Greetings. Welcome to the UiPath third quarter 2022 earnings conference call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad. Please note this conference is being recorded.

I will now turn the conference over to your host, Kelsey Turcotte, SVP of Investor Relations. Thank you. You may begin.

Kelsey Turcotte, SVP Investor Relations:
Good afternoon and thank you for joining us today to review UiPath’s third quarter fiscal 2022 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 co-founder and Chief Executive Officer, and Ashim Gupta, Chief Financial Officer, who will open with prepared remarks followed by a Q&A session.
Our earnings press release and financial supplemental are posted on the UiPath Investor Relations website, ir.uipath.com. These materials include reconciliations of non-GAAP financial measures to the most directly comparable financial measures calculated in accordance with U.S. GAAP. We will be discussing non-GAAP metrics on today's call. The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with U.S. GAAP. They are included as additional clarifying items to aid investors in further understanding the company's third quarter fiscal year 2022 performance in addition to the impact these items and events have on the financial results.

This afternoon's call includes forward-looking statements about future events, including statements regarding our financial guidance for the fourth fiscal quarter and fiscal year-end 2022, our expectations regarding seasonality, our strategic plans or objectives, the estimated addressable market opportunity of our platform and our position in the market, future growth opportunities, the success of our platform and new platform releases, the success of our investments and partnerships, the success of our collaborations with third parties, the ability of our platform to deliver our customers a return on investment, and our customers' behaviors and potential automation spend.

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 the earnings release and other reports filed with the SEC. Forward-looking statements made on this call reflect our views as of today. We undertake no obligation to update them.

Before I turn the call over to Daniel, I would like to highlight that this webcast is being accompanied by slides. We will post the slides and a copy of our prepared remarks to our Investor Relations website immediately following the conclusion of this call. Now I would like to hand the call over to Daniel.

**Daniel Dines, Chief Executive Officer:**

Thank you, Kelsey, and good afternoon, everyone. We continued to have very good momentum in our third quarter as ARR increased 58% year-over-year to $818 million, driven by net new ARR of $92 million.

Our continued growth at scale is fueled by our market-leading end-to-end automation platform. Automation fundamentally changes how employees experience work and businesses interact with customers and partners. I continue to hear from customers that UiPath's automation platform is one of the most important technologies in their digital transformation roadmap, driving operational efficiencies, generating revenue, and creating significant competitive advantages.
As Forrester put it in their Predictions 2022 Automation Report, automation is emerging out of the back office to become a potent enabler of new business and operating models. Companies with advanced automation programs will obliterate, not merely beat, the competition. Automation also presents a truly strategic solution for the kind of challenges presented by secular trends like the global labor shortage and supply chain constraints.

For example, Hana Bank, one of the top three banks in South Korea, had the twin goal of reducing menial tasks done by employees and preparing for future labor shortages. They started by automating tasks which yielded not only cost reduction but more efficient HR management, then moved to cross-bank mega processes, and have recently entered their fourth phase of deployment. All-in, Hana Bank has applied automation to 80 processes, an estimated saving of around 1.5 million hours per year.

Now turning to the quarter, I am pleased with our results, which reflect our constant focus on customer success. At the end of the third quarter, we had more than 9,630 customers, including new logos like Chegg, Inc., Dr. Oetker, Colgate University, Loblaw Companies, and Aspen Medical. On the expansion side, we now have 1,363 customers that accounted for at least $100,000 in ARR, up 52% from 899 in the prior year. This includes 135 customers at $1 million plus in ARR, up 82% from 74 in the prior year.

The Saudi Ministry of Tourism is a great expansion story which highlights how relevant automation is across verticals. They began their smart automation in 2020 to expedite integration and reporting on their enterprise systems platforms. In less than one year, using both attended and unattended robots, they reduced the time needed to collect, process, and analyze data by 95%, from 30 minutes per record to 40 seconds.

While NRG, an energy provider in the U.S. and Canada, drives home our competitive positioning, NRG has deployed over 100 automations and achieved millions in annual savings, having expanded across finance, HR, IT, customer operations, and their contact center. They recently acquired Direct Energy and now are in the process of migrating Direct Energy's automation program from a competitor to UiPath, increasing their automation count by 50% in a matter of months.

Customer stories like these are inspiring, and it was great to gather approximately 2,000 automation practitioners at FORWARD IV, our first in-person user conference in two years. FORWARD strengthened relationships and resulted in new business as well as pipeline expansion. It was clear from the interaction on our show floor and attendance in breakout sessions led by practitioners including Amazon, Chevron, Spotify, and Palo Alto Networks that customers are enthusiastic about the power of automation and our newest platform release.

2021.10 again expands our UI, ADI, and AI capabilities and extends our competitive mode with the addition of more than 100 features and enhancements across every stage of the automation lifecycle. Updates to our new platform capabilities like 21.10 are first released in
the cloud. That gives our cloud customers the benefit of a continuous two-week release cadence and us a continuous feedback cycle, which results in high-quality semiannual releases to our entire customer base.

We have great excitement around our cloud offerings, particularly with the release of 21.10. Over half of our new customers chose cloud as part of their first purchase in the third quarter, and we now have more than 3,250 cloud customers. Toll Group, a leader in logistics, transport, and supply chain in Australia, is a great customer success story. They are leveraging our automation cloud for both attended and unattended robots as well as Document Understanding, AI Center, and Test Suite. Today, their rapidly growing automation program has freed up 170,000 hours, and they are on track for savings of $1.6 million annually.

To continue to offer our customers adoption optionality, we launched Automation Suite with 21.10. Automation Suite enables our customers to leverage the power of the full UiPath platform with the benefit of a cloud native architecture however they choose, on-perm, public cloud, or third-party hosted, with a single install on Linux. 21.10 also included the introduction of Linux-based software robots, a capability that is required to be a truly cloud native company. This allows our customers to achieve scalability and auto scalability in a cost-effective manner.

Our focus on innovation continues to strengthen our lead in the automation market, and has also won us recognition by some of the foremost industry analysts in our space. First, we are very pleased to have been named a leader in the inaugural IDC MarketScape Worldwide Robotic Process Automation Software 2021 to 2022 Vendor Assessment, which positions UiPath as a leader for overall technical capabilities and a strong capitalization structure for extending our end-to-end automation platform.

And we were named a robotic process automation leader and star performer in the technology vendor landscape for the fifth consecutive year, according to Everest Group's Robotic Process Automation Products PEAK Matrix Assessment 2021. We emerged as the only star performer who is also a leader in this year's assessment, which analyzes the changing dynamics of the RPA landscape and assesses 23 service providers across several key dimensions.

Acknowledgments like these are important for our customers and our UiPath ecosystem, which continues to grow meaningfully. In fact, last month we announced an offering that enables our partners, community contributors, and independent automation vendors who distribute and monetize their RPA content to our more than 100,000 existing marketplace users.

We are also making meaningful strategic investments in go-to-market partnerships, where we work together to drive customer success. The number of our partners is increasing and now have more than 4,900, and our relationships are deepening. This increased focus is driving growth, particularly with global systems integrators, where we are working to become one of the top practices in these influential and global organizations. We recently expanded our strategic collaboration with Accenture to help drive the adoption of enterprise wide
automation among clients, accelerate their technology transformation efforts, and create new growth opportunities.

As an Uber executive said recently, at Uber it is about how we can apply technology and innovation to serve our customers. Partnering with UiPath and Accenture enabled us to tap into the power of both UiPath's intelligent automation platform and Accenture's business and digital transformation expertise. This powerful combination has helped Uber to achieve unparalleled results in its digital transformation journey to enhance internal operations productivity, quality, performance, and user experience.

In addition, we announced that our end-to-end automation platform is being incorporated into PWC Perform, their proprietary operational improvement methodology and management system. By embedding our platform, PWC can harness the power and scope of UiPath's automation product to expedite time to value for customers engaged in rapidly advancing digital transformation initiatives.

Customers like Mercy, a St. Louis-based healthcare system, also benefit from the expertise of our vertical partner specialists like Amitech, a healthcare data analytics and automation consulting firm and UiPath diamond partner. Mercy started their automation journey in finance and continues to scale on our platform, adding Test Mining and Test Suite this quarter, while steadily deploying more automations. To date, they have hundreds of automations deployed across 84 use cases, with an estimated total benefit of tens of millions of dollars and additional time for nurses and doctors to provide better outcomes for their patients.

This is our vision, to automate mundane tasks to allow employees to make a meaningful difference. All of this is about driving customer success, which includes technical integrations that make it easier to deploy automation, and this quarter we made several strategic announcements with major technology providers.

We partnered with CrowdStrike to provide customers a new level of security and visibility by extending endpoint security to RPA through their CrowdStrike Falcon platform. This is a first of its kind in the industry. We integrated UiPath Insights with Snowflake to provide customers with faster data processing and analytic capabilities to scale their automation programs. We expanded our strategic relationship with Alteryx to include new integrations, making it easier to invoke UiPath bots in an Alteryx workflow. Finally, we partnered with Qlik to enable Qlik Cloud analytics users to leverage UiPath automation to drive action and prioritize tasks in downstream applications.

Connectors like these make automations, that combine API integration for high volume transactions with our comprehensive UI computer vision, easy to build, deliver, govern, and manage. A comprehensive automation program requires a combination of emulation, particularly for the long tail of manual processes, and API integration for high volume transactions, both of which are foundational to our platform.
In summary, we had a strong Q3 and we continue to drive growth at scale. The market is very healthy, and we see considerable demand for our automation platform. I feel very good about what we have been able to accomplish across the business since our IPO. And we remain focused on innovation and our customers, which we believe is key to our ongoing success.

With that, Ashim will take over to talk in more detail about our third quarter results and our fourth quarter guidance.

Ashim Gupta, Chief Financial Officer:
Thank you, Daniel, and thank you, everyone, for joining us today. As Daniel said, we are very pleased with our third quarter as we again delivered meaningful growth at scale. We had strong adoption across our platform, including our core product portfolio and automation cloud as well as new product offerings, and added great new customers like Prudential, Hermes, Breakthru Beverage Group, M Moser, WebBeds, and Sprout Mortgage. We also helped the EPA start their RPA journey in their office of their technology solutions.

At the same time, we continue to drive market leading expansion rates across our customer base. For example, İşbank, the largest private bank in Turkey, has successfully automated nearly 400 processes across 42 departments in two years. This has translated to 15 million transactions handled, with savings of 600,000 working hours annually. They are also deploying UiPath Process Mining and AI technologies with chatbots. We are also working with companies like Seiko Holdings and Canon, which have successfully implemented RPA and are expanding use cases to enable greater automation across their organizations.

Rather than diving into the P&L, I'm going to change things up a little bit. First I'm going to focus on the relationship between ARR and revenue. Then I'll give you some color around Q3 and provide guidance. Then we will take questions.

Fiscal third quarter revenue grew 50% to $220.8 million. Reflecting the strength in the business, we closed the third quarter with ARR of $818.4 million, up 58% year-over-year. Net new ARR was $91.9 million, up 42%. We have a highly recurring subscription business driven by a true land and expand model, with customers deploying more robots, adopting more platform products, and expanding use cases as they realize the considerable value of automation.

We run the business and evaluate our performance based on ARR. In our case, ARR is defined as annualized renewal run rate, which is annualized invoiced amounts per solution SKU from subscription license and maintenance obligations, assuming no increases or reductions in their subscriptions. In other words, ARR is invoice-based, and we calculate it by taking the invoiced amount divided by the subscription term multiplied by 365.

We have a structured process in place to calculate and report ARR. Because it is invoice-based, we believe that it is the most accurate and reliable measure of our true business activity. It
most closely aligns to long-term cash flow and best aligns to renewals. And given our strong dollar-based gross retention rate, which was 98% in the third quarter, ARR is most reflective of customer commitment regardless of deployment model.

Revenue recognition, on the other hand, is based on total contract value, or TCV, under ASC 606 accounting. And unlike ARR, it is impacted by contract duration, deployment model, and license delivery, which makes revenue highly variable quarter to quarter.

Before I move on, a quick reminder; under ASC 606, license revenue is recognized at the point in time when the customer has access to the license key, which, while generally occurs in the first quarter of the contract, can vary. Subscription services revenue is recognized ratably over the duration of the contract upon license delivery.

These next slides do a good job of showing the impact that ASC 606 has on revenue, the reasons why we believe ARR is the best way to drive and measure the business, and how both these metrics ultimately are connected. This first example is a one-year on-prem deal. It takes the impact of duration out of the revenue equation and reinforces that trailing twelve month revenue equals ARR, which is also what we invoiced in that period.

The next example shows the impact of multi-year contracts on revenue. In this three-year on-prem deal with a $6 million TCV, license revenue recognition is front loaded in the first year, which sets up a decline in revenue between year one and year two and no growth between year two and year three. In contrast, ARR is constant for the duration of the contract.

While we aren't going to focus on trailing twelve month revenue as a metric going forward, this slide does reinforce my point. Remember, annualized renewal run rate is a cumulative metric compared to revenue, which is a point in time. While there is no perfect way to bridge the two, looking at trailing twelve-month revenue over a multi-year period does help normalize some of the difference. In fact, over the last eight quarters, the CAGR of 62% for ARR and 65% for trailing twelve-month revenue underscores this correlation over time.

To quickly summarize before I move on, we don't manage the business to quarterly revenue growth because of the mechanics of ASC 606. We manage the business on ARR, as it more accurately reflects customer commitment period over period, which lays the right foundation for the company.

Before I close I want to make a few comments on third quarter results and provide fourth quarter guidance. I will be discussing results on a non-GAAP basis unless otherwise noted. Remaining performance obligations increased 80% to $579.5 million. Total gross margin of 85% and software gross margin of 93% reflect investments in our services and product support teams, as well as increased cloud hosting costs.
Third quarter operating expenses of $179 million increased 24%, including ongoing investment across the business and expenses related to our user conference held in October. Heading into the fourth quarter, guidance assumes there will be some back to the office as we continue to monitor the impact of COVID.

GAAP operating loss of $116 million included $95 million of stock-based compensation expense related to our equity program. Non-GAAP operating income was $9.1 million.

Adjusted free cash flow was negative $7.7 million. Our subscription model drives considerable cash flow. While we expect to run the business to roughly cash flow neutral this year, we will continue to invest across the business, including R&D talent, sales, and customer related activities. We also plan to make strategic investments with partners to drive further customer acceleration and success. This market is big and early stage and, given the opportunity in front of us, we plan to continue to lean in to drive growth.

We ended the third quarter with $1.9 billion in cash, cash equivalents and marketable securities, and no debt.

Turning to guidance, for the fourth quarter of fiscal 2022, we expect ARR to be in the range of $901 to $903 million, an increase from prior guidance of $876 to $881 million. We expect revenue to be in the range of $281 to $283 million. And we expect non-GAAP operating income to be in the range of $10 to $20 million. We expect to be profitable in the largest revenue quarter of the year while continuing to invest meaningfully in the business. We expect basic share count for the fourth quarter to be approximately 537 million shares outstanding.

Finally, we will guide to fiscal year 2023 when we announce our fourth quarter results, but I want to highlight that we expect fourth quarter to first quarter seasonality to emerge in the business in both net new ARR and revenue results.

In summary, we are pleased with our third quarter results as the team's ongoing execution continues to drive meaningful growth at scale. The opportunity in front of us is enormous, we have a strong pipeline, and we feel very good heading into the end of our first fiscal year as a public company.

We are building a truly multi-generational company that will change how people experience work. This is what excites us and motivates the team every day. It also keeps our focus on the long-term value creation for our employees, customers, partners, and stockholders.

We hope you, your family, and friends have a healthy and happy holiday season. We'll now take questions and I will turn the call over to the operator. Operator, please poll for questions.
Operator
Thank you. At this time, we will be conducting a question and answer session. If you'd like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. We ask that you please limit to one question.

Our first question comes from the line of Keith Weiss with Morgan Stanley. Please proceed with your question.

Keith Weiss
Excellent. Thank you, guys, for taking the question, and very nice quarter. I have one question for Ashim, and maybe like a clarification question and one broader picture question for Daniel. Ashim, thank you so much for taking us through that ARR explanation. I thought that slide was really great. It really illuminates kind of--sort of why ARR is the right metric to look at. When we're thinking about net new ARR addition this quarter, a year ago I believe you had some pull-forward. So, you had some really strong growth against a tough comp, because you had pull-forward from Q4 and Q3. Was there any one-time items or any pull-forwards of ARR into this quarter that we should be aware of, or is this quarter pretty clean?

And then on the revenue side of the equation, a good explanation of how sort of contract durations and the like and the type of the contracts impact revenues. Any particular impacts in terms of changing contract durations or billing durations that occurred this quarter that might have changed like kind of the revenue or the billings that we should be aware of?

Ashim Gupta
Yeah. Hey, Keith, great to hear from you, and I hope all's well. Just in terms of the first question, no, there was no significant item, you know, that was a pull-forward in any which way or that was--can be considered from other quarters. So, it's a very clean quarter on the ARR front in particular.

And then in terms of the question around duration, billings duration will continue to contract for us. And we've talked about this multiple times in terms of just our focus now with the cash in the bank, that we are going to prioritize, you know, more one year deals and reduce our dependency on multiyear prepaid deals from a cash flow standpoint. That trend continued in the quarter. It's just gradual every single quarter. And we're happy, actually, and very deliberate in that, in the intention on it.

With regard to contract duration, there was nothing significant that I would say is to be called out for this quarter in particular. Duration as a whole is going to be volatile because the way that we drive the business to ARR allows for customer choice to drive and customer economics to drive the decision on contract duration versus our internal teams pushing it. So, duration moves with every single quarter, and there is no one or two deals in particular. You see just
kind of a relatively normal quarter with the mix of deals, you know, falling the way customers have driven it.

Operator
Thank you. Our next question comes from the line of Phil Winslow with Credit Suisse. Please proceed with your question.

Phil Winslow
Hi. Thanks, team, for taking my question, and congrats on a strong quarter and outlook. A question for you, Daniel, and then a quick question--follow-up for your team. Daniel, I mean, obviously we've tracked your company for almost four years now, and one of the things that really jumped out at us is how you've expanded your platform, you know, what you call the tapestry. Obviously, we've seen a lot of consolidation, partnerships announced across, you know, the RPA industry, process mining over the past, you know, call it three to six months here. Wondering if you could help us understand your competitive landscape, how this tapestry different--difference you--differentiates you, and how, you know, this expanded platform is helping you out with customers.

Daniel Dines
Thank you for the question. In the last quarter, we have not seen any material moves in terms of the competitive landscape. And I would start by pointing to the first IDC MarketScape report that put us in a very clear leadership position. And I would quote them, saying that when it comes to real enterprise automation, real scale enterprise automation, customers are choosing UiPath. And this is, of course, because we offer an end-to-end platform that is suitable from small use cases to the most complex use cases. And indeed, we have this tapestry that we believe is what helps our customers drive adoption from the process discovery, which is becoming really a driver of growth and helping the adoption, to building automation for both professional developers and citizen developers to a--strong analytic platforms and to our engagement layer, which is basically our low code/no code app platform, which is really dedicated to automation and integration use cases.

So, I would, you know, finish my answer saying that automation is really becoming the critical piece of accelerating digital transformation. We are the clear leader, and we continue to win deals in very large scores because of our technology and our platform.

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

Raimo Lenschow
Hey, thank you, and congrats from me as well. Daniel, can you talk a little bit about what you see in your customer conversations around the increased need for automation just coming from the tight labor market? So, what we are hearing in our calls is that you just can't hire a lot of people just to do repeatable--or repeatable kind of jobs, so you're kind of forced to automate. Is that coming through already in your customer conversations? That would be interesting.

And then Ashim, just quickly on dollar net retention, is there any commentary? Maybe I missed it in the call. I only heard the gross retention. But any comment around how that was tracking? Thank you.

**Daniel Dines**
This is a great point. Even yesterday I had a face-to-face discussion with a large investment banking company, and one of the highlights was really that they are facing almost like 40% attrition in the bank, which is really huge. So, we basically talked about how can we partner in order to offer the new guys out of college, you know, the best working environment. How can we offer them, you know, the best technologies out there?

People want to join companies that are modern, that put them in the driving seat, that give them the technology to help them avoid, you know, these repetitive, menial tasks that make a lot of people to really quit in large masses. So, I believe this is really a great opportunity for us in the coming quarters. And one of the customers that I mentioned in--during the script is Hana Bank. And really they are--they've done already, you know, a lot of investments in automation because they anticipated this tight talent market, and this is their approach.

**Ashim Gupta**
And just in terms of dollar-based net retention rate, Raimo, we see that there's really no material change from our last quarter. As we've talked about in the past, we will release the actual number periodically. We continue to feel very strong and confident about our execution and our customers' execution, and that continued expansion rate is something we feel very, very confident and strong about as a company.

**Operator**
Thank you. Our next question comes from the line of Brad Sills with Bank of America. Please proceed with your question.

**Brad Sills**
Oh, great. Thanks, guys, for taking my question, and I'll echo the congratulations on a nice quarter. One of the things that struck me in the press release that you just put out today on the partnership with Accenture and also your comments with the PWC partnership is companywide deployments. When we think of UiPath, we think of that kind of rinse and repeat departmental expansion that you guys have been executing so well on. Are you seeing more companywide
deals come into the pipeline? How does that global SI channel help with that type of activity? Thank you.

Daniel Dines
Well, I can say that, among our customers that are over $1 million in ARR for us, all of them without exceptions are using our platform--are using various products, part of our platform. So, this is not only--it's not something marginal. This is really something that we are seeing more and more. Our growth products that are basically part of our tapestry is one of the highest growth, if not the highest growth technology, within our platform. So, that's definitely a growth driver for us. It's the usage of the entire platform.

Ashim Gupta
And then just, Brad, you know, the other thing we see is we do see continued momentum. I talked about our dollar-based net retention rate being very strong. One of the drivers of that is cross company deals where multiple functions are finding automation. And I think that's a really important thing, as a former customer, to just emphasize as people continue to learn about UiPath, is our platform is horizontal.

So, we're talking to CHROs, COOs, customer call center leaders, CEOs, across the board, even CROs in terms of how they want to use automation. And our best company--our best customers are using--are able to replicate what they do in one function and replicate those wins across functions. And that is really a core part of our dollar-based net retention rate and why we have conviction about the size of our TAM.

Operator
Thank you. Our next question comes from the line of Michael Turits with KeyBanc. Please proceed with your question.

Michael Turits
Hey, guys, thanks. Perhaps another take on Keith's question. You commented that you'd see seasonality in net new ARR, you know, and thought of as really bookings, I guess, in Q1. So, I mean, does it stands to reason that it's pretty clear, since you didn't see it last year because of that pull-forward, that more typically you would see stronger bookings in the fourth quarter from ARR perspective?

Ashim Gupta
Yeah, you know, generally we--you know, what we see right now is definitely momentum between second half and first half. When I look at the pipeline today, you know, I'm encouraged between fourth quarter--you know, in terms of the emergence of the fourth quarter seasonality that we talked about. So, yes, I see that seasonality as a potential here.

You know, one thing I'll just address because--you know, just anticipating the question behind the question is related to our guidance. Our guidance philosophy continues to be to guide what
I see in front of us today and we'll continue to execute and drive the company. We feel very bull--you know, we feel very confident about not just our execution but the dynamics of our pipeline and the response of our customers.

Daniel, I don't know if you want to talk further just in terms of what you're seeing in the market around that.

Daniel Dines
Yeah, it's--we are very pleased with what we are seeing front of us. We are seeing a strong Q4. It's--the demand is there. We are seeing really very engaged partners. So, overall, we are very pleased with the direction where our business is going.

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

Alex Zukin
Hey, guys, thanks for taking the question, maybe just a question around pipeline and then just a clarification on the retention rate. You know, you--new business and specifically, you know, in--the return of in-person events, you know, the conference in Vegas, all the things that you're doing, how has that impacted the pipeline? Any material change to the pipe now versus a year ago heading into 4Q?

And then I--maybe just a clarification, the fact that it wasn't a material change in terms of NRR, you know, there was a pretty wide variance between NRR in Q1 of 131% and Q2 of 144%. So, I just want to understand it that--you know, within that range between those two numbers, is it lower? Is it higher? It would be good kind of to get that.

Daniel Dines
Well, the partial return to normal face-to-face meetings, it's a very welcome novelty for us. We made the bold decision to have our annual FORWARD meeting in person. And I can tell you that besides an acceleration in pipeline, it's been a great acceleration in the energy of the company. Seeing happy customers, happy partners talking about, you know, how important this technology is for them, it's really--I think it gave us the real energy to push forward this Q3. And, you know, we are really into a great start into the Q4.

I personally have started traveling quite a bit in Europe and in the U.S., and that makes a difference. We--in person, we are capable of presenting and articulating our vision to large customers, establishing C level connections. And this is one of the particularity of our technology. We need an executive sponsor in order to go big, enterprise wide. So, the return to normal face-to-face is only going to help us.

Now I'll let Ashim comment more, a bit on NRR.
Ashim Gupta
Yeah. So, Alex, just one thing I'd like to correct is first quarter was not 131%. It was greater than 145%, is the way that we talked about it in some of the questions and calls. So, really, when you look at where we have been, that has been really--relatively consistent all year, and no material change.

And I--you know, I always like to emphasize the operational pieces. We continue to execute very strongly because the demand for automation is high within our customers. High ROIs drive, you know, a lot of interest from internal executives. We continue to see it. And it speaks to our land and expand model. So, first quarter was, you know, in line with what we've talked about at 145 plus percent, and we've materially not changed since--you know, our numbers throughout the year here.

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

Mark Murphy
Yes, thank you. I'll add my congrats. So, Daniel, at your user conference in Las Vegas, one of your partners was saying that this market in the past was a three horse race, and that two of the horses got broken legs and, you know, there were so many stories of Blue Prism and Automation Anywhere customers migrating to UiPath. I was just wondering if you can shed some light on, you know, whether you have a little extra tailwind from that type of activity.

And then, Ashim, just going back to Michael Turits' question, the comment about Q1 seasonality emerging in that new ARR, I believe consensus is already modeling that. You know, we--I know we certainly have, you know, lowered net new ARR in Q1. Can you just clarify if any--are you signaling that some kind of a change is needed, or do you think it's kind of reflected already?

Daniel Dines
Mark, indeed to--we are engaging in a few replacement deals of both Automation Anywhere and Blue Prism, especially within large financial institutions. There are territories, particularly, I would say, like in the Nordics, Canada, in U.S. where they are withdrawing, you know, their presence significantly. At the same time, I would not necessarily call it like a tailwind.

Our--the on tap opportunity in this market is huge for us. We have--our growth is not coming from replacement of our existing competitors, but really by delighting our customers, evolving our platform, getting new customers. This is really our driver of growth.
And then, Mark, just no. To be very clear, no, I am not signaling anything, you know, that is different from what I am seeing, you know, out there in terms of the models that I've come across. I would say, given our discussions on seasonality especially last fourth quarter, between 3Q, 4Q, and 1Q, of--you know, of our--of the past 12 months, I just think it never hurts to repeat things. And this is our first cycle is a public company crossing between years, so I just wanted to make sure that everybody knew where I stood and how the business looks at seasonality now and what we're seeing as our business matures.

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

Anna Shaffer
Hi, yes. This is Anna Shaffer for Matt Hedberg. Thanks for taking my question and congrats on the strong quarter. Maybe double ticking on the question on demand environment, during Q2 earnings call, you noted the impact from COVID thus far is neutral. With the new omicron variant, have you baked in any conservatism in your fiscal '22 guidance?

Daniel Dines
I think it's a bit too early to tell if the new variant is having an impact or not on the business. We continue to say and to see that COVID is net neutral to us. It was--COVID is a bit of a headwind to new logos, and it's a tailwind to adoption across a few other industries and existing customers. When the COVID will end, we see a real market opportunity for us to drive growth across all industries, all sectors.

Ashim Gupta
And then just in terms of our guidance, I--you know, I hesitate to use the word conservatism as I talk about--you know, as we approach these calls, I--the guidance that we provide is based on what I see in front of us. I don't handicap it. I have not handicapped it in any way for omni, to answer that question directly. I just really look and evaluate the data that I have in my hands today, and that is the basis of our guidance.

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

Bryan Bergen
Hi. Good afternoon. Thank you. I had a question for you on the sales force. I'm curious if you've seen any challenges being caused by talent tightness in the market, and are you on plan as it relates to targeted sales force additions as you begin to plan for fiscal '23?

Daniel Dines
We have invested throughout this year on our sales force. We are seeing--we are not seeing right now significant pressure on our ability to attract talent. We have a great brand out there. We have a fantastic culture inside the company. Our compensation is top-notch. So, we are really bullish in our capability of attracting talent.

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

**Joe Meares**
Hi. Thanks. This is Joe Meares on for Terry. I appreciate you taking the question. There has been a lot of press releases from you and your partners in terms of working together, and you guys spoke at length earlier in the call about the Accenture and PWC partnerships. I think you're up to 4,900 now. So, it's the two-part question. Are these partnerships more helpful with landing new customers or for expansions? And then the second part is where do you think you are in terms of the productivity curve of your relationships with these partners far? Thanks so much.

**Daniel Dines**
Well, I would like to answer starting with the second question. We're--I think this is an extremely positive momentum that we are seeing with major GSIs. We're talking with a few of them about building significant practices in UiPath. And when I--what I mean by significant practices is like top five, top 10 practices for them. This is truly important.

In relation to the first question, we are seeing they are helping us in both adoption with existing customers and getting net new logos. Of course, we are seeing the--our top 20 partners more helpful in expansion with existing customers. And the long tail partners are a bit more helpful in getting net new logos, but overall they are helpful on both fronts.

**Operator**
Thank you. Our next question comes from the line of Keith Bachman with Bank of Montréal. Please proceed with your question.

**Keith Bachman**
Yes, many thanks. Daniel, I wanted to revisit with you on the competitive landscape. Could you speak specifically to Microsoft and how you see Microsoft as a competitor, both now and over the course of the next year or two? And the dynamics that I was thinking about in terms of UiPath as a pure play vendor with cross functionality and many different application areas versus Microsoft, more of a--Microsoft centric versus--but Microsoft has pretty deep reach. You mentioned a few times that you're trying to get access to senior level management. And so, just hoping you could speak broadly about Microsoft and some of the underlying trends as you see them unfolding over the next year or so. Many thanks.

**Daniel Dines**
Speaking about the current situation, as I said before, IDC has underscored very well where we are. In terms of real enterprise traction, UiPath is really the only tangible choice for enterprises that want to go from small to complex across different divisions that want a really high level of penetration. Our own data, if we take into account the deals where Microsoft is participating versus the deals where Microsoft is not participating, we are not seeing material changes in our winning rate. So, right now, currently I can say Microsoft has—doesn't have a meaningful impact on our ability to win customers.

What is going to happen in the next couple of years? First of all, I would like to make a case that Microsoft is focused, with their RPA, mostly on citizen developer and personal productivity. This is a small part of our overall TAM. So, I don't see that in the coming years Microsoft investment in competing with us will materially derail us from our growth trajectory that we are seeing and we are building right now.

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

Kirk Materne
Yeah, thanks very much, and congrats on the quarter. Daniel, I was wondering if you could talk a little about your thought process on verticalization not of the product, but of your go-to-market efforts, meaning you—as you start to talk to companies about going deeper with automation, I would think having an understanding of those industries at a greater level of depth would be helpful in terms of maybe accelerating those conversations. I realize that's hopefully what your partners are aiding you with, but I was curious how much of, you know, that you think UiPath should take on when you think about, you know, next steps in go-to-market, maybe not next year but over the next few years. Thanks.

Daniel Dines
Well, one of the best business decisions that we made a couple of years ago was to create our industry expertise group. So, we’ve hired across a few verticals people that really are capable of speaking customer language and articulate how our technology is helping them. We have built also value engineering that is industry-specific. So, that was instrumental for us in landing key deals across financial services, healthcare, and public sector especially.

We continue to invest across particularly these three industries, and we are also investing in partners specialized in these areas. So, it's really good point. This—at this time, we don't see a need to verticalize our product specific to industries. But for—from a go-to-market perspective, we are looking very closely into how can we better address customers particularly across these three industries that I mentioned.

Operator
Thank you. Our next question comes from line of Ari Terjanian with Cleveland Research Company. Please proceed with your question.

**Ari Terjanian**

Good afternoon, and thanks for taking the question. Just had a question about investments into next year. I saw it seems like OpEx decelerate a little bit more this quarter. How are you thinking about hiring into next year, both from R&D and sales and marketing, and any kind of specific areas you're prioritizing? Should we expect a similar pace of growth or any ramp up as you try to address this large market opportunity ahead of you? Thanks.

**Daniel Dines**

I can tell you our strategy for hiring into R&D was hire like there is no tomorrow. We are joking internally, saying we don't have a budget for R&D. And I'm really happy to tell you that, despite the pressure in the market, Q3 was one of our best quarters for hiring into R&D.

Now, on the more general terms, I continue to say we really invest across the company, particularly in go-to-market, where we invest in field. We invest in Velocity, and Velocity is one of our best performing teams out there in terms of sales productivity. We invest in customer success to continue our great adoption story. And we invest in partners because we are ultimately a partner-led business.

So, it's--at this point, we are not seeing reasons to be very concerned about our hiring ability. As I said before, we are a great brand out there. We have great comp. Our position--we are the leader in the market that changes how people live and work. People believe in our destiny. And ultimately, we have also an amazing internal culture, as it's really expressed by our own employees.

**Ashim Gupta**

And then just in terms of the metrics really quick, you know, when we say that OpEx is decelerating, I want to remind everybody that, when you look at sales and marketing expense, for the quarter it would seem from a reported basis that we're down 13%. Please remember that there was an accounting change related to commissions. And on a pro forma basis, when you adjust for that, we are actually up 42% year-over-year, which speaks to the investments that Daniel was talking about. And R&D is up 46%. We continue to build out in support, etc.

You know, right now--while we're committed to long-term operating margins that we've talked about of 20% plus, our priority right now is investment. And we've talked about being roughly cash flow neutral. We're not afraid to go, you know, a little plus or minus against that. We look at, you know, TAM as early. We look at our market position as leading. And so, with that confidence, we will continue to invest, you know, in both our go-to-market and our R&D business to scale the company.
We look at that cycle to continue through next year, and you can see that even with the investments that we’ve talked about, you know, within our earlier call, within the earnings call around our partner eco--partners and our ecosystem.

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 there, good afternoon. Thanks for taking the question. Ashim, just following on to some of the seasonality questions and comments, is there anything else you can add from a large deal perspective, maybe just how you approach guiding for larger deals in particular? And maybe as part of that, you can also just help level set and remind us what the cadence of use case or broader expansion most often looks like. Is that typically an annual conversation and that's also what goes into the second half versus first half seasonal shape you're expecting, or just any additional context since those you mentioned? Still relatively early in your public company journey, I think it's all useful context. Thank you.

Ashim Gupta
Yeah. Great, Mike. I appreciate the question. You know, when I think about seasonality in large deals, one is I--the definition of large deal in our in--given our accounting is different between revenue and incremental ARR. So, as I think about large deals for the--from an incremental ARR standpoint, I continue to be pleased with the pipeline and demand. You know, we haven't fully highlighted it, but, you know, our million dollar plus customers continues to grow. And, you know, we see continued momentum in large-scale customers throughout fourth quarter.

The second piece of that is, from a revenue standpoint, you know, fourth quarter we anticipate to be--you know, have the most deal activity in terms of there. So, duration is going to be something we keep an eye on. Like I said, you know, I really do--we don't drive duration from a business standpoint in terms of actively for the--from a metric standpoint. That really becomes customer and economics driven.

In this environment, you know, I would say our pipeline is dynamic even at this stage in the quarter, and we'll continue to monitor that as we go through the--as we close the rest of the quarter and as we really kind of enter into the final stages there. So, you know, I see good momentum, but I can't predict that really well. In terms of the--and when I say I can't predict it really well, meaning like in terms of duration and understanding the impact of that.

The last thing is, in terms of the cadence, you know, we talked about this, and we could refer back to the second quarter earnings call. We talked about the life--you know, the contract to date or the life to date value of our customers. Many of our customers buy quarterly. It's nothing that they wait for their annual cycle to grow. Really what defines when a customer is--expands is when they start seeing those bursts of ROI that come. For many of our customers,
that actually can come two to three months out and then continue to come as they go across departments.

And for other of our customers, you know, depending on their implementation journey, they may be, you know, using some of the early pieces of their purchases and then wait for their renewal. So, you know, more often than not, we see multiple buying patterns but multiple points in the year of when customers buy. And that, again, speaks to the strength of our land and expand model that’s there.

**Operator**
Thank you. Ladies and gentlemen, we have reached the end of the question and answer session. I will now turn the call over to Ashim Gupta for closing remarks.

**Ashim Gupta**
Just one thing I--this is Ashim. Just before I turn it over to Daniel to close, we’ve got a lot of questions coming in around RPO. So, just for everyone to hear, I want to just state the numbers clearly and so everybody can jot them down for those who had questions. Total RPO for the quarter was $579.5 million, and that’s up 80% year-over-year. Current RPO was $359.3, and that is up 69% year-over-year. So, I just wanted to clarify that.

With that, I’ll turn it to Daniel to close.

**Daniel Dines**
I want to thank you all very much for participating in this afternoon’s call. I also want to thank the UiPath team for their hard work, our partners for their dedication to our customers, and our shareholders for your ongoing support. We hope you have a happy and healthy holiday season and look forward to speaking with many of you throughout the quarter. Thank you.

**Operator**
This concludes today’s conference and you may disconnect your lines at this time. Thank you for your participation and have a wonderful day.