Matt: All right. Welcome everybody to the second half, the home stretch of day two. I'm really excited for this presentation. I've known Bentley, Greg, his brothers, the whole team for years; well before the IPO. It's just been fun to watch the story evolve and the consistency over the years, and kind of the durability of the business. And it's been a fun story to watch as a public company. And so Greg, thank you for being here. Eric in IR is down here on the front for any of you that would like to – thanks, Eric. Thanks for coming as well.

Let's start with the – you guys, I forget even when you guys announced results. It feels like it was last week, but…

Greg: Two weeks maybe.

Matt: Was it two weeks ago or whatever? Okay. Yeah. Monday seems like a long time ago to me. You delivered a really solid quarter and a guide, despite this kind of – this underlying macro uncertainty that I think everybody's sort of concerned about. Can you talk about some of the higher level trends that cut through this macro noise? A lot of it's who you're selling to, the relationships and the duration of these relationships. But talk about some of the big drivers of your business and why it's been able to cut through some of the uncertainty that we've seen.

Greg: Well, Matt, you referenced a guide and, of course, we provide financial guidance for the year as a whole and narrowed that in midyear this year and have stuck with that in the meantime. And that's not out of character, the fact that we would guide only annually because our business is relatively, as you sort of referenced, not that _____, and we're afraid can't deliver drama very likely.

Matt: Yeah, no drama. I love that. I love that moniker.

Greg: It is that the end markets that we serve are relatively predictable, as follows. The bulk of our business is in the engineering of horizontal infrastructure, so public works and utilities is the largest sector there; about half of our business. But I might say – and that's rather predictable based on long-term funding and programs and so forth. It's not vulnerable to private financing market dynamics in the main and that's kind of a mainstay, a flywheel, I say, that has helped us to be predictable.

But on the other hand, during this year and the period of our financial guidance there had been some things we had not anticipated. And I might say over the year so far, things have sort of converged in terms of growth rates in sectors and geographically. But something, for instance, that we did not foresee is that in our mining sector with our Seequent platform acquisition of almost two years ago now, there's some exposure to activity for new mining. And new mine exploration is down year over year. And I guess it runs in cycles that sort of fit within the overall supercycle of mining.

And our business at large, I guess has made up for that because of the general predictability of the flywheel. But there's been, at least on the margin, that little bit of sensitivity that I suppose is the exception that proves the rule that we're entirely boring.

Matt: Boring is good. I mean there's an aspect of predictability there. All right. So you talked about some of the – because I think if we look at the Q3 results, and obviously you take more of an annual view and a multi-year view frankly to growth and profitability, you still beat estimates. You decelerate a little bit versus Q2 from an ARR perspective. So kind of core mining, a little bit of weakness there. Was there any other sort of like areas that you'd call out that were maybe a little different than you expected?

Greg: Matt, your premise there sort of is that we exceeded some expectations and the year has felt rather characterized by consistency for us, so we didn't necessarily outperform our own expectations. However, there was an indication. Our constant currency ARR growth rate, which is our key metric, ticked down during the quarter from its high water point of 13% to 12.5%.

But that turns out to be a matter of the fact that the corresponding quarter a year ago had one more weekday workday and 40% of our business is our E365 program where we charge per day. We hadn't worked that out ahead of time, but looking back, we can see that the ARR of a year ago annualized that extra workday and we were being compared to that. And otherwise we wouldn't have been a deceleration in ARR growth. So it was pretty consistent in general.

I will note, though, that we say that our financial outlook range for the year, expressed in constant currency ARR growth, we still have that range that we narrow to in the midyear; haven't yet further narrowed it because the fourth quarter for us is always a quarter with relatively more subscription renewals, dollars, and so forth. And that's all in process now and we can't yet have visibility to how that's going to turn out.

You might say, in a book of business, which is annually renewing contracts, the largest of which and most of which are consumption based, what can there be to negotiate? Well, it has to do with the fact that we have caps and floors on most of those contracts, they get reset annually, and now is our chance and the account's chance to negotiate those caps and floors. So that's what's going on through the remainder of this quarter and year. And we'll learn a lot about that from which to have a grounding for next year's financial outlook.

Matt: So let's talk about some of the bigger drivers of the business. You mentioned E365, Virtuosity is a huge opportunity, but even IIJA. Are those three of the – I mean we could say Digital Twin. I mean there's probably four or five other ones that are important as well. When you think about some of these bigger catalysts for the business, how do you sort of rate them in in your head?

Greg: Well, I don't think it's inappropriate to start with IIJA. In the United States is half of our business. And as everyone here would know, there wasn't much of an understanding or focus on infrastructure prior to the consensus we have now where we're investing in infrastructure. It's working out, I think, well enough that, for instance, at the state level, the states have budgeted 11% more themselves out of their own state budgets this year on transportation infrastructure alone. That's because it's popular and widely supported. But that is the largest source of this flywheel, if you like, in our consistency.

But since becoming a public company, and we have to recognize that our growth rate has grown since then, but it must be said, along with being a public company and doing things we're going to talk about, there was a pandemic in these same three years, and infrastructure's become a priority so you would – it's hard to know how to discount and tease out from that what has to do with our own initiatives.

But our E365 program for our enterprise accounts, on the one hand they pay per application per day so we very fairly balance the risks of consumption changes. And it's a popular program for them. Also help them to be reimbursed for their software spending from owner operators, in the case of engineering firms, because they can show what each person worked on each day.

For us, the program works out for us because we bundle into what we charge sufficient amount to cover our provision of success services. We have 1,000 people who are civil and structural and geotechnical engineers and they help with blueprints for new digital workflows each quarter for each E365 account so that they're sure to complete things that will help them use more specialized products, use our products more broadly, competitive displacements, and so forth. And we've made that systematic; something they're paying for and therefore demand and serves them well in this time when it's their own priority in going digital. So that we think has inked up our capability and ARR growth rate as we can see in those accounts.

At the other extreme in SMB, small and medium businesses, that had never been a priority for us. In fact, prior to going public, we had never done any e-commerce. And the reason is we have preferred a direct sales model with account managers and enterprises sort of to the exclusion of focusing on what turns out to be a tier of subcontractors and smaller firms who are often involved on the same projects. And since becoming public, when we sort of accept the responsibility to get better at the things we've relatively neglected over time, for sake of our shareholders at large, part of that is marketing in general.

But especially we decided to try to reach this SMB universe where there turn out to be a comparable number of engineers in firms with 50 or fewer engineers, as there are in those firms with 50 or more, the enterprises we've been covering. And we've been successful through an inside sales by contrast to our competitor with a channel strategy to reach those SMB accounts. We try to reach them through our own inside sales and now increasingly with digital engagement. And we are finding receptive market there. But I like to say it's engineers and smaller firms who say; what, drive a Bentley. I hadn't thought of that.

It's a well reputed product and serves the larger firms well and larger projects and give us some help. We bundle in the subscription – into the subscription not only the use of the software, but technical assistance, and it's gone pretty well. And we've managed to add to our ARR growth rate; 3% of ARR growth from new logos over this period of time. That's continued and is likely to be able to continue.

Part of that is owing, I grant, to market conditions where engineers in smaller firms wish to be sort of gravitate from working on more stagnant parts of the market to vertical buildings, to going to work on horizontal infrastructure and transportation and utilities where we have the greater market share. Anyway, it's working out well for them and for us, we think, at this time and seems sustainable at this point.

Matt: Double clicking on IIJA, talk to us about the phases of some of these dollars that are being deployed. And as you think about next year, does it become a bigger opportunity for you guys?

Greg: Well, I IJA started out with half the trillion dollars being allocated for transportation funding in which the federal government has always had a role so it was merely, if you like, plusing [sp] up the extent of that role. And that could start immediately because institutionally everything was ready. The other half of the IIJA funding is for areas in which federal funding is new, so that's water and broadband and grid. And those have taken time for the institutions to be created. They'll be largely grant programs that are just beginning.

So the transportation side has been fully up to speed. Now there – do turn out in transportation to have been some dollars earmarked for advanced digital construction management systems. And those grants are just starting and can help a little bit on the transportation side. But in the main, the incremental benefit will be in these other areas.

Transportation could hardly grow from where it is now. It's likely to remain stable for the balance of the five-year program; the remaining three and a half years. And the others will tend to come on-stream with water having started. And there has now been funding awarded for grid enhancements. But they'll only so far be able to be spent that money on existing electrical transmission, for instance, because to have new transmission capacity, which is sorely needed everywhere in the world, we have to solve the permitting problem that has bottlenecked that. But that's likely to get addressed, we think, in the coming year as well.

So generally the IIJA is not quite yet at full strength, but will be soon. And then we'll simply remain at that level for the remainder of its legislative lifetime. The IRA, the other big mega spending bill, also contributes some prospective funding for grid expansion. And that, again, will depend also on permitting reform, legislative priority in the Congress.

Matt: All right. That's helpful. Let's go to E365. You had a lot of success in the last couple years. How do you target the right accounts for that, and what does it do to spend when you migrate a customer?

Greg: We are simply starting at the largest and working our way down. So all of the enterprise accounts we think ultimately will be on the program. And we're upgrading from our select subscription program, which assumes you own perpetual licenses. We're upgrading a couple dozen of accounts every quarter now. The capacity constraints is our own success force; people that get dedicated to those. We won't take them away from other accounts that they've already been assigned to and we need to onboard and upskill our own people to help with that.

There is an increase in their spend to cover our cost of those people, but that's not a very significant amount at this point in time. In the accretion we get from E365 each quarter is mainly now a matter of the faster growth in existing E365 accounts, which by now is the plurality of all of our ARR.

Matt: And what would that mix look like in – I guess how far could this expansion go?

Greg: It looks like at the rate we're going another three years or so to have by then the whole of our enterprise book, so those are accounts that spend $100,000 and more with us. I think we'll all be on E365 by that point. But we hope to grow the SMB portion of our business even faster, if you like, but we can't know that for sure.

Matt: Yeah. Well, let's talk about that. I mean that is a new remote – for a company that's been around for a while, the newer motion for you guys. And candid probably more of a greenfield opportunity from a new logo perspective. Talk about the competitive dynamics there. You mentioned a competitor, Autodesk. Talk a little bit more about that relationship.

To me what always resonated, if I'm an enterprise customer, say like a general contractor, being able to interface with maybe a subcontractor that might have 10 employees, I mean is there an opportunity to have bigger infrastructure projects where you've got multiple constituents; some of them Virtuosity, some of them for the enterprise suite? Is that the right way to think about kind of that interplay?

Greg: It's an ecosystem. Most of these major infrastructure projects, and we have only recently scienced [sp] out how to be able to work down from the prime contractor, if you like, to the layers of subcontractor and make that systematic so that we bring on board the – and sometimes it must be said, in the smaller firms. It's not that they're less sophisticated or using simpler products. They can be the great – the most specialized there that are specialists in firms that might only work on earthquake seismic analysis for train stations or whatever. And therefore they don't use less specialized products or lower price points, but they simply have a different buying motion.

They're smaller firms, don't have procurement groups. They don't have centralized tool groups who prescribe what their working environment would be. And they often are going to select the product, pay for it on their credit card, and they really want self-service and are glad to talk to an engineer, but traditional salespeople need not apply. And we're getting better at responding to that. The best way to do it is more and more digitally and lower touch. And we're getting better at that. And that's our principle investment area at this point is in that digital enablement.

Matt: In terms of what's changed prior to COVID, it feels like your growth has stepped up. I remember historically you guys felt like you were a high single, maybe a 10% grower. Now we're talking about 13%. If you sort of break down that delta, portion of that's probably Virtuosity. I mean it's probably these three big things that we've talked about. Kind of stepped up by IIJA funding, E365, and Virtuosity. Are those probably the biggest things that have changed to accelerate that growth a bit?

Greg: Yes. And I'm always here to be as transparent as possible. There's inflation now that there wasn't. When we're looking at small changes of a couple percent, we shouldn't forget…

Matt: Inflation. Fair.

Greg: …how much of it is real or otherwise. But I think the big picture in terms of our opportunity is we quantified it this year. Even in our enterprise accounts, which you would think spend relatively the most, the average is to spend $1.41 per hour on our software applications, and most spend another 39 cents on project-wise on average for the collaboration system. So that's under $2 per hour for the software that makes an engineer productive.

The engineer costs $100. The hour is billed at $150 or in the US $200 per hour so we haven't come very far in infrastructure engineering and substituting technology for labor and what's different now. And we're nowhere near the diminishing returns in that, if you're compare other sectors, R&D and product and electronics and so forth. The engineers cost the same, but the proportion spent on software is a lot larger.

And you might say, well, why the big difference? Well, in most of infrastructure engineering, the commercial model of the engineers has been to bill by the hour in the past. I don't want to be too cynical about that. What's changed is now there is a tremendous capacity gap. There are not enough civil and structural and geotechnical engineers. One out of every 10 positions is unfilled and suddenly going digital is the priority. And I might say generative AI is increasing the appetite to understand that you can substitute and improve work environment, and by the way help attract people to the occupation by reducing the routine and worrying aspects of the job.

Marr: Sure. We had dinner last night, and Greg, if you want to check on Microsoft, he is a Copilot power user now and you're sort of like exploring that realm of productivity. When you think about leveraging generative AI inside of Bentley Systems, what does that mean to you? Do you see a product? Do you see ability to productize it and monetize it, given how it's sort of dramatically changed, whether it's co-development or just general productivity? Is there an aspect to generate AI from a Bentley perspective?

Matt: Certainly. And we think Copilot is just a way to think about that. And someone here has said, one of your colleagues yesterday, that new use cases are becoming evident all the time. That's for those of us who are working with it, we're finding that in our own work.

But I'd like to highlight one aspect of it that might seem a little bit prosaic, but in infrastructure engineering, most projects start with a blank screen. Even though you've done bridges before and you've done transit stations before and so forth, an engineer doesn't like to start with something that exists already. And at our

Going Digital Awards in Singapore for our Year in Infrastructure Conference a month ago, the project that impressed me most was for Hyundai Engineering.

And in Korea, they had the same capacity gap. This engineering group does structural supports for huge process plants, bigger than this room, and they were not able to hire more engineers for this. So someone worked out, they had done 1,680 of these in the past. Each is multiple tens of millions of dollars. So at Hyundai, they had a supercomputer and a data scientist group, and they assigned them to work on this problem.

And so the 1,680 designs were in ProjectWise. But if you were to ask the next young engineer, go look through them, find the one we should be using for the next problem, he'd quit. But AI loves doing that. So they did three kinds of sophisticated AI in combination just to show that it's possible to rank and nominate and prioritize and parameterize how you use an existing design for your next project. And imagine the savings against the capacity gap in that. So it's not that you press a button and get a new design. It's just this prosaic thing of being able to reuse the intellectual property we already have.

So my brother Keith, our Chief Technology Officer, was telling me in his use of GitHub Copilot for coding, he loved it so much. He said, if you take that away from me, I will retire. And he already threatened to retire. But he said, what I don't like, though, is it's trained on everybody's code; everything Microsoft can find in open source. And I want it just trained on our codes with our quality standards in our domain to produce our solutions.

So we've committed to our users that we will make the most of their existing data in ProjectWise, an opportunity for us to monetize, increase the use of ProjectWise and increase it to all projects. But it will only be used for that firm's own – to use our Copilot to improve their own projects themselves. And you might say, well, is that going to mean there's not enough data to train?

And the answer would be if you were training a language model to be able to do any kind of essay production that might require more data. But if what you're doing is piping support structures or water treatment plants or subway stations, and that's all you do, you have plenty of historical data of your own, and you can certify its quality and you can stamp your seal on the results. So anyway, we're very excited about directions like that, that combine the practical and the imaginative and putting this together.

Matt: That's been a common theme throughout this whole conference is, it's my data, I want to leverage it, and I don't want other people to necessarily benefit from that data. It makes us unique, individual customers, Greg: But it turns out that doesn't limit you because it can actually improve the quality and confidence you can have.

Matt: Yeah. I'm going to pause here a second. Is there questions for folks to Greg? No, no, no, no, no, no. Going once, going twice.

You guys have really expanded the leadership role of Bentley over the past – well, quite some time. It feels like over the last several years. You've elevated some new leaders. You've seen some of your brothers retire. How does the board think about sort of the depth of bench strength inside of Bentley?

I mean you guys value your employees. You call them colleagues. You don't even call them employees. It's a special culture that you've developed. How does the board think about sort of that broader developing and nurturing talent to be the next leaders of Bentley?

Greg: Well Matt, fully a third of our officers, and we have lots of officers, have retired since the IPO, which is expected and was the reason for the IPO. They were hanging on for their prosperous retirement that they well-earned and deserved. And that has enabled us to promote people who likewise have been with us. We don't have so much turnover.

But, of course, for public company experience, we've had to bring in people from the outside. The whole of that – because we couldn't have developed that internally over the 40 years being private. The whole of that has brought us literally, if you look at their ages, which we can't talk about, a next generation of leadership. And my responsibility as CEO has been to help with and perfect that transition, which included most recently a new chief marketing officer, for instance.

And among the brothers, I'm the one that's left. I'm the 68 year old CEO. So a priority for the board is to go on to complete that succession. There's no announcement to make at this point in time, but I think we're in very good hands. Our objective, my brothers and I, has been to leave our company in the hands of improved executives who can work with both halves of their brain and aren't just engineers. And we can think about marketing and go-to-market and digital engagement and so forth, and do a better job of that. And I'm confident about that in our successors.

Matt: And really maintaining the culture of Bentley Systems has to be a core tenet. It really, I think, sets you guys apart from who works there, who you attract. And it feels like it's a big part of this next wave of leadership as well.

Greg: Well, I am running for executive chairman for life and I think we can continue that because it's contagious when you have it. I might say a decision we've made is to be rather virtual going forward. And we don't think that's a mistake or a failure to get people back to the office. But we're so global. Half of our people almost report to someone in another country already so we're pretty well prepared to be virtual, but there's still a learning curve ahead.

And it certainly thinking of going digital and generative AI and so forth, it can really benefit a global software company to be able to work virtually, improve our colleagues' personal lives at the same time as our work lives. We think we have substantiated it so far and not at the expense of our culture. We do have some years to vet that so far.

But it really is very exciting to be entering this future with that next generation of leadership, literally next generation. And by the way, help to attract, by virtue all of this, into the infrastructure engineering professions to help address this capacity gap those who will be excited about doing this work to improve both our world's economies and environment at the same time,

Matt: Maybe just to wrap, I want you to be part of Bentley for as long as possible. Another decade. Why not 78? Let's just keep it going. So take that decision off the table. What is the most important decision you think the board has to consider over the next several years to sort of ensure the continued success of Bentley?

Greg: Well, I mentioned this decision we've already made to be as virtual as we can be. But the role of management is to allocate resources. And when we talk about these long-term opportunities, such as that we've been talking about with Digital Twins and AI, we have to be sure to balance enough of our investment out into multiple horizons into the future.

And, of course, we're committed to improving our operating margins every year. Because we're in our 40th year, we're growing in double digits. We can grow our costs by 1% less than that. And subject to that, we want to grow as fast as we can and that requires long-term investments. And we will, even beyond when I'm 78, I hope we never lose that focus on the long-term for our decisions.

But resource allocation is the principle decisions that managements need to make. And for us, we need to be doing them to maximize the long-term. And hopefully that's ingrained. I hope so. Think so.

Matt: Excellent. Excellent. Well, we are out of time, but from all of us at RBC, Greg and Eric, thank you for coming and best of luck in the future. We're big fans of what you guys are doing.

Greg: Cheers. Thank you, and thank you all.

Matt: Thanks.

END