



First Quarter Fiscal 2025 Earnings Conference Call

Presenters

Daniel Dines, Founder & Chief Innovation Officer
Ashim Gupta, CFO
Allise Furlani, Senior Director of Investor Relations

Q&A Participants

William Blair – Jacob Roberge
JP Morgan – Arti Vula
Barclays – Sheldon McMeans
Evercore – Chirag Ved
TD Cowen – Bryan Bergin
RBC Capital Markets – Michael Richards
Truist Securities – Connor Passarella
Wells Fargo Securities – Michael Turrin
Wolfe Research – Ryan Krieger
Needham & Co. – Scott Berg
KeyBanc Capital Markets – Jason Celino

Allise Furlani, Senior Director of Investor Relations:

Good afternoon and thank you for joining us today to review UiPath's first quarter fiscal 2025 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 Founder and Chief Innovation Officer, and Ashim Gupta, Chief Financial Officer to deliver our prepared comments and answer 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 grow our platform, as well as our financial guidance for the second quarter and full fiscal year 2025. 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, 2024, and our subsequent reports filed with the SEC, including our Quarterly Report on Form



10-Q for the period ended April 30, 2024 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.

I would like to highlight that this webcast is being accompanied by slides. We will post the slides, and a copy of our prepared comments to our investor relations website immediately following the conclusion of this call. In addition, please note that all comparisons are year over year unless otherwise indicated.

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

Daniel Dines, Founder & Chief Innovation Officer:

Thank you, Allise. Good afternoon everyone, thanks for joining us.

I'd like to start today by addressing the announcements we made this afternoon, and then I'll give a quick summary of our first quarter results and revised outlook, including an update on our path forward. I will then walk through a few highlights from the quarter, before I hand it over to Ashim to go through our financials and guidance in more detail.

As you may have seen in our press release this afternoon, Rob Enslin is leaving the company and has also resigned as a member of the Board. Rob played a significant role over the last two years and I know I'm speaking for the entire company when I say that we're very grateful for his contributions to UiPath.

With Rob leaving the company, I'm excited to step back into the CEO role and look forward to leading us through our next phase of profitable growth and innovation. During the past year, I had the privilege of immersing myself in our product and engineering efforts. This experience gave me invaluable clarity on our path forward. At a time when companies are looking to optimize costs and drive efficiencies without sacrificing innovation, especially around generative AI, our platform enables them to harness the power of AI to achieve actionable outcomes. As we look to the future of automation, our focus isn't just on boosting productivity and efficiency—it's also about redefining what's possible with the breadth of our AI powered platform of capabilities. The impact that the combination of generative AI and automation provides our customers is significant, and it's expanding. From our early customers like SMBC and Orange, to customers that have grown and expanded significantly over the last year, like USDA and HCA, they continue to emphasize how the combination of automation and AI, delivered through our platform, is transforming their business and enabling them to



thrive in today's environment. We view generative AI as a secular tailwind that will continue to benefit our business, and a catalyst for continuing to innovate across our platform to expand our competitive moat.

Turning to our first quarter results, ARR grew 21% year-over-year to \$1.508 billion, driven by first quarter net new ARR of \$44 million. Excluding the FX headwind of \$3 million, net new ARR totaled \$47 million. Revenue grew to \$335 million, an increase of 16% year-over-year. Normalizing for the FX headwind of approximately \$8 million, revenue grew 18% year-over-year.

While our topline results were generally in line with our guidance range, we are not satisfied with our performance, and I would like to give you more color on a few key factors that impacted first quarter results. First, while we had a healthy start to the quarter, we saw the pace slow as we progressed through the second half of March and into April. This was primarily due to the impact of a challenging macroeconomic environment that we see persisting with mid-market customers, as well as a change in customer behavior particularly with large multi-year deals. As a result, several large expansion opportunities closed with a reduced size or pushed out of the quarter. Second, we saw inconsistent execution, which included contract execution challenges on large deals and certain sales compensation changes which we are working to rectify. While customer behavior is often a function of the broader macroeconomic environment, execution is something we can control and we recognize that we need to improve predictability on large multi-year deals. Third, our growth products such as IDP and test automation are producing positive results, however there is a need to have a deeper execution strategy to scale these products to reach their full potential. And lastly, the investments we have made to reaccelerate growth have fallen short of our expectations, made us less agile in responding to customer needs, and created short-term pressure on operating margins, all of which we are committed to rectifying.

Now, let me address our outlook going forward. Our revised second quarter and fiscal 2025 guidance are not where we expected them to be. That being said, we don't expect the macro environment to improve materially in the near-term and we believe it is prudent to guide assuming the variability we saw at the end of the first quarter will continue. It also takes into account the leadership transition, which can create some short-term disruption.

As we look to the future, we are laser-focused on enhancing our execution including improved sales linearity and deal scrutiny, driving higher efficiency across sales and the broader organization, and driving a deeper and more execution oriented strategy for



our growth products. We are also shifting the way we engage with customers to reinvigorate our line of business engagement with an industry-tailored approach. Lastly, we plan to go back to our roots, building a truly customer-centric organization where co-innovating with our customers and partners is at the heart of everything we do. We believe that this foundational work will help us better address customer needs, accelerate adoption of our platform, and position us to drive market share gains over the medium and long-term.

I want to be clear, we are optimistic about the role our Business Automation Platform plays in digital transformation. The core foundation of our business remains strong and we are making progress on our long-term strategic plan, which includes releasing innovative new features and products like Autopilot, continuing to deepen our relationships with meaningful partners like SAP, and building a strong community of developers. Lastly, despite some of the topline challenges, we are still expecting to generate \$300 million of non-GAAP adjusted free cash flow for the full fiscal year 2025.

Turning to a few highlights from the quarter, I am energized by the incredible events we hosted including our annual AI Summit, which once again proved to be a great success. With over 5,000 registered attendees, we introduced new innovations focused around the key factors that business leaders are looking for when they embed AI in their automation program: business context, AI model flexibility, actionability, and trust.

These innovations included our family of Large Language Models or LLMs: DocPATH and CommPATH, which combine the best of generative AI and specialized AI to empower our customers to understand and process any document and a huge variety of message types. By narrowing the focus, but retaining the vast power of GenAI, our specialized LLMs significantly outperform the output accuracy of currently available out of the box LLMs.

We also introduced Context Grounding, a new feature within the UiPath AI Trust Layer that helps businesses improve the accuracy of GenAI models by extracting information from company specific datasets.

And lastly, we announced exciting new updates for Autopilot, including the release of Autopilot™ for developers and testers into general availability in June. We have seen tremendous interest from our customers across diverse industries ranging from technology and automotive to pharmaceuticals and advertising, and including some of the largest companies in the world such as Dentsu, Wesco, and Cigniti. While still in its early days, Autopilot has already garnered positive feedback and excitement among



customers for its innovative use of generative AI to take action across application stacks, lowering barriers to entry and accelerating time to value.

On the go-to-market front, momentum continued with our first UiPath on Tour event, AI at Work Public Sector, in Washington, DC. The energy and engagement in the room were palpable, with over 1,000 Public Sector leaders and implementation partners in attendance. It was truly inspiring to witness firsthand how our platform is empowering public sector agencies to modernize their IT infrastructure, and navigate the cloud with confidence. We also had the opportunity to highlight our recently achieved FedRAMP authorization. This milestone creates opportunities for more public sector organizations to elevate their operations through the transformative power of automation. And we are already seeing customer interest, closing several deals in the first quarter, including an existing customer, who expanded as they plan to leverage FedRAMP to move to the cloud, while purchasing Document Understanding to drive efficiencies throughout their organization.

Moving on to our partner ecosystem, partners continue to be a core pillar of our go-to-market strategy and GSIs are building long-term differentiated businesses with us. During the quarter we had a great partner-supported expansion with WEC Energy Group who is consolidating their automation efforts onto our end to end platform. With Accenture's continued strategic support, they're now planning to leverage our AI-enabled capabilities including Document Understanding, aimed at enhancing customer care and agent productivity and driving additional operational efficiencies and insights.

Partners are also driving new logo wins including, VHI Group, the largest private health insurer in Ireland. With the help of EY, we developed a plan to drive long-term digital transformation across their organization. They are in the process of leveraging Document Understanding to automate elements of their claims journey, and core automation to drive digitalization across their organization.

Strategic partnerships are an important element of our strategy and we continue to strengthen our relationship with SAP, which provides us with access to large transformation budgets, new buying centers, and the SAP enterprise sales machine. During the quarter we saw continued success, including an expansion with an Italian eyewear conglomerate, who will be leveraging our platform capabilities to support their migration to SAP S/4 HANA. They are also in the process of expanding their usage of Document Understanding to optimize invoice and payments processing.



From a technical partnership perspective, just last week we announced our expanded partnership with Microsoft, launching a powerful integration with Copilot for Microsoft 365. This integration enables joint customers to automate end-to-end business processes and enhance the end user experience with UiPath.

Our focus on innovation is consistently recognized by third party research analysts, and over the last several months we received multiple industry awards. This has included a recognition in Everest Group's Intelligent Document Processing (IDP) Products PEAK Matrix® Assessment 2024, where we were named a Leader for the second year in a row, being recognized for our vision, capabilities, and market impact. Our leadership position in IDP is driving demand across our customer base. For example, Schaeffler Technologies, a customer since 2018, expanded to Communications Mining and Document Understanding in the quarter as they look to automate invoice processing, quality control documents, shipping documents, and maintenance records.

Our continuous discovery capabilities are also fueling our momentum and we were recently recognized as a Leader in the 2024 Gartner® Magic Quadrant™ for Process Mining Platforms research report. Customers recognize the transformational outcomes they can achieve when they combine our discovery capabilities with our automation products, including a new logo this quarter with one of the largest pharmaceutical companies in North America. The customer had been using Celonis, but realized they needed a tool that not only identifies bottlenecks, but also gives them the ability to take action. Our outcome-focused messaging and full platform of capabilities resonated with the customer, resulting in a competitive displacement.

We see an opportunity to share our experience and passion for fostering the next generation of innovative technology solutions, and this includes our recent investment in the H Company. Founded by leading AI scientists and researchers, their vision is to reach full Artificial General Intelligence as they commercially deploy foundational action models. In addition to our investment, we are collaborating with them on a commercial partnership. We believe what the H Company is building goes beyond the capabilities of LLMs, and will be helpful as we drive a new era of agentic process automation, where AI agents collaborate with workers dynamically to reinvent business processes. Personally, I am thrilled to be working with such an exceptional founding team on their journey.

Before I turn it over to Ashim, I'd like to extend a warm welcome to Raghu Malpani, our newly appointed Chief Technology Officer. Raghu comes to us with a wealth of experience in fostering and guiding forward-thinking, collaborative, and customer-focused engineering teams. We're incredibly excited to have him on board, and we're



confident that his expertise will further elevate our team, while delivering best-in-class innovative solutions to our customers. I am proud of the advancements we have made over the last year including the great talent we've added to our P&E team, and it gives me great confidence in their ability to drive our long-term product strategy while I transition back to the CEO role.

As I said several times, we are not satisfied with our results and outlook. As the founder of UiPath I am energized to step back into the CEO role, improve execution and refocus the company on our customers and partners. We remain committed to driving durable growth while maintaining strong profitability.

With that, I'll turn the call 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. I also want to note that since we price and sell in local currency, fluctuations in FX rates impact results.

Turning to the first quarter, ARR totaled \$1.508 billion, an increase of 21%, driven by net new ARR of \$44 million. Excluding the FX headwind of \$3 million, net new ARR totaled \$47 million.

We ended the quarter with approximately 10,800 customers, including new logos like Boomi, Flexjet, Zen Business, True Consulting, and Calix. As we mentioned over the last several quarters, the vast majority of customer attrition continues to be in smaller customers which, in aggregate, represent an immaterial portion of our overall business.

Moving on to customer metrics. Customers with \$100,000 or more in ARR increased to 2,092, while customers with \$1 million or more in ARR totaled 288. Our largest customers are also continuing to expand on our platform, and we added a record number of customers with \$5 million or more in ARR.

Dollar-based gross retention of 98% continues to be best in class and our dollar-based net retention rate for the quarter was 118%. The breadth of our platform capabilities continues to drive expansion across our customer base, including Red Bull, who began with core automation, and expanded in the quarter purchasing Test Suite and Document Understanding. They plan to leverage Test Suite to accelerate their S/4 HANA



migration, while utilizing Document Understanding to automate various use cases across their Finance, Operations and HR departments.

And Etihad Airways, who expanded to the full platform this quarter as they plan to leverage our platform to support and build more AI automations across commercial and operational functions.

Revenue grew to \$335 million, an increase of 16% year-over-year. Normalizing for the FX headwind of approximately \$8 million, revenue grew 18%.

Remaining performance obligations increased to \$1.101 billion, up 22% year-over-year.

Current RPO increased to \$683 million.

Turning to expenses.

We delivered a first quarter overall gross margin of 86%, and software gross margin was 90%.

First quarter operating expenses were \$238 million.

GAAP operating loss of \$49 million included \$89 million of stock-based compensation expense.

Non-GAAP operating income was \$50 million, resulting in a first quarter non-GAAP operating margin of 15%. Excluding the FX headwind of \$6 million, non-GAAP operating income was \$57 million or a non-GAAP operating margin of 17%. We are pleased with the progress we are making with our AI products such as Autopilot and our new LLMs and we plan to continue to invest in the necessary hosting costs to drive product development and adoption. The market is evolving rapidly and we view these investments as key to unlocking growth opportunities in the future. That said, our first half spend is timing related as we feel appropriately budgeted for the overall year. We expect to continue to drive strong cost discipline across the organization.

First quarter non-GAAP adjusted free cash flow was \$101 million.

As of April 30th we had \$1.9 billion in cash, cash equivalents, and marketable securities and no debt. We remain committed to our \$500 million buy-back program, as we repurchased 938 thousand shares of our Class A common stock at an average price of \$23.46 from February 1, 2024 through April 30, 2024.



Turning to guidance, I'd like to provide context around our updated outlook for the second quarter and remainder of the fiscal year. As Daniel mentioned, in mid-March we began seeing increased deal scrutiny and longer sales cycles with our large multi-year deals. Our updated guidance takes into consideration both the macroeconomic environment, our leadership transition, and improved operating discipline, which will take time to implement. Because of the complexities of ASC 606, we run and manage our business on ARR, which is most representative of the underlying performance of our business. We are taking a prudent view on the contribution of large multi-year deals, and, as a result, there is an outsized impact to our revenue guidance due to ASC 606 revenue recognition. This outsized revenue impact is the main driver of our reduction in non-GAAP operating income and non-GAAP adjusted free cash flow for the remainder of the year. Profitability remains a core pillar of our go forward strategy and we will continue to drive efficiencies across our business to generate strong operating margins and meaningful non-gaap adjusted free cash flow.

For the second quarter fiscal 2025, we expect:

- Revenue in the range of \$300 million to \$305 million.
- ARR in the range of \$1.543 billion to \$1.548 billion.
- Non-GAAP operating income of approximately breakeven.

And, we expect second quarter basic share count to be approximately 574 million shares.

For the fiscal full year 2025, we now expect:

- Revenue in the range of \$1.405 billion to \$1.410 billion.
- ARR in the range of \$1.660 billion to \$1.665 billion.
- Non-GAAP operating income of approximately \$145 million.

And, finally, we now expect fiscal year 2025 non-GAAP adjusted free cash flow of approximately \$300 million.

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. We will now be conducting a question-and-answer session. Thank you. Our first question comes from the line of Jake Roberge with William Blair. Please proceed with your question.

Jacob Roberge:

Hi. Thanks for taking my questions. Just if we could just start off, could you help us better understand kind of what's changed over the last few months? I understand the environment's gotten worse, but when you reference the issues for those large multiyear deals, is that just scrutiny on deals or are you seeing more competitive pressures that are causing customers to churn off of certain deployments or completely drop out of the pipeline? Just curious if you could flush out some of those issues that you're seeing with the large deals.

Daniel Dines:

Hi, Jake. Thank you for the question. Yes, I think that around six, seven weeks ago, we were starting to seeing some pressure, especially on the large multiyear deals. Some of them got shrunk, some of them got postponed. We are not seeing the cause as being from a competitive standpoint, but I think it's a combination of factors. Macroeconomic environment is variable and customers are a bit more cautious and they do more scrutiny into the deals. Another factor for us was a change in the sales comp that happened beginning of this fiscal year. And we incentivized a little bit less the multiyear deals, which in retrospect, it was an execution issue.

And also, I would say, for us, some late-stage deal execution challenges were identified. We had some – to give you some examples, some kind of – in one deal, it was a procurement error that happened late into the quarter. And another deal, it was the budget reprioritization that we got where a little bit late in through the quarter.

Jacob Roberge:

Okay, helpful. And then for the customers that are renewing at lower rates, how pronounced has that partial churn been in those contracts? And to the extent that you have visibility into it, why are customers turning off as use cases? Are they just digesting what they overbought in prior contracts or there are any other issues at play there?



Ashim Gupta:

This is Ashim. When you look at our churn rates, actually, when you look at it as a percentage of our renewable base, we've said this historically, they're relatively constant, right? So I don't look at churn as something that is having an outsized impact versus our expectations. Of course, we always want to work harder to drive those numbers to be to have better benefits, so to speak, or have more productivity year over year with respect to those down sells. But it is not actually a driver. So we don't see customers turning off use cases, so to speak.

Operator:

Thank you. Our next question comes from the line of Mark Murphy with JPMorgan. Please proceed with your question.

Arti Vula:

Hi. Thanks for taking the question. This is Arti Vula on for Mark Murphy. First question is, I think you mentioned during the prepared remarks, if I understood correctly, shift towards a sales motion that's more verticalized. I'd love to hear why you think that's like the right approach and why now and what the timeline is towards kind of making that happen? Thank you.

Daniel Dines:

Yeah. So we announced our strategy to verticalize our approach in go-to-market for quite some time. And I think with all that happen in the AI world, it's even a better time today. For instance, we are seeing some of our best return on our investments in go-to-market in healthcare, in financial services and public sector. And they were driven largely by our investments in AI, particularly in IDP. And it was – we built more than like 70 dedicated models, industry models that are helping with our sales effort.

Arti Vula:

Great. Thank you. And then just on some of the headwinds that you described, I know you called out macro versus kind of some internal things you guys are trying to improve on. Is there any way you can help us kind of understand, is it more macro, more of the internal challenges just to kind of get a qualitative sense of what the proportions is? Thanks.



Ashim Gupta:

Yeah. It really is a combination of both. It's very hard to quantify and give you an accurate distinction between the two. That said, I think we understand the macroeconomic environment is going to be variable. So we're focused on what we can control. And as Daniel talked about, improving deal execution, driving increased alignment in terms of just across our overall teams and being closer to the customer, we're confident both in our market leadership and our strategy. And if we nail those execution things, those are the items that are in our control and positions us well for the long term.

Operator:

Thank you. Our next question comes from the line of Raimo Lenschow with Barclays. Please proceed with your question.

Sheldon McMeans:

Hi. This is Sheldon McMeans on for Raimo. Thanks for taking our question. So it seems like part of the issue is around lengthening sales cycles from large multiyear deals, and you discussed the change in sales comp incentivize these large deals less. Given the current macro, is the solution to break these deals down and land smaller or is it to incentivize larger deals more? And do you see a need to change the messaging there? Thanks.

Daniel Dines:

Well, I think that there is a need to rectify some of our – the sales comp, but we are not going back to the same level as last year. So, Sheldon, I would say that I think we kind of we are tuning right now our sales comp. We went a little bit too much in the opposite direction in regards to incentivizing multiyear deals. So I think I am positive that we can land in a middle ground that will really help us in our growth rates for this year and into next year.

Sheldon McMeans:

Understood. And a quick follow-up. Can you speak to the investment in H.ai and how does that play into your overall AI strategy and any color on the commercial relationship and maybe what's expected there? And then how do you see potential success around developing these models that are capable of reasoning and performing more complex tasks? Do you expect that to change the automation market? Thanks.



Daniel Dines:

I'm very excited about our investment into H.ai Company. Actually, I was driving it directly from our side and I got to know them pretty well. It's a great team of researchers. They have previous experience into relevant field in AI and we have kind of a common goal to advance our agenda of what we call right now agentic process automation. And to me it's the ability of a model to get the knowledge of a particular task and combine this knowledge with the ability to execute the task on the top of our platform. I think if we combine the assets that we have, our understanding of processes with their prowess in this dedicated research, we are in a very good position to build one of the most advanced agentic model today.

To be clear, where I feel that this model has the most applicability is still in the personal productivity space where people are facing a lot of tasks with varied types of complexity, but the task now itself is still very diverse and it's not economically feasible to go to have paid developers to go and automate these tasks. A lot of time they have a lot of unstructured data, the steps in the task are extremely diverse. So this is where, in my opinion, is going to be the sweet spot of this agentic process automation, especially in the first phase. If I can say, I would think it's more like the self-driving cars that today it's more of an assisted technology and it requires really significant leap into getting into autonomous self-driving. It's going to be, in my opinion, the same trajectory for agentic models.

Operator:

Thank you. Our next question comes from the line of Kirk Materne with Evercore ISI. Please proceed with your question.

Chirag Ved:

Hi, this is Chirag Ved on for Kirk. Thanks for taking the question. Following up on the first question that was asked, when you're thinking about large customers extending their cycles, are you seeing them stay on the sidelines as they're reevaluating their GenAI strategies? And how do you see UiPath positioning within these companies evolve as their AI strategies mature over time? Thank you.

Daniel Dines:

I want to start by saying that the AI and GenAI is the tailwind for us and we have invested significantly over the years and in particular over last year in GenAI. In June, we are going to launch our first series of Autopilots and there is a lot of excitement around



our customers about using our Autopilot to drive more adoption, to reduce the time to value and overall reduce the total cost of ownership.

This being said, I think that AI is creating a little bit of confusion with our customers and they are evaluating what kind of tasks are better suitable to automate the AI, what tasks are better with using our platform. But what I hear from many of our customers, it's actually the combination between GenAI and automation. It's something that makes a lot of sense to them. We said it before, but it's like the human body and it's AI is the brain and our platform is the arms and the legs. And the combination makes a lot of sense for most of our customers.

Chirag Ved:

All right. Thank you.

Operator:

Thank you. Our next question comes from the line of Bryan Bergin with TD Cowen. Please proceed with your question.

Bryan C. Bergin:

Hi. Thank you. Wanted to ask, as far as the deal scrutiny goes, the smaller deal sizes, the postponements, is that broad based across the business or has it been more so in particular industries or regions?

Ashim Gupta:

Bryan, it's broad based. I don't think it's not that we're zoned in on one particular area. So from multiyear deal perspective, that's broad. When we talk about the macroeconomic environment and the variability, we definitely see more pronounced impact on the smaller mid-market customers as we've seen and been talking about historically.

Bryan C. Bergin:

Okay. And then on the execution issues of the strategic initiatives that were not working as intended here, you mentioned the sales comp dynamic, are there other notable examples that you've identified you could talk about and how are you think about the timeframe over which some of the intended changes may take?



Daniel Dines:

Well, I think the sales comp, it's fixable pretty quickly. And we see us having an impact into the second part of the year. There are other initiatives that we are focusing on. For instance, one of the big change that I want to bring to UiPath right now is to come back and become a fanatical customer centric company. I think we went to a distance to go and pitch our business to C level, which is actually great. But the reality is that we have to increase our adoption by taking care of our traditional line of business customer within the CIO suite, which I think will benefit a lot more for a new reinvigorated customer centric approach.

Other things that work, I think, were segmentation was really working and we feel positive about it. We have a lot to do in the partnership side of the business. We have also created some of our global structures that in some ways, I think, are slowing down our decision making process. So I'm considering changes into bring some of our global teams into the regions. But overall, we have a strong foundation both in product and go-to-market and I am pretty bullish on what we can execute into this year and into subsequent years.

Operator:

Thank you. Our next question comes from the line of Matthew Hedberg with RBC Capital Markets. Please proceed with your question.

Michael Richards:

Hi. It's Mike Richards on for Matt. Thanks for taking the question. Maybe, Daniel, going off your last answer there, maybe you could talk more to kind what broader strategy changes you're going to make coming back into your role as CEO. And are you going to be stepping more away from the product side, especially with bringing in Raghu? Would just love some more color on that. Thanks.

Daniel Dines:

Yeah. Thank you, Mike. I am actually quite happy to be back in the CEO role. I had time in doing the product and engineering for the past year or so to reflect on what I am doing best, how can I have the biggest impact? And I think that right now, I would like to bring more together, the big functional teams in UiPath.

I think when I say customer centricity, I don't mean only go-to-market, I mean product, go-to-market, marketing and even HR and finance, because we, for instance, I don't



think we pitch enough to our customers how well our internal automation program is, and it spans multiple divisions in UiPath.

And also, there is something that is more maybe on the intangible side that I want to bring back in this company, and it's more on the joy of working together. I have a feeling that we've become maybe a little bit having the mentality of too big of a company, and we've become a bit siloed.

So, I want to bring back the ethos of how we won in the business, how we grew our business. And it was when all our function collaborated really well. Everyone in this company was willing to help. We communicate to each other. I think I see more fluidity. So, this is another important change that I want to drive.

Operator:

Thank you. Our next question comes from the line of Terry Tillman with Truist Securities. Please proceed with your question.

Connor Passarella:

Great. How's it going, guys? This is Connor Passarella on for Terry. Appreciate you taking the questions. I just wanted to start, one, Daniel, you talked about the key pillar of go-to-market strategy being partners. Kind of want to dig into, how are you working with your partners to, I guess, promote solid execution through a continued shift in the go-to-market strategy, especially some of the bigger ones you mentioned, SAP, Microsoft, Deloitte, just kind of curious on what's kind of driving the partnership ecosystem?

Daniel Dines:

Yeah. I think that we have emphasized in the past, our focus on going with large GSIs. Accenture is, as you name it, is one of our biggest partner and we continue to drive deals with them. We have also named UI into our earnings transcripts and they help us lending sizable deals. Our partnership, I'm particularly bullish on our partnership with SAP. We are starting to seeing signs of improved pipe. And also, we have quite a good relationship between our leadership teams and I'm seeing a positive impact, especially into next year from our SAP relationship.

I would also talk a little bit about the Microsoft partnership and the recently announced cooperation with Microsoft Copilot, I think it's worth mentioning and to my previous point about AI and automation interacting and delivering together value to the customer. This is actually a great example where the Copilot can provide the necessary context to the automation that is taking the action. And in the recent Build Show with



Microsoft, both Satya and Scott Guthrie mentioned us in their keynote just to point out with how important our relationship is to Microsoft and, of course, to us.

Connor Passarella:

Got it. That's helpful. Maybe just as a follow-up. \$300 million in free cash flow guide for the year. Balance sheet remains pretty healthy. Just kind of curious about the continued focus on capital allocation and what the strategy might be there. I know you are still buying back shares. Just curious on the outlet to continue doing that, also, maybe some M&A, just kind of curious on how you're thinking about the cash balance, free cash flow for the year. Thanks, guys.

Ashim Gupta:

Yeah. Look, I think that we're very happy with the free cash flow generation that we're able to provide here. We're committed to driving, continuing to drive efficiency within the company. Like you mentioned, we have a strong balance sheet which gives us a lot of optionality. And so, I think we're going to be opportunistic and do what's in the best interest of the company. And that's a discussion that we have every day and every week. And we'll just continue to have those discussions and make decisions as they become opportunistic for us.

Operator:

Thank you. Our next question comes from the line of Michael Turrin with Wells Fargo Securities. Please proceed with your question.

Michael Turrin:

Hey, great. Thanks. Appreciate you taking the question. Maybe just a two-parter for Ashim, if I may. The free cash flow guide is down by less than the operating income guide. First part is, just what's driving the difference? Any color there is helpful as we're recasting our models.

And then just bigger picture, how you think about the trade-offs between shifting more towards margin if this more challenged environment remains more persistent versus investing into adjacent product opportunities given tangential interest in AI and other areas that you're closely associated with, which could help catalyze growth? Thanks.

Ashim Gupta:

Great questions. I'll take the first one that you mentioned and address it right off the top. The first is, I want to remind everybody that we follow ASC 606 accounting. And so that when you have multiyear deals that are impacted, that has a more or an outsized impact to revenue and you can see that even the differential between our revenue growth rate and our ARR growth rate, right? Within our guidance, we're talking about a 14% ARR growth rate, which is significantly better than the revenue growth rate for the reasons that the complexities of ASC 606, both deployment as well as duration, impacts our accounting. So, when you impact revenue, that obviously flows through down through operating margin.

And conversely, revenue does not have an impact on free cash flow. So, our billings or collections, we do see some level of volume pressure as we've talked about between the macroeconomic variability as well as the execution items that Daniel highlighted. So, that has just a lesser impact when you look at the pure volume equation. And we obviously run a very – we continue to run with operating discipline, which means free cash flow stays front and center.

With regard to your second question, I'd phrase it that we don't believe that there's a fundamental – there are opposed forces of being able to invest and being able to generate free cash flow. So, we stay committed to our long-term margins that we've talked about historically, and yet we're able to invest in the company. We're able to invest within our AI strategy, we're able to invest in great opportunities like H.AI that Daniel talked about, and we're committed to investing in our platform.

We've got great response from our customers in terms of the breadth of capabilities that we continue to offer and continue to launch. So, we believe that we can do that, while continuing to drive efficiencies across our company. And we believe that there are still efficiencies to be had, particularly in G&A and sales and marketing. And that's a discussion and an operating rhythm that we have with a lot of focus within the company.

Operator:

Thank you. Our next question comes from the line of Alex Zukin with Wolfe Research. Please proceed with your question.



Ryan Krieger:

Hey, guys. This is Ryan Krieger on for Alex. Thanks for taking the question. I just want to circle back to something you said in the prepared remarks. You talked about some deals getting pushed out of the quarter, particularly for large contract customers. Have you started to see some of those deals close in 2Q? And are they also closing smaller than maybe originally anticipated like you saw in 1Q, or have some of them been lost completely? Are they still in the pipeline? Just any more context around that would be super helpful.

Ashim Gupta:

Yeah, we didn't – I would say the color that I would give is, it's a mixed bag. The only thing is we don't really see losses. When we look at the deals that customers are making decisions on, our win rate continues to be very strong and consistent with what we've seen historically.

In terms of closure within the second quarter, yeah, there are some deals that are closing and there are some deals that we'll continue to – that we have a path that we're continuing to work through, all of which we've contemplated in the guidance numbers that we have in front of us. That being said, overall, we've taken a more prudent view just given the macroeconomic variability and the timing to work through the execution items regarding our overall guidance for the year.

Ryan Krieger:

Great. Thank you very much.

Operator:

Thank you. Our next question comes from the line of Scott Berg with Needham & Company. Please proceed with your question.

Scott Berg:

Hi, everyone. Thanks for taking my questions. Starting and take the slightly insensitive question, because I know everyone's going to ask it. Kind of a two-parter here. I guess, first is, can you give us any additional clarity in terms of Rob's departure, because it is kind of sudden, at least relative to, I think, everyone's expectations.

And then, Daniel, how do you view your current term as CEO? Is this a longer term endeavor or something that maybe a little more short term, because I know you're



excited to kind of just go back and focus on product, but obviously this is a pivot and change? Thank you.

Daniel Dines:

Well, they are really good questions, Scott. No offense taken really. Look, Rob was leaving for personal reasons. Rob and I are in good terms and he will continue to be an advisor to the company. We were partners in many of our strategic decisions and in a way that makes it a bit easier for me to step back into day-to-day operational role.

And again, I had time to reflect on who I am, what I am, won from life and UiPath is such an important – it's such an important part of me that I cannot see myself separated from the company, in all fairness. So, my intention is to stay CEO for the foreseeable future, I'm fully committed to the job. And if you look back, I was the CEO of this company since its inception for like 17 years, I drove the company from zero to \$1 billion plus for a successful IPO. I'm happy to be fully back in.

Scott Berg:

Excellent. I look forward to those continued conversations with Daniel. And then just from a brief follow-up, Ashim. I appreciate all the ASC 606 commentary and recognize the impact on the model in the short term, because it's certainly unique amongst most of our software companies. But how do we think about margin leverage kind of going forward?

Is this really just a function of getting sales back on track maybe over the next couple of quarters and early next year, hopefully, when the environment kind of moderates and improves for you all, or is this, I guess, are there some opportunities maybe to further adjust your cost structures as you maybe look into late this next year or late this year or next year?

Ashim Gupta:

Yeah. Thanks for the question. The first thing I would say is, we have to recognize just given the accounting standard that we follow, I think free cash flow is a great – is a more appropriate measure of our overall margin for the company, which continues to be very robust at \$300 million, right? That continues to be a very high margin rate, free cash flow margin rate that is there.

That being said, I think it comes both ways. We still feel excited about the market opportunity and the customer fit and the customer feedback that we see. It's why we're investing within AI and continuing to invest in our platform. We've had great response



from our customers that have expanded like USDA, HCA, and we've had great new logos or new customers that we're excited to see start the journey with us. So, we feel like growth is something that will continue to be a leverage lever for us as we go forward.

That being said, like we talked about in earlier in the Q&A, I think that there is ample opportunity both within G&A and sales and marketing for us to be able to continue to drive efficiencies and we do that smartly. We don't feel like we have to make abrupt decisions and we're thoughtful about the strategic, the overall strategic areas we're investing in. So, I think we can both invest in the company, while continuing to drive margins, while the environment continues to moderate as you mentioned.

Operator:

Thank you. Our next question comes from the line of Jason Celino with KeyBanc Capital Markets. Please proceed with your question.

Jason Celino:

Great. Thanks for fitting me in. Maybe just one for Ashim. It looks like the ARR guide for the year is coming down by about 5 points. And it sounds like you're baking in some extra conservatism. But is there any way to unpack the impact from the macro degradation, the execution challenges you've talked about and then the management changes?

Ashim Gupta:

I think unpacking quantitatively, it's very hard to model distinctly. There's obviously reinforcing factors to all of the items and it's hard to disaggregate them as I discussed. That being said, I think our commentary early really holds. I think that the macroeconomic variability impacts those larger multiyear deals.

And I think there is opportunity to offset some of that pressure with the actions that Daniel talked about, which we're committed to correcting on the execution front. So, I wouldn't disaggregate it. I think that there is a good opportunity, where execution can continue to help moderate the impacts of the macroeconomic environment, which is what we've assumed in our guidance.

Operator:

Thank you. There are no further questions at this time. I would like to turn the floor back over to management for closing comments.



Daniel Dines:

Thank you so much, everyone, for taking the time. And I'm looking forward to meeting many of you over next few days and going forward.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.