



Second Quarter Fiscal 2024 Earnings Conference Call

Presenters

Daniel Dines, Co-Founder and Co-CEO

Rob Enslin, Co-CEO

Ashim Gupta, CFO

Kelsey Turcotte, Investor Relations

Q&A Participants

Barclays – Raimo Lenschow

JP Morgan – Mark Murphy

TD Cowen – Bryan Bergin

Morgan Stanley – Keith Weiss

RBC Capital Markets – Matthew Hedberg

Bank of America – Brad Sills

Truist Securities – Joe Meares

Macquarie – Fred Havemeyer

Evercore ISI – Chirag Ved

KeyBanc – Billy Mandl

Needham and Company – Scott Berg

Wells Fargo Securities – Michael Turrin

Kelsey Turcotte, Senior Vice President of Investor Relations:

Good afternoon and thank you for joining us today to review UiPath's second quarter fiscal 2024 financial results, which we announced in our earnings press release issued after the close of the market today. On the call with me are Daniel Dines, UiPath's Co-Founder and Co-Chief Executive Officer; Rob Enslin, Co-Chief Executive Officer; and Ashim Gupta, Chief Financial Officer. Rob will start the discussion and then turn the call over to Daniel. After that Ashim will review our results and provide guidance. Then we will open the call for questions.

Our earnings press release and financial supplemental materials are posted on the UiPath Investor Relations website: ir.uipath.com. These materials include GAAP to non-GAAP reconciliations. We will be discussing non-GAAP metrics on today's call.

This afternoon's call includes forward-looking statements about our ability to drive growth and operational efficiency, and our financial guidance for the third quarter and full year fiscal 2024. Actual results may differ materially from those expressed in the



forward-looking statements due to many factors and therefore, investors should not place undue reliance on these statements. For a discussion of the material risks and uncertainties that could affect our actual results, please refer to our Annual Report on Form 10-K for the year ended January 31, 2023, and our other reports filed with the SEC, including our Quarterly Report on Form 10-Q for the period ended July 31, 2023 to be filed with the SEC. Forward looking statements made on this call reflect our views as of today; we undertake no obligation to update them.

Finally, we invite you to join our user conference, Forward VI, next month in Las Vegas from the evening of Monday, October 9th through Wednesday the 11th. Please reach out to the investor relations team for details.

I would like to highlight that this webcast is being accompanied by slides which includes an embedded AI demonstration video. We will post the slides, and a copy of our prepared comments to our investor relations website immediately following the conclusion of this call.

Now, I would like to hand the call over to Rob.

Rob Enslin, Co-Chief Executive Officer:

Thank you, Kelsey, and good afternoon, everyone. Thank you for joining us.

Second quarter was incredibly busy. Highlights include the delivery of exciting new AI platform capabilities and several high-energy in-person customer events around the world - all of them to standing room only. Not surprisingly, AI is at the top of everyone's agenda. Digital transformation, where automation plays a strategic role, has never been more important or, with the latest evolutions in AI, more powerful.

Customers are excited about the value we deliver and recognize that our platform, which has been infused with AI since inception, provides an integrated set of capabilities that combines the best of our Specialized AI and governance with the creative power of Gen AI, making the potential of automation almost limitless. And we aren't just talking about AI - we deliver on the promise of AI and automation today across our platform. In particular, communications mining and document understanding are generating a lot of excitement which Graham Sheldon, our Chief Product Officer, will demo in a few minutes.

Turning to the numbers, we ended the quarter with ARR of \$1.308 billion, an increase of 25% year-over-year, driven by second quarter net new ARR of \$59 million.

We have approximately 10,890 customers, including new logos like Australian Postal Corporation, Lerøy Seafood, Holmes Murphy & Associates, Daewoong Pharmaceutical, and Arrow Food Distribution. Customers with \$1 million or more in ARR increased more than 30% year-over-year to 254, while customers with \$100,000 or more in ARR increased to 1,930.

Second quarter revenue was \$287 million, an increase of 19% year-over-year.

Non-GAAP operating margin increased from negative 5% in the second quarter of last year to positive 10% in the second quarter of this year, as we progress towards our 20% plus long-term operating margin target. And, we delivered \$47 million in non-GAAP adjusted free cash flow - a continuing reflection of our growing scale and focus on efficiency.

Given that the macro environment continues to be variable, I am pleased with our execution and results. The cohort of customers of \$100 thousand or more in net new ARR is performing well. Value selling is driving platform adoption and these deals are typically expansions where we have a good line of sight into deal progression. The lower end of the market has been harder to call - particularly new customer acquisition. I want to be clear - we feel good about the business and the role automation plays in digital transformation. We continue to execute against our strategic initiatives and there is a nice pipeline building as we move into the second half of the year.

Two quarters ago we formally launched our new go-to-market strategy to improve productivity, sell the full platform, and intensify focus on customers that present the largest long-term opportunities for us. The team transitioned well to our new segmentation model and is embracing the broader platform opportunity.

In go-to-market, we continue to invest in industry verticalization, both in people and enablement tools, which is yielding nice results. We saw particular strength in banking and financial services, manufacturing, and technology in the second quarter including great new logos like Performant Healthcare Solutions, First City Monument Bank, and Saint Peter's Healthcare System. Expansion deals in the quarter included Mitsubishi Materials Corporation, a customer since 2017, who expanded to the full platform as they look to grow their automation program across the company.

In addition, our industry expertise gives us unique insights that we can leverage across our customer base, including tools like our solution accelerators. We now have more than 60 available to customers. A Texas based digital health system who recently



automated their claims form intake process. Using our accelerators, they expedited their design-to-deploy time from more than eight weeks down to just two.

The foundation of every sales engagement is defining the value of our end-to-end platform which helps customers accelerate their automation programs, drive operational efficiencies, and consolidate spend. During the quarter, Saudi National Bank expanded to the full platform as they plan to take their already mature automation program to the next level. Driving rapid digital transformation and using the full range of capabilities in our platform is a board level priority that is actively sponsored by their CTO and COO.

Platform adoption is also driving competitive displacements. A great example is a fortune 500 oil producer and a UiPath customer since 2018 with over \$10 million in cost savings to date. In a competitive take out they expanded to incorporate document understanding and process mining into their automation program as they look to consolidate into one AI enabled platform. Looking forward, they plan to leverage our NorthStar value model to identify expansion opportunities across additional lines of business.

Not only is NorthStar helping to build pipeline, it also drove several strategic deals in the quarter. Using NorthStar the team delivered a comprehensive view of the operational excellence and tangible value automation could deliver to a large financial services company. As a result, the customer expanded to the full platform including process mining, document understanding, communications mining, and test suite.

As part of our new segmentation we have tasked our Emerging Enterprise team with driving both customer acquisition and early-stage expansion. For example, Apprio, a provider of specialized IT solutions, started their automation journey several years ago and recently engaged with UiPath to clearly define how automation can accelerate their growth trajectory. This resulted in a multi-year, seven-figure full platform deal to help them achieve rapid market expansion in healthcare operations.

Industry analysts are also recognizing our platform capabilities. UiPath was recently designated as a Leader in the Everest Group Intelligent Document Processing Products PEAK Matrix® Assessment 2023. This is the first time UiPath has been named as a Leader in IDP, and the only Leader recognized as a Star Performer for the biggest year-over-year advances. We were also named a Leader in the Everest Group Process Mining Products PEAK Matrix® Assessment 2023 and Everest Group Task Mining Products PEAK Matrix® Assessment 2023.



Our partner ecosystem is key to elevating our market leadership position, growing our share of wallet across key accounts, and delivering the best outcomes for our customers. One of many partner-led customer success stories is with Ashling Partners, who has helped ADT build a transformational automation program across its operations and customer service. This quarter that program expanded to ADT’s call center to provide customer service agents with a single pane of glass to reduce data entry, troubleshooting, and other time-intensive tasks.

We are also making great progress with SAP engaging with customers and building a joint pipeline. During the quarter, a German agricultural company challenged by their S/4 HANA migration, selected UiPath in a competitive win based on our holistic integrated platform. They are in the process of implementing test suite for regression testing on their S/4 migration and testing of all SAP modules. They also plan to automate processes in their finance department and incorporate process mining and AI into their automation program.

Before I move on, I want to highlight that our board of directors has authorized a \$500 million stock repurchase program which underscores the confidence we have in our business, our ongoing cash flow generation, and the strength of our balance sheet.

In summary, we delivered another solid quarter of execution against a variable economic backdrop. We're starting to see the benefits from the go-to-market changes we implemented two quarters ago, and we'll continue to exercise expense discipline, while investing to extend our market leadership.

With that, I'll turn the call over to Daniel.

Daniel Dines, Co-Founder and Co-Chief Executive Officer:

Thanks, Rob. Good afternoon everyone, before I begin I want to thank our team members for their relentless commitment to building UiPath, serving our customers, and delivering our market leading AI-powered Automation Platform. I believe we are now at an inflection point with AI and I'm excited to have more time to focus on this next important evolution for the company. This is a time of unprecedented technology advances.

Having said that, AI has been an integral part of our platform since inception - starting with our original core capability, Computer Vision, which allows software robots to “see” and “understand” screens. Today our entire platform is infused with AI and we are at the cutting edge of the quickly evolving intersection of AI and automation.



To be effective, Generative AI needs context, which our software robots can deliver by gathering information from across the enterprise - in data, documents, CRM, ERP, and beyond. It also needs our platform to take action and operationalize the promise of AI today with an integrated set of capabilities that combines our Specialized AI with Generative AI. And, finally, it needs the governance our platform provides to help customers overcome a significant barrier to adoption.

Looking ahead, we expect this next evolution of Gen AI to be a tailwind to the business, helping customers create better, more resilient automations more quickly and opening up novel use cases that facilitate the automation of even more processes.

First, we are enhancing developer productivity by reducing barriers to development with co-pilot-like experiences and project “Wingman” which we showed you during last quarter’s earnings call. At the Ai4 Conference in mid-August, we officially launched Wingman into private preview and we are already seeing strong demand from customers. Wingman brings together our AI Computer Vision’s deep understanding of computer screens with Gen AI and is designed to enhance automation creation for both business users and developers through a user-friendly experience.

Second, we are leveraging Gen AI to make our products better. For example, in document understanding and communications mining we leverage Specialized UiPath models to classify and extract information, augmented by Generative models to achieve faster time-to-value and higher accuracy for unstructured data processing.

And third, this next wave of innovation will allow our customers to identify and enable more advanced automations capable of handling even the most complex processes.

To give you a better sense of how this all comes together - I’m going to share a demo narrated by Graham. While this scenario has been simplified for the earnings format, this is a use case that should resonate with many of you.

If you are not on the webcast, please go to our investor relations website homepage for the demo link.

[Demo link available on UiPath Investor Relations homepage under “AI in Action: 2Q 2024 Earnings Demo”]

What you saw in the demo is our ability to: first - provide context; second - leverage both Specialized AI and Gen AI with an open, flexible, and responsible platform; And third - allow customers to drive action through our built-in models, their own custom models, and deployment of best-in-class external models. The result is a speedy



resolution and smoother experience for Connor, efficiency and savings for Goldner Bank, and more time for Lisa to spend with customers.

Our constant innovation drives our growth and is essential to providing our customers with market-leading capabilities. Looking across the platform, we have established a competitive moat which is bolstered by our more than 850 patents globally, either granted or in the application process. Inside that number, there are more than 300 specific to AI, which we expect will grow as we continue to invest.

Finally, we invite you to join our user conference, Forward VI, next month in Las Vegas where you are invited to kick-off cocktails on Monday the 9th followed by our main event on the 10th and 11th. We will be showcasing our latest platform release 23.10, which introduces new Generative AI developer and end user experiences across our platform to help customers build real-world automations faster than ever before. Please reach out to the investor relations team for details.

With that, I will turn it over to Ashim.

Ashim Gupta, Chief Financial Officer:

Thank you, Daniel. And good afternoon everyone.

Unless otherwise indicated I will be discussing results on a non-GAAP basis and all growth rates are year over year.

Turning to the second quarter, ARR totaled \$1.308 billion, an increase of 25%, driven by net new ARR of \$59 million. Excluding the FX headwind, net new ARR totaled \$61 million.

Included in this total is more than \$500 million in Cloud ARR, both hybrid and SaaS, an increase of more than 125%, as customers continue to adopt our cloud offerings. For example, Scotiabank, who chose UiPath to further scale their global automation program as they move to the Cloud and plan to utilize our AI capabilities, document understanding, and unattended automation.

Our dollar-based net retention rate for the quarter was 121%. Normalizing for FX, our dollar-based net retention rate was 125%. Dollar-based gross retention of 97% continues to be best in class.

Revenue grew to \$287 million, an increase of 19% year-over-year. Normalizing for FX impact, which was an approximately \$3 million tailwind, revenue grew 17%.



Remaining performance obligations increased to \$905 million dollars, up 28% year-over-year. Normalizing for FX impact, which was an approximately \$4 million tailwind, RPO grew 27%.

Current RPO increased to \$560 million.

Turning to expenses.

We delivered a second quarter total gross margin of 86%. Software gross margin was 91%.

Second quarter operating expenses were \$217 million. The restructurings we announced in fiscal 2023, combined with our go-to-market segmentation, have created an organization that's increasingly efficient and scalable and one which gives us ample room to continue to expand margins without sacrificing investments to grow the business.

GAAP operating loss of \$78 million included \$102 million of stock-based compensation expense.

Non-GAAP operating income was \$30 million, resulting in a second quarter operating margin of 10%.

Second quarter non-GAAP adjusted free cash flow was \$47 million.

We ended the quarter with \$1.8 billion in cash, cash equivalents, and marketable securities and no debt. And, as Rob mentioned, we are pleased to announce a \$500 million stock repurchase program this afternoon.

Now, let me turn to guidance which assumes the overall macroeconomic environment continues to be globally variable.

For the fiscal third quarter 2024, we expect:

- ARR in the range of \$1.359 billion to \$1.364 billion.
- Revenue in the range of \$313 million to \$318 million.
- Non-GAAP operating income to be approximately \$32 million.

And, we expect third quarter basic share count to be approximately 567 million shares.



For the fiscal full year 2024, we expect:

- ARR in the range of \$1.432 billion to \$1.437 billion.
- Revenue in the range of \$1.273 billion to \$1.278 billion.
- Non-GAAP operating income to be approximately \$188 million. This translates to a non-GAAP operating margin of approximately 14.7%, an 850 basis point increase year over year.

And, finally, we expect fiscal year 2024 non-GAAP adjusted free cash flow of more than \$250 million or 20% adjusted free cash flow margin.

As we head into the second half of the fiscal year the team remains focused on innovation, and driving the best possible outcomes for our customers and partners. Customer success is at the core of everything we do and also the foundation for profitable growth and long-term shareholder value.

Thank you for joining us today and we look forward to speaking with many of you during the quarter.

With that, I will now turn the call over to the Operator.

Operator:

Thank you. And ladies and gentlemen, we'll now conduct our question-and-answer. Please limit yourselves to one question and one follow-up question for each time that you queue. Our first question comes from Raimo Lenschow with Barclays. Please state your question.

Raimo Lenschow:

Perfect. Thank you. Congrats from me. And one question in this new world where AI is getting more and more important, what do you see in terms of your customer conversations with budgets still kind of limited from the budgeting cycle last year? Like how does that play out for you and how are you competing for budget dollars in this sort of environment where you know you need to spend more on AI but the money needs to come from somewhere? And how does it fit to like overall spending? Thank you.

Robert Enslin:

Yeah. Raimo, I would say it's positive for us, the discussion around AI. I think it helps infuse the platform. Our message around specialized AI and generative AI together has really come through. Customers are generally confused by all the announcements that happen in the market and they like our approach of showcasing how we've actually bolted into the product with Wingman and Jarvis and other solutions, and Document Understanding which we actually showed, which actually helps the platform be more valuable to them and helps us drive the platform to more important consequences.

Daniel Dines:

Yeah. I'd like to add that more customers are realizing that automation is a great mean to get more value from generative AI. Actually, even today, I was talking to one of the largest airline in the world, one of our biggest customer, and they highlight how they plan to combine gen AI with automation in their customer service. So, I would say that it's a great tailwind for automation adoption across most of our customers.

Raimo Lenschow:

Yeah. Okay. Perfect. Thank you. And a quick follow-up for Ashim. It's like a great increase on the free cash flow outlook. Were there any special factors in there that we should be aware of or just the better profitability starting to play through? Thank you and congrats again.

Ashim Gupta:

Thanks, Raimo. No, just we feel really good about the changes that we made last year. We're continuing to see benefits of that come through. So that's organic. There's no special items to mention and we feel like that is a sustainable path forward.

Raimo Lenschow:

Perfect. Thank you.

Operator:

Thank you. And our next question comes from Mark Murphy with JPMorgan. Please go ahead with your question.

Mark R. Murphy:

Thank you so much and I'll add my congrats on top of Raimo's. Ashim, are you able to provide the Q3 ARR growth guidance if we converted it into constant currency terms and/or what is implied for the fiscal year now in constant currency terms? I'm not sure if any of that has moved around.

Ashim Gupta:

Yeah. Nothing's really moved around. We talked about it in the script of the headwinds, Mark. And so, like I think that what we provided is there. Normalized for foreign exchange, it's 26% growth in terms of the year-over-year comparison.

Mark R. Murphy:

Yeah.

Ashim Gupta:

And I'd say very similar outlook here for a third and fourth quarter in terms of FX. It's not much of an impact as we go forward.

Mark R. Murphy:

Okay. Got it. And then, Rob, I'm curious just how commonly you see UiPath being pulled into some of the boardroom discussions out there that are maybe being led by the Accenture's and Deloitte's and Capgemini's of the world when they're sitting down with a large company and trying to formulate a generative AI roadmap for a customer and they may sense that some RPA would be involved as part of that tapestry. Do you see much volume along those lines popping up into the deal pipeline? Because I think you had some pretty upbeat commentary on how that pipeline is developing.

Robert Enslin:

Yeah. Mark, what I'd say, we're having much more significant conversations with the systems integrators and with customers together with the systems integrators. We actually are working on joint opportunities with them. I would not classify it only as RPA. It is about the platform. It's about Document Understanding, Communications Mining, Task Mining, the moat that makes a difference and infusing our gen AI capabilities, which are actually visual for customers to see and how that benefits them. So that's happening much more.

I mean, I spoke a lot about our NorthStar in the script, and it's placing us in the boardroom. I mean, the value propositions that we are able to showcase with our customers even at a conservative level is very, very strong. And I mentioned a very large insurance company. We went down to pretty detailed process level on explaining how automation and the full platform can benefit them. That customer is going to replace the Document, the existing Document Understanding with our Communications and Task Mining and Process Mining and go all-in on the platform. So, we're very positive about our approach to the SIs and being in the boardroom with customers. And we feel like it's fulfilling what we said two quarters ago that that's what we needed to do.

Mark R. Murphy:

Excellent. Thank you so much, Rob.

Robert Enslin:

Thank you, Mark.

Operator:

Our next question comes from Bryan Bergin with Cowen. Please state your question.

Bryan C. Bergin:

Hey, guys. Good afternoon. First one on just the go-to-market progress. So, any additional metrics you can share that would really demonstrate that the change in the go-to-market in really selling down through the C-suite is gaining that traction? I think I heard 30% growth in that \$1 million cohort year-over-year, which was certainly encouraging. But just anything else there you can give KPI-wise, sales force productivity, anything of the like?

Ashim Gupta:

I think when you look at it, that is the primary metric that we look at, Bryan, because \$1 million-plus customers really shows the value of the platform in terms of what's moving, and that is up 34% that we feel customers greater than \$1 million that we feel really content with.

The intangible piece that you also can look at is just overall, like our RPO balance is growing very well, which shows continued commitment on deals from our top customers. And then Rob has commented but we really like the activity and the way

that the sales force and the intimacy of customer relationships is happening. We talked about it in the first quarter among some of the changes, and we feel like those discussions and those deal discussions are progressing very well and that's the intangible factor that we really monitor.

Robert Enslin:

And I would just add, we feel, Bryan, that we're also benefiting globally now in Asia Pacific and in Europe from the activity we implemented as well. We can see it coming through.

And then one last item on that is more and more differential partners are actually speaking to us, partners that typically would not in the SI space, not in the existing space that are trying to understand how they can utilize the UiPath platform in their business. So, we feel really strong about all the activity.

Bryan C. Bergin:

Okay. Appreciate that. And then just as it relates to pricing dynamics, can you just talk about what you're seeing in market pricing the last several quarters really as it relates to competitive deals as well as what you're seeing on average across renewals?

Ashim Gupta:

Yeah. We see it relatively stable. There's nothing – people see the value and the ROIs that we provide. You can see that in many of the case studies and the stories and even in some of the demos, Bryan. And I think that ROI has given us a good moat around pricing.

And so really price is not as much of a factor in deals for us, especially with competition. People will try to undercut it, but they can't deliver the ROI that our platform delivers. And that's really why we've been able to maintain our pretty steady pricing and discounting set of metrics here regardless of the economic conditions and competitive environment.

Bryan C. Bergin:

Very good. Thank you.

Operator:

Thank you. And our next question comes from Keith Weiss with Morgan Stanley. Please state your question.

Keith Weiss:

Hi team. Thank you, guys, for taking the question. A little bit on sort of the competitive environment around generative AI. All of us are going around and listening to a lot of companies talk to us about trying to infuse generative AIs in their portfolios. And it seems like a big benefit they expect to accrue is automation and a lot more automation within their solutions. Does that muddy the waters for you guys at all? And is there anything you have to do in your messaging to sort of help customers understand what they're going to get from a UiPath versus like an application vendor saying, hey, generative AI is going to help take care of all these road tasks and do all these automations for you? How do you make sure that you ensure that clarity in the marketplace?

Daniel Dines:

Well, first of all, I would like to make clear that we believe generative AI doesn't change the competitive dynamic when it comes to automation platforms. In the end, most of the use cases for generative AI are in the creator space. So, you use generative AI to create artifacts that are deployed on the platform. I think that plays into our advantage. I think that is no secret for everyone that we have the best automation platform, the most complete enterprise grade platform that offer governance and security to our customers. Generative AI helps us to even increase the adoption because it can appeal to a broader audience. Less technical people can create better automation, but our platform runs those automation much more reliable, much more secure than any other platform. So clearly, to me, that's an advantage.

And I want to also point out that there is no company that has an exclusivity to a particular gen AI technology. We are using, for instance, OpenAI, Google Vertex, Amazon, Lambda, everything that is in the market. So, I think that long-term, mid to long-term, the creator gen AI will be basically commoditized and the essence would be that the best platform is going to win even with better chances in the market because the adoption will be also democratized.

Robert Enslin:

I tell you, Keith, this is from my side. I think it's given us an incredible amount of tailwind to articulate for the AI story at UiPath, give us a platform to showcase where we are with AI, how far we've come. And I think that really surprised a lot of customers in the space.

Since we announced the summit here, I think it was March, we announced the Summit AI in New York City. We had 16 events in Asia Pacific and they were standing room only. And I can tell you from those discussions and I've spoken to a number of C-level executives that actually attended in person. And the comment back was we are so surprised at how far you were. We're super excited by the opportunity that automation can bring and how far you can take it.

So, from a go-to-market perspective, from our team's perspective, I think it's been an incredible opportunity to showcase UiPath, the platform, and the decisions we made in September of last year to bring it out. And I think people will be very excited at FORWARD VI to see how far we've come as well.

Keith Weiss:

Excellent. Thank you, guys.

Operator:

Our next question comes from Matt Hedberg with RBC Capital Markets. Please state your question.

Matthew Hedberg:

Great. Thanks for taking my question, guys. Congrats as well. Maybe just continuing the gen AI line of questionings, yeah, a lot of good content today. And I'm curious, Rob, how do you expect to articulate success monetarily? Do you think in a couple quarters or a year you're going to be able to specifically call out the actual tailwind or benefit to growth from gen AI?

Robert Enslin:

I think we will be able to say, look, I think our strategy there, we'll continue to execute again. We'll continue to drive that. We'll continue to look at how we benefit from gen AI. And I believe we're already showcasing how it's impacting our results as part of our



strategy. And I think that will continue as we continue to drive NorthStar and the value creation that customers are observing, as we get more and more reference customers, you think we'll scale as we speak more in the boardroom and we bring the SIs to the fore. All of those will be in our favor.

And honestly, when you look at Communications Mining, Document Understanding and what we're doing in that space, these are game changers for customers and the value they receive. And that's what's going to showcase and that's what we'll showcase in terms of the return that we will get in the next quarters and the next years.

Matthew Hedberg:

Got it. Thank you. Maybe just a quick one for Ashim. Realizing that NRR is more of a trailing metric, it did tick down a little bit here sequentially. Do you think we're closer to a bottom in that in that number as we sort of think towards second half this year?

Ashim Gupta:

Yeah. I mean, the way that I look at this is I feel really good about the progress that we've made on the go-to-market changes that we've articulated earlier this year and last year. And I think as those continue to pay dividends, our expansion rate is the area that you're going to see benefit. You'll see benefit come through in that area. So we still are navigating a variable environment, but the changes that we made, we just were two quarters from having done it, one quarter from stabilization. So I really look forward to seeing the benefits of that come through our metrics here as we continue to execute.

Matthew Hedberg:

Got it. Appreciate the color. Thanks, guys.

Robert Enslin:

Thanks, Matt.

Operator:

Our next question comes from Brad Sills with Bank of America. Please state your question.



Brad Sills:

Oh, great. Thank you so much. I wanted to ask about the verticals. It sounds like you're seeing some strength here in banking, manufacturing, tech. Any color as to where you're seeing that strength? Are there certain solutions that customers are expanding with more use cases? Is it new business that you're seeing strong in those verticals? And then any commentary on perhaps a vertical with this new pivot towards solution selling that we might start to see on that list in the coming quarters?

Robert Enslin:

Yeah, Brad, great question. We definitely see the full platform around Process Mining, Document Understanding, and Communications Mining. Driving a lot of that is an integrated platform as customers want to expand automation from pure RPA into broader categories where we are able to use NorthStar. You see that in financial services, banking in particular, both in Europe and in North America, insurance for sure, across payers and providers in that space. Remember, we've also implemented go-to-market, which has got industry skills part of it and our industry solutions team is pretty strong.

So we're seeing it in those industries. And we forgot to mention public sector, some really strength in public sector that's driving that as well in federal in the federal government. So, we're seeing it in multiple areas. And I mentioned oil and gas as well, including other areas of energy opportunities as well.

Brad Sills:

Wonderful. Thanks. And one more, if I may, just on land versus expand, I guess where are you in that balance? Could we start to see more land, you mentioned some top of funnel softness here, but just maybe in the big enterprise or even medium enterprise, could we see some progress with more land accounts going forward?

Robert Enslin:

Yeah. We're working. I mean, obviously we're likely are on the \$1 million ARR and above and the \$100,000 ARR and above. And we continue to work on the distribution model in the space. And we'll continue to create some of those models that had previously in the space. Ashim?

Ashim Gupta:

Yeah, I feel like the quality of what we have is much better when we're looking at the customers and the logos that we're acquiring. So, our enterprise presence or enterprise connections, I think we've seen meaningful progress there. We talk about kind of smaller, mid-market, emerging enterprise. We say that in various. But I think that particular segment is going to be more impacted by the variability of the macroeconomic conditions.

So, I think, Brad, the area for us is not a quantity play necessarily that's going to churn up and down. It's quality. And then where we want to get even better and better is then advancing those quality customers up through better and better sales specialists to increase our expansion. That's kind of how we are measuring it and how we look to it.

Brad Sills:

Great to hear. Thank you so much.

Operator:

Our next question comes from Terry Tillman with Truist Securities. Please state your question.

Joe Meares:

Hi, everyone. This is Joe Meares on for Terry. Thanks for taking the questions. You mentioned the SAP relationship briefly in your prepared remarks. I'm just curious how they're helping you on the go-to-market side, if there's any way that you can quantify early benefits from the partnership?

Robert Enslin:

Yeah, multiple aspects. One is working with SIs. We also have joint teams working on joint accounts. We've created a common architecture to present to our customers. We're busy going through the enablement of both organizations, and that'll continue to expand through the year. So we've had multiple significant discussions between both companies and we feel really positive around the enablement. And right now it's all about enablement and positioning with customers and working with SIs to incorporate the automation in how they go to market as well. And we will see the benefits of that SAP partnership in 2025 for sure, in FY 2025.



Joe Meares:

That's great. And then just as a follow-up, is there any way that you can quantify the impact of the solution accelerators you have out there that they're having on the implementation cycles or ROI for customers? Thanks again.

Ashim Gupta:

We don't disclose metrics around individual solutions or product lines at this time. What I can tell you is we continue to monitor their applicability in the sales cycle and customer uptake, and we're really pleased with the feedback. But we don't provide quantitative metrics or disclose them.

Operator:

Thank you. Our next question comes from Fred Havemeyer with Macquarie. Please state your question.

Frederick Havemeyer:

Hey, thank you. I have a single set of questions but two parts here, one for Ashim, one for Daniel. I'm thinking, Dan, since we last spoke, I've had a lot of fun working with and training up various different AI models of a convolutional one working on a workstation right now. And I think what struck me through some of this experience is how many of these models are getting more and more efficient, especially being deployed in the generative AI space, efficient being deployed on smaller and smaller sets of hardware.

So I'm curious kind of two parts here. Firstly, perhaps for Daniel, is there an opportunity in the future perhaps for more of the generative AI workloads to be shifted towards the edge rather than using state like centralized APIs from some of the hyperscalers out there?

And then secondly, for Ashim, while we're in this phase right now of having generative AI primarily hosted and available through hyperscalers, is there any impact on the gross margin line at all to some of the products that are being offered as they're run through these APIs? Thank you.

Daniel Dines:

I think that's a very interesting question and the perspective about the future of gen AI. We are experiencing quite a bit with Llama 2 at this point. And eventually I think for

some of the use cases like the one in Wingman, we would love to be capable of deploying this on the edge because it will significantly reduce, of course, the bandwidth required, time to value. And it's kind of premature at this point to really understand if we can run a significant relaunched model like, I don't know, \$13 billion parameters on the edge. But certainly it's an interesting way to look forward.

Ashim Gupta:

And then, Fred, like when I look at our gross margin is 88%. We talked about 85% and long-term model of greater than 80%, these are numbers that we have in there. I think right now with what we see in front of us, we've factored in the uptick of both the cloud and AI capabilities in there. And we're in the early days of pricing on these areas. And those are going to be factors for us to consider in terms of workloads and where they are. So, we look at this as developing tremendous value, and so it's not really a threat to our margins from that perspective right now. And we feel very good about the way we've modeled that going forward.

Frederick Havemeyer:

Thank you. And then if I could ask one more, I guess, a third question here, because, Rob, I don't want to I don't want to forget about you at all. I don't want to leave you unquestioned. I'd love to ask. You know, as you're having conversations with executives that are considering adoption of broader suite of AI solutions, just how are you at UiPath considering and addressing privacy concerns, data governance concerns that like especially with respect to generative AI?

Robert Enslin:

Well, it is a question for Daniel. But I would tell you that generally our security folks will take and our CISO security team will take them through how we deal with data security, data privacy, hard lines in multi-tenants where the testing takes place. And explain them, not how we go through it in a way that we would normally go through any kind of sales force. So far, we're handling it, I would say not with ease but in very detailed discussions. And we have detailed roadmaps around that as well.

Daniel Dines:

And actually, automation offers a very good way to anonymize request to implement the public gen AI service. For instance, if you want to understand better the documents we can use our on-prem services to OCR to digitize the document and then apply the AI algorithm and then send an anonymized document to Gen AI and answer questions



about it, and then translate it back to the user. I think there are different approaches to privacy and security, and we are really well-positioned to leverage our platform to offer this enterprise grade user Gen AI.

Frederick Havemeyer:

Thank you all very much.

Ashim Gupta:

Thank you.

Operator:

Thank you. Our next question comes from Kirk Materne with Evercore ISI. Please state your question.

Chirag Ved:

Hi, this is Chirag on for Kirk. Congratulations on the strong quarter and thanks for taking the question. Maybe just one for me. As you look into the deal trends through August and September, are you seeing more of a continuation of the same deal scrutiny that's been prevalent through the year or conversations starting to get more constructive? And do customers seem more willing to invest? Are there any changes in general that you flag? Thank you.

Ashim Gupta:

No. Like from our standpoint, one, we don't really I don't want to give in-quarter updates, Kirk, which I know everybody can respect. I think we feel just the environment, I think Rob commented on it. I think we look at the environment relatively stable is variable and depending on the industry and conversations move up or down. That being said, Rob talked about it earlier. I think customer conversations are very constructive. They have been, and just having been a customer, I can tell you where there is an ROI, the conversations are constructive, and I think that's something that we've demonstrated across our customer base but for a while now.

Operator:

Our next question comes from Michael Turits with KeyBanc. Please state your question.

Billy Mandl:

Hi, guys. This is Billy on for Michael. Thanks for taking the question. Could you just talk a bit about the trends you're seeing in selling to IT and IT users versus maybe the line of business and business users, especially within the context of the opportunity for generative AI to democratize that adoption of automation?

Robert Enslin:

Yeah. What I would tell you, as you know, when we launched the platform, we always said we needed to get into C-level and we needed to be more relevant with the IT, the CIO. And now we're also bringing SIs. And we feel like we're now able to actually bring the two together, showcase why they need the platform, how the platform helps them consolidate software, allows them to focus on areas in discovery and automation infused with AI, and then being able to take that using NorthStar into the boardroom and articulate the value that the CFO or the CEO, or the head of HR can actually get from automation.

So that's more and more the conversations we're having, all the NorthStar discussions, we talk about exactly that. I feel like the CIOs are really starting to understand with the platform the benefits they get and the value that they can get from it. And that's why they actually want to use more and more, more of the platform when they understand how you can connect Document Understanding to Communications Mining, using Test Suite to drive that and bolt into automation we see that as something that's differentiating us versus the competition in a significant way. And the value equation is just that's really driving the issue into the boardroom as well. Super positive about it.

Operator:

Thank you. Our next question comes from Scott Berg with Needham and Company. Please state your question.

Scott Berg:

Hi, everyone. Congrats on the nice quarter. I guess one question I have is one of the items that came up in our work in the quarter was all the kind of explosion in interest in Gen AI was kind of an accelerator. It certainly enhanced customer interest in some of the automation solutions that were out there, specifically RPA. But at the same time it almost made some deals a little bit, maybe more complex and helped shift some deals around. Wanted to see how you thought about the balance of kind of that interest in making deals more complex versus maybe in generating larger deals versus maybe



slowing some deals down in the quarter and thoughts on second half opportunities within that. Thank you.

Robert Enslin:

Yeah, I mean, what I would tell you is that our customers that we've been working with, the deals we spoke about around NorthStar, our customers have been focused on value and the value creation that we can create from them. Once we've gone through that and they see what's the opportunity they want to understand the technical environment, what the product does, how it goes. And that's kind of secondary to too many of them.

There's a view that we are one of the best engineering organizations in automation, that we actually know where we're going with Gen AI. We know AI at an incredibly detailed level. And that's why we feel like the whole movement that's happened has given us an ability and a stage to actually showcase our differentiation in this market. In other words, customers don't want to see announcements. They want to actually see real benefits that they can showcase and how it can affect how it can showcase through automation. So, we feel really good about that.

Operator:

Thank you. Our next question comes from Michael Turrin with Wells Fargo Securities. Please state your question.

Robert Enslin:

Hey, Michael.

Michael Turrin:

Hey, great. Thanks. Hey, appreciate you taking the question. The net retention rate metric looks to be stabilizing and the ones wanting to have a good cadence of AI-related product announcements that we're all digesting. The Q4 guide for ARR looks more muted than what we generally expect from a seasonally stronger period from the business. And so maybe, Ashim, you can just help frame how you're incorporating some of the go to market changes, just some of the macro commentary and any visibility you have into just deal progression between now and end of year and how that all stacks up into the rest of your guide? If there's any way to compare that at all to prior periods would be useful. Thanks.



Ashim Gupta:

Thanks, I would just say the word is consistency. Like we've been pretty consistent about guiding what's in front of us but also thinking about the factoring in the variability of the environment and the go-to-market transition. We're pleased with the progress of it. We feel good about our guidance.

Operator:

Thank you. And there are no further questions at this time. I'll hand the floor back to management for closing remarks.

Rob Enslin:

Yeah. I'd just like to thank everybody for joining us, for the questions. And I would look forward to seeing you all at FORWARD VI. Appreciate your time. Thank you. Have a good evening.

Operator:

Thank you. This concludes today's call. All parties may disconnect. Have a good day.