing to you here on the screen. Thank you very much.

**Michael F**: Great. Thank you, Greg, and congratulations again to you.

**Greg B**: Soon enough. I'm still in my CEO seat for another two months.

**Michael F**: Of course you are. OK, take care.

**Eric B**: Next question comes from Dylan Becker from William Blair.

**Dylan Becker**: Great. Thanks, guys. Congrats, Greg. Congrats, Nicholas. And maybe first for the happy early birthday, Greg.

Nicholas, you called out some of the U.S. transmission reform that's potentially accelerating investment on the energy side. I wonder how you kind of pair that—because I think that was somewhat of a gatekeeper of incremental new spend with some of the sustainability initiatives and maybe how that can kind of pair with asset analytics from your perspective, Greg, around things like reliability, resiliency, intermittency, and things of the like, given that always-on is maybe now more readily available or readily addressable, if that makes sense?

**Nicholas C**: Well, I'll get started. For the past few quarters, we started to see some announcements around IIJA funding for the electric grid all related to expanding the grid. And we do need to expand the grid, especially to go and tap into renewable sources of energy, which are typically quite far away from the points of consumption.

And I think the estimate is that we need to expand it by two-thirds by 2035 in order to meet our clean energy targets in the U.S. And, indeed, the biggest issue we see, the limiting factor for the expansion of the grid, is permitting. So, we saw some good news from the White House. But we are really cautiously optimistic. They're basically saying that within a standard two-year schedule, all the environmental reviews will happen for the projects. That is primarily actually for the clean energy projects. And that should be a gain of 50% in review time. We are cautiously optimistic. We need to see exactly how does that translate.

In the meantime, however, we're already quite busy. Our users are already quite busy using PLS, Power Line Systems tools, in order to take care of the existing grid. And our existing grid is old. And it's a potential issue with climate change, with extreme weather events, et cetera. So, we

still see PLS growing quite fast, even before we're talking about the expansion of the electric grid actually happening.

**Dylan B**: Great. Thank you.

**Eric B**: Thanks, Dylan. Next question comes from Arsenije Matovic from Wolfe Research.

**Arsenije Matovic**: Hi. Thanks for taking the question. This is Arsenije Matovic on for Josh Tilton. Congratulations, Nicholas. And congratulations, Greg, for your successful tenure as CEO. I wanted to ask on digital twin revenue from iTwin. I think the last time you had a target was for eight figures of ARR, which you met exiting the fourth quarter of 2020. Where are we today? Has that doubled? And how accretive has it been to overall ARR growth?

And then just a brief follow up to make sure that we understand the comment on ARR regarding the floor and ceiling dynamic of E365 renewals. So, in this scenario, where, in the fourth quarter, a renewal was made with the floor and ceiling reset, and, in the following first quarter, the consumption of E365 was below the floor set in the fourth quarter, the ARR contribution in that first quarter is based on the floor for consumption set in the fourth quarter and not based on the consumption in the first quarter? Thank you.

**Greg B**: Yes, so I'll answer that last one first since it's in our mind. The ARR growth for the first quarter is zero because the consumption occurred but it didn't get to the level of the floor. The level of the floor is going to be reached sometime during the year. Hopefully, the level of the ceiling would also be reached during the year. We don't know that.

But there's ARR equal to the floor. But the ARR growth is none, and that is rather representative. The phenomenon we remarked on last time is that the accounts are asking for multiple year contracts, asking for floors and ceilings to put a gate around. They know going digital is really important and is their top priority, but they would like to have boundaries around what they're going to be spending on that. But they're willing to commit to increases, step ups in floors and ceilings. We just don't go to the science of having them step up every quarter. That's too hard. So, they only step up once per year, and that's the reason for the phenomenon becoming more important, along with more and more of the overall ARR is under E365. And I'm going to let Nicholas address the first question.

**Nicholas C**: Yeah, the reason we haven't given a number in terms of digital twin ARR for quite a while is because it's almost impossible now to separate it from the growth of our products because more and more of our products are leveraging digital twin or leveraging iTwin to support new capabilities.

And so, you could argue iTwin is a reason why we see momentum with Bentley Infrastructure Cloud, including ProjectWise, powering new capabilities, such as civil design validation or advanced design review, or even the 4D modeling piece of SYNCHRO. This is also powered by iTwin. So, we cannot really separate it. And then asset analytics, by the way, can be considered as digital twin revenue because we actually create digital twins of the cell towers, we create a digital twin of the road network, as we use OpenTower or Blyncsy.

**Greg B**: And Arsenije, we will break out the asset analytics ARR curve. We're preparing a lot of marketing launch materials. It's going to have a proper name like Cohesive does and Seequent does and so forth. And we'll provide a lot of visibility into that. That's entirely owing to the iTwin Platform, along with the other AI we incorporate in it.

But we've sort of imbued iTwin Platform in everything now as a preference, not only financially, but to get it fully taken up so that we don't have an evangelism barrier in each account to something explicit for digital twins. We'd like digital twins to be implicit to start with.

**Eric B**: Thanks. The next question comes from Blair Abernethy from Rosenblatt Securities.

**Blair Abernethy**: Congrats to Greg and Nick as well from me. Just a quick one, can you give us an update on the IIJA funding programs? How are you seeing where you're at there, particularly on the road side? And then secondly, Greg, just Blyncsy, what's the go-to-market program look like with there over the next couple of years? Is it embedded with your core go-to-market? Or, because it's a more of a specialized solution, is it something you're going to do separately?

**Greg B**: It's not so specialized that it can't come through our account managers covering the transportation agencies. However, a lot of the opportunity is with smaller municipalities and counties and metropolitan planning organizations, for instance. And they have an engineer of record. And we would like to work with that engineer to enable them to bring Blyncsy offerings to all of their clients.

So that's what we're working on ramping up now, and, in the meantime, we're meeting with—I mentioned a seven-figure ARR deal that was with a state DOT. And there will be many others of that magnitude, but we want to reach every roadway owner. And we'll do that through our engineering firms in the plan.

**Eric B**: Thanks.

**Greg B**: Yeah.

**Nicholas C**: Yeah. And then, on IIJA, now, 37% of the funding has been announced. And as we commented in the last quarter, there's a time gap between being announced and then being awarded. So, you can consider IIJA as still a strong tailwind that we have in the U.S. And it's going to sustain our momentum. What's interesting is just—and the bulk of it is, indeed, in transportation as you were alluding to, Blair.

Now, what is interesting is that the states themselves are layering on top of that, their own investments for their own infrastructure. And so, we saw the budget of transportation for the different states increased by, I think, 11% year-over-year. And there were even voters who decided that, indeed, we should increase investment in infrastructure in 15 states. So, there were measures on ballots in 15 states asking voters whether "yes" or "no," we need to increase investments in infrastructure. So, there's clearly a momentum there at the federal level and at the state level.

**Greg B**: And at the federal level, believe it or not, in the U.S., I think you're there in Canada, the airports funding is controversial, yet it just passed the Houses of Congress and is about to become law. This bill is the best yet in explicitly allowing advanced digital construction management systems to qualify for federal funding and having explicit funding for drone inspection programs that will really lead the way and raise the game for infrastructure engineering in the U.S.

**Blair A**: Great. Thank you.

**Eric B**: Yeah. Thanks, Blair. Before we conclude, Werner, you want to touch upon revenue seasonality real quick?

**Werner A**: Yeah. So, as I mentioned in the prepared remarks—so we expected our maximum upgrade work in Q2 remains at Q1 levels before it's going to pick up again, or it's expected to pick up again early in the second half. So, we expect that our services revenues in Q2 remain essentially at Q1 levels. So, that means that our revenues will be more concentrated on subscriptions in Q2.

**Eric B**: Right. So, that concludes our call today. We thank each of you for your interest and time in Bentley Systems. We look forward to updating you on our progress in coming quarters.

**Greg B**: Thank you.

**Werner A**: Thank you.

**Nicholas C:** Thank you.