# Bentley Systems | RBC - 2024 TIMT Conference | November 20, 2024

Matt Hedberg:

Welcome, everybody. As I reflect on this conference, I've got a lot of favorite conversations that I look forward to, but Greg, this one in particular is one that I circled, and I'm really grateful for you being here and just in the continued partnership, even as you step into a new role within Bentley. I was saying to Greg offline, these are called fireside chats, and who else, who better? Can we get a fireplace up here next year for this conversation? We need an actual fireside chat with Greg.

Greg Bentley:

Matt's not satisfied to grill me. He wants to put a fire under.

Matt Hedberg:

Exactly. Well, yeah. So listen, for those that don't know Greg Bentley, it goes without saying, the company that you've built and the legacy that you've created has been really fun to watch over the years, and you transition into a new role. Executive chair is the title. I guess, you still seem very active in the company, despite not being the CEO. Could you talk about, just reflect a little bit on your journey and your involvement as executive chair. What does that mean?

Greg Bentley:

Well, it would appear that I still have a major role because I continue to be involved in investor relations, and that's where you see me. And so, my activities are at the board level in investor relations, because I like doing this and getting to know all of you. Then, I have some responsibility still for capital allocation, and especially for acquisitions, especially in asset analytics, which has been a particular interest of mine. I know, Matt, that you were interested to ask about transition of ownership of our stock from our family to shareholders, and I would say that the retirement now of all of Bentley brothers, including me, I think, does not portend that.

Over the four years since our IPO, we report annually the family's ownership level in our proxy statement or associated with our proxy statement, and I researched what it will show for this year as well. In each such year, the family has sold shares amounting to a percent and a half of the shares outstanding. This year has been a little more than last year, but less than the year before, and that's to do with distributions from our deferred compensation plan amounting to about half the shares that the family has sold, because those are subject to ordinary income taxation And the family continues to hold the majority of the outstanding shares, and I don't see why that trend of some modest sales over time wouldn't, if anything, decreased over time. So there isn't, I think, anything underway in particular in an ownership transition, even though we've had successful executives.

Matt Hedberg:

So, the point is don't expect, now that you've stepped away from the CEO role, to see the family's ownership drop significantly or-

Greg Bentley:

That's my own expectation, is not to drop significantly.

Matt Hedberg:

Yeah, yeah. And so, we should think about more as a steady, if not decreasing, liquidation.

Greg Bentley:

Yes, driven largely by tax and charitable interests, but in a graduated way that helps our float a bit.

Matt Hedberg:

I asked you this when I first met you, because I get asked all the time, and I kind of give the answer and I just want to make sure I'm giving the right answer. There's not a next generation Bentley siblings that are going to move up at some point in senior leadership?

Greg Bentley:

Well, I have a son, and Barry has a son, who are part of our executive ranks, but they're at the level where they would be in their mid-30s. Our new executive generation, we worked hard to have a group in their 40s, and Nicholas Cummins is in his 40s. Werner Andre, whom our CFO is, 40/12 or whatever, but we want that group to be in office for 15 years or so, and then there may be a chance for others, depending on how that works out, but importantly and seriously, we programmed in, we have a dual share structure. The family mainly owns Class B shares, but the Class A shares are all owned by the family and they have super voting, but their super voting ratchets down considerably, at the point where one of the founding brothers won't be on the board any longer, and then goes away entirely to one-to-one if the family's ownership would go down below, I think it is 30%. So we, brothers, are all engineers, and we engineered in the opposite of a dynasty in the company. We want it to be a meritocracy.

Matt Hedberg:

Yeah. Well, it really feels like your culture, treating employees right and customers, has always been core to Bentley. It feels like that will continue on for generations.

Greg Bentley:

I feel it will with this particular generational succession, and of course, Nicholas Cumins has been our chief operating officer since the beginning of 2020, was the chief product officer prior to that, so he really has engineering chops, but generally, you may have heard me say we want our new leadership generation to have both right and left halves of their brain, and we acknowledge that, under family leadership, we've been more engineering oriented and less so marketing oriented over time, compared to our competitors. We ought to get better at marketing and program that in as well, but I'd rather come from having better engineering and needing to improve the marketing than the other way around, as we think our competitors. That's our competitive advantage, I think.

Matt Hedberg:

I'm neglected to say this at the top, but we'll save a little bit of time at the end if there's questions from the group. It's a pretty good group here. So, that's kind of one elephant in the room. The other one, there's been a lot of M&A activity. I don't have to tell you about that. In the space, we've seen Altair and we've seen Ansys. You guys were in the press earlier this year as well. How do we think about how this all plays out? Because this is obviously, it's a really exciting space, and we see a lot of industrial players interested in acquiring into the design-based category. What does that mean for the independent players that are left?

Greg Bentley:

Well, we love being a consolidated tour, and our platform acquisitions of sequent and power line systems, billion dollar magnate team deals, we couldn't have done without being a public company. They have been fantastic acquisitions. Each of them has already grown by more than or about twice our company's rate of growth over the years we've owned them. Power line systems, in particular, is poised to grow, I think, by a multiple now that a new administration in the US will quickly enact permitting reform to allow us to build the new transmission capacity for which only power line system software in the world can be used to do that, and there's a great backlog of need to connect up the renewals' capacity to the electric usage, including data centers and so forth, and that's pretty strategic to this administration coming in.

So, those are examples of benefits in our comprehensive portfolio from being a consolidated, and we are positioned now to be able to consider having paid off our bank debt that came about from those acquisitions to be responsive if such opportunities would arise, and of course, they can't be planned for. In the case of Schneider Electric, and what was reported in the Wall Street Journal, their interest was in spinning out their own billions dollars of industrial software, which had come to be focused on asset operations and maintenance, which is really the future for the digital twin opportunity, and to spin that into Bentley systems and such a transformative opportunity, is that I have said to our shareholders that our family wouldn't be so arrogant as not to pay attention to such a thing just because we would lose control in the process, but we have in mind to prefer to be a consolidator as maybe all of those represent.

Matt Hedberg:

Okay. Well, so that's a pretty bold statement. I mean the fact that you think you guys are the potential to continue to get bigger and bigger and consolidate, and even now that you've paid off debt, maybe look at some additional deals following sequent and PLS.

Greg Bentley:

I want to be clear. We still have outstanding convertible. Speaking of M&A deals, one of the things you could look at are the valuation multiples that attached to those, and when I step back to ask the question of might our convertible debt, our 2026s, be converted or not at $64 a share, and if we look at how we value the company, we say free cash flow, less stock-based compensation, because our practice is to prioritize first in our cash flow, repurchasing enough shares to offset the dilution from stock-based compensation.

So, if you look at free cash flow, less stock-based compensation is truly free cash, then our evaluation on that basis is only, if it would be the middle of the pack for our design software peers on that same basis, and if we continue to grow our free cash flow, less stock-based compensation at the same 15% compounded annual growth rate that we have during the four years of being public, which corresponds for us to our growth rate and margin dollars. Because our accounting is so straightforward, it's 70% absolute rattle bull and 30% almost rattle bull, that there's no differences between our profit and our cash flow substantially than those convertible converts might convert.

Matt Hedberg:

Okay.

Greg Bentley:

At any rate, I wanted to be clear. We haven't paid off all our debt, and we still have the outstanding converters.

Matt Hedberg:

Well, and just kudos the way you guys talk about free cash flow. With stock-based comp, you guys are one of the only ones out there that I think recognize the impact.

Greg Bentley:

Well, we're investors ourselves, as I explained earlier, and that's how we think we should look at it economically.

Matt Hedberg:

Yeah, no. Kudos. Let's talk about IIJA. It's, obviously, been topical for some time now, and I hear a lot of questions from investors, pushback, saying, "Oh. More of it's been deployed than you think," or "What's left, Bentley won't benefit from that." Can you level set the audience on what has been deployed, and especially under a Trump administration, what could we expect from additional releases there, and how could that benefit Bentley?

Greg Bentley:

Well, it's really almost the best of all worlds. About 40% has been awarded, but the remainder, there's two years of advanced authorizations that are not subject to being preempted. Remember, it's a bipartisan bill to start with, unlike the IRA, which was not bipartisan and is likely to be substantially dismantled, but we don't particularly benefit from the IRA. That's mainly for R&D, and not things that get built. In the previous Trump administration, there was a greater focus, and likely there will be again, on traditional highway and bridge investment, and there will certainly be less focus on public transit, bike lanes, capping interstate highways and cities, and so forth, or it may be outright block grants to the states, because the new administration is less interested in micromanaging where the investment occurs.

In all of those scenarios, and then finally, the new administration is more interested in private investment in infrastructure, which is where going digital is always a great priority, because the private concessions are designed, build, operate, and maintain, and the digital twin is how you are going to optimize that maintenance and is where most of the opportunity was in P3s. So that's, by the way, something that even a new labor government in the UK is saying, "We need more private investment in infrastructure," so those are actually good things that are happening with change, but I guess I have to say it should be exciting to all of us, who invest in and work on economic growth, to have an incoming administration for whom faster economic growth is kind of the compass setting.

Then, who can't like Elon Musk coming into the picture as an engineer and an entrepreneur, perhaps to accelerate? In the US, where we create the software and the AI for digital twins, why should we be the last to adopt it? It's going faster elsewhere in the world, and would an Elon Musk say, "Hey, we should have digital twins of our existing infrastructure," then, we can use AI to do only the necessary optimal maintenance and spend less on a line item with big zeros after it on maintenance of infrastructure by virtue of digital twins, so we live in hope, and I'm excited for the change, actually.

Matt Hedberg:

Yeah, so that preempted a question. So yeah, you think the department of Government efficiency or DOGE, that could actually benefit Bentley in terms of how government is allocating spending?

Greg Bentley:

Well, a mindset. Just because it's public works and utilities spending, does it have to be slow and traditional? Elsewhere in the world, the fastest implementation of digital twins for infrastructure project delivery is in Asia, and they don't have established practices, guilds, and so forth that are put out as impediments to, if something can go digital, shouldn't it go digital? Maybe that can be a mindset that even our governments can have.

Matt Hedberg:

Yeah, and I appreciate that. The other, you and I chatted when you reported, but I'm interested in PLS, and especially with the buildup of data centers, perhaps the acceleration of permitting there. Talk about what the administration, and just more or less know Gen AI and data center both could mean for Bentley and with PLS, in particular.

Greg Bentley:

Well, in general, there's a backlog of need for transmission capacity. The high voltage capacity is the bottleneck everywhere in the world. What's particularly notable in the US is there's bipartisan support for streamlining the permitting delays that are decades long, yet each party has gamed it because they want to attach something else to something that the other party wants, so that should not be the situation going forward here now with the several branches, both branches of Congress and the executive branch. By the way, there's no funding lack. There's not a funding challenge. It's a permitting challenge to authorize new transmission corridors, so Powerline Systems focuses on that, so it's a company that was just as old as Bentley Systems founded, the same year we were founded. It's the only set of tools for civil and structural and technical engineers that we never had at Bentley systems, and it was because they covered that market, they-

Matt Hedberg:

Dominated.

Greg Bentley:

... Solved the problem. It's a specialized structural problem, because the conductors between the towers are part of the structural system if you think about it, and it's complex, so the university professor solved that and created power-line systems. So, the company has grown, as I say, on the order of twice as fast as Bentley systems in the two and a half years we've owned it, but now that's all been in the work just for catching up our existing transmission. In our year in infrastructure book for last year, there were 25 pages of grid projects. Only one of them was a new transmission corridor, and that was in the country of

Cameroon, and elsewhere in the world, in the UK, new renewables' capacity, that's been bought and paid for and built, is having to wait five years to connect up to the national grid so that it's an opportunity worldwide that, I think, finally will grow by a ratchet.

Matt Hedberg:

Yeah. That's great to hear. The other question, we could sit here for an hour, and I'm sort of skipping some questions, because there's ones that I'm interested in. China has been a drag for you guys. It was at one point, I believe, 5% of ARR. Now it's two and a half, is it, ish?

Greg Bentley:

Yes.

Matt Hedberg:

Two and a half. Some of that's been China-based, economic, lack of growth. I'm curious, do you think we've seen the worst from a headwind perspective there? I know you talked about spinning up some JVs that could help maybe reengage China indirectly. How should we think about China as a country and as a potential, maybe the headwinds are slowing, maybe it turns into some tailwinds eventually. How should we think about that over the next couple of years?

Greg Bentley:

Well, I used to think I could answer somewhat authoritatively on that. Of course, the obstacles have been even before the geopolitical situation. There's no public cloud infrastructure, but with the US sanctions against Russia, the Chinese state-owned enterprises said, "We won't use any American software if we have a domestic alternative, and in any case, not on a subscription. We have to be autonomous. We can't be turned off by the west." Those have been the sources of the headwind, and I can only say now that there may be, while we have done a restructuring of our go-to-market in China so that we can have a way to come to market as qualifying, autonomous software in China through joint ventures, including with state-owned enterprises that are slow, but we've made progress on them, now the problem is the economic situation in China.

Matt Hedberg:

So, that's the bigger problem right now.

Greg Bentley:

We can't win for losing.

Matt Hedberg:

Yeah.

Greg Bentley:

And I don't think anyone expected that, and it just drags on stubbornly, so the only reason to say it can't be much of a headwind for much longer is it's down to two and a half percent of our ARR. In China, they're enthusiastic about our software. Some years are going digital awards. Half of them would be won by China, so we have a good standing in China. We even repatriated profits from China. We've been a software company that's had success in China in the past, so I think we'll drift down to some asymptote, below two point a half percent, but I don't know how much more it can be, but as to the economic situation in China, and especially infrastructure investment. So, by the way, our software is not involved with any of the residential, or empty high rises, empty cities, and so forth. It's all been for very good purposes in China, yet I've stopped predicting it.

Matt Hedberg:

Yeah, so now Bentley has done what it needs to do to sell software to China. It's more of an economic discussion now.

Greg Bentley:

Yes.

Matt Hedberg:

Okay, okay.

Greg Bentley:

I thought I would be reporting. We'd turn the corner in total business, not in ARR. The business will shift to royalties and on licenses, but we're stuck in the only place in the world where infrastructure engineering isn't booming as never before.

Matt Hedberg:

Yeah. And despite all that headwind, you guys have still delivered very strong ARR growth. When you look forward for the next couple of years, what would excite you the most that, if we're sitting here a year from now, by a fireplace, or two years from now, and you're reflecting back on the last year or two and you're like, "Wow. I didn't anticipate this. That actually was a bigger catalyst to growth than I thought"?

Greg Bentley:

Well, as to what you first said there, ARR growth is stronger than it ever has been, except in real terms, if you adjust out the inflation spike of a percent or two a year ago. I believe the demand for infrastructure engineering is bound to continue given the needs for resilience, given the creakiness of the infrastructure and the need to adapt to climate situations and so forth, but what I'm most excited about are initiatives that our new management will, as prioritized. I want to mention our most recent acquisition and our largest one for a while, Cesium. Cesium happens to be a household name for geospatial software developers, 3D software, geospatial software developers who are doing things that could turn into digital twin opportunities. We, Bentley systems have taken advantage of the open source Cesium, and it has, on the one hand, grown the way open source does to attract the users to opt into the pay inversions.

We've done that well. It's become a standard endorsed by the open Geospatial Consortium, which is what all the governments use for their tiling formats for geospatial data, and governments have most of the geospatial data, and by Google. So, that kind of ushered in our new alliance with Google to bring Google data to use it, including in asset analytics where crowdsourcing now doesn't have to be just dash-cam data, for instance, for roadway lanes, but it can also be from the Google vehicles and the Google history. So, it's very exciting there, but then, finally, Cesium is established at an enterprise level in Komatsu, the second-largest equipment maker in the world, having chosen it and invested substantially in it as the foundation for their earth moving simulation, which is the leading edge of robotic construction for heavy civil, earth moving. You might say robotic construction sounds like a futuristic thing. It's already possible with machine controlled grading, excavators, and so forth.

So, it completes the picture, Cesium, for us, and it is the type of acquisition that's the first one spearheaded by our new generation of executives, and I think it's a great example of something that's going to pay off in one of all three of these ways that I described here. Generally, I expect and encourage our new executives to break new ground. Our existing business of software for users, we're sort of the quartermasters in the world for civil and structural and technical engineers. With the E365 program, the floors and ceilings, the multiple year negotiations, none of which has anything to do with accounting for us, but it's all made it more visible, linear, and of even higher quality, and that business has become so predictable. I hesitate to say automatic, but safe, that I'm all for making some bets and putting some markers down on these opportunities like asset analytics that may only add a percent of ARR growth this year, but should double each successive year, and where we can make acquisitions-

Matt Hedberg:

On the asset analytics

Greg Bentley:

... In that space. In asset analytics, where we charge per asset per year, I believe that can ultimately be a business of comparable scale to what we do in charging per user, per engineer.

Matt Hedberg:

I'm going to pause here for a second. Is there a question from the group out here? [inaudible 00:25:59]. No. All right, all right. It feels like we really haven't even talked about E365. We haven't really talked about virtuosity. What would you tell investors to think about broad trends within both of those? Because I've always felt like the marriage of that has been really key and especially if maybe more projects go on the private side, virtuosity could benefit a bit more from that.

Greg Bentley:

Well, that's true. Let me start with E365. In E365, for our enterprise accounts, we charge per application per day, which everyone regards as the fairest way to compensate for software, but it sounds like it would be very volatile because who can predict consumption? The other thing about E365 is we charge enough per application per day to cover our cost of dedicating a team of civil, structural, and geotechnical engineers to the account to help them with new digital workflows, and that is the reason that the accounts under E365 grow their ARR significantly faster than the rest of our ARR base, so we need to have sufficient capacity for these success teams. They need to get up skilled in our own company and equipped, so there's a constraint for how many accounts we can move on to E365, but we've by now done more than half of the enterprise base, and we are working down from the largest accounts to the smallest.

But a development in these enterprise accounts is they know going digital has become their priority as they have bigger backlogs, can't bid on new business and so forth, that going digital is their priority, especially when they only spend $1.50 per hour on average for an hour they wish to bill at $150, or fixed price, even better. So they have asked, "Would you be willing to tap what we'll spend over future years?"

And we have said, "Well, yes. If you're willing to have a floor on it," and in between we have all the right incentives, we and they, for consumption base, so it's a good arrangement. The development, in the past year or two, they've said, "Can we do that for multiple years in the future?" Because they have experience with multiple year deals with other software vendors. Those other software vendors are doing multiple year leases that are consternating in accounting, 606, and so forth. We have none of that, but we agree that we can share the risks in the future in an equitable way, and it has really made our business much more visible, predictable, and frankly, easier.

So, that's the good development, and ultimately because the proportion of our ARR on E365 grows faster than the ARR at large. Then, in SMB with virtuosity, there are as many engineers, it turns out, who work in smaller firms, firms with 50 or fewer engineers as there are in the larger firms. We had only focused on the larger firms until going public and being a bit more open-minded to other things we should do that are marketing oriented. It's marketing oriented because we do it through direct sales and direct engagement and self-service, but likewise, we should, by rights, be able to have as big a business, in that we say SMB. For us, that's accounts up to $100,000 as the bulk of our existing business over time.

Matt Hedberg:

One last question. Do you see Autodesk more these days in deals? They seem to be getting more aggressive on product development and even marketing.

Greg Bentley:

Well, if I were them, I would get more aggressive in infrastructure engineering, because it's less volatile, and it has a greater predictability and so forth, but so far as I can tell, we're competitively winning, and water is an example where they now, by virtue of big investment, are principal competitor in water engineering, but we think we're gaining share there, and generally throughout infrastructure engineering, but competition's a good thing.

Matt Hedberg:

Yeah. Good. Well, we're unfortunately not out of time. That was a fascinating conversation, Greg.

Greg Bentley:

This says zero.

Matt Hedberg:

This says zero. Yeah.

Greg Bentley:

And the fire is coming up, so we better give up the stage.

Matt Hedberg:

Thank you. Best of luck, and congrats on your role.

Greg Bentley:

Thank you, man.

Matt Hedberg:

Cool.