Greetings and welcome to the UiPath Fourth 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. Please note that this conference is being recorded.

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

Kelsey Turcotte, Senior Vice President of Investor Relations
Good afternoon and thank you for joining us to review UiPath’s fourth quarter and full year 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’s co-Founder and Chief Executive Officer, and Ashim Gupta, Chief Financial Officer. We 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.

This afternoon’s call includes forward-looking statements about future events, including statements regarding our financial guidance for the first fiscal quarter of 2023 and fiscal year 2023, our expectations regarding the acceleration of digital transformation, the impact and duration of headwinds and expectations regarding our dollar based retention rate and fiscal year 2023 ARR. 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 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 comments 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, Co-Founder and Chief Executive Officer
Thank you, Kelsey, and good afternoon, everyone.

We have a lot to discuss so I am going to break my comments down into sections. I’ll start with a quick review of our business followed by some highlights from the fourth quarter including new products and partnerships. I’ll finish with guidance and give you some details about our new Chief Business Officer.

Before any of that I want to acknowledge the events unfolding in Ukraine. Our thoughts and prayers are with the entire country, and we are deeply saddened by the crisis that has been created. For me this is very personal, I grew up in Romania when it was still under communist control, so I understand the freedoms the Ukrainians are fighting to protect.

Amidst all of this, I am extremely proud of the UiPath team. Among the many things we are doing, we have donated more than $1.5 million in support and our colleagues across the region have opened their homes to refugees. We have also made our automation platform available to organizations like the International Red Cross, which is using automation to manage millions of dollars of donations and we will continue to look for ways to help.

Turning to the business, we delivered a very strong fiscal year 2022 marked by important milestones like our IPO, market leading product introductions, industry analyst acknowledgement of our leadership position, and meaningful growth. We have executed well, laying the foundation and attracting leaders who have experience to help us scale. We expect that by the end of fiscal 2023 we will have exceeded the $1 billion mark in ARR and revenue.
Fourth quarter net new ARR grew 72% year-over-year, reaching a record $107 million. This drove total ARR to $925 million, an increase of 59% year-over-year.

Our continued growth at scale reflects broad based adoption of our end-to-end automation platform and our focused execution. Automation is critical to digital transformation and to unlock new levels of innovation, agility, and productivity.

Our land and expand model continues to drive best-in-class dollar based net retention of 145%. As of the end of the fourth quarter we had approximately 10,100 customers including new logos Deliveroo, Auburn University, ABM Industries, and Bechtle AG. We now have 1,493 customers that accounted for at least $100,000 in ARR on an annual basis, up 49% from the prior year. This includes 158 customers over $1 million in annual ARR, up 78%.

From a product perspective, these results are driven both by customers deploying more software robots and by accelerating adoption of our broad suite of capabilities. Our end-to-end automation platform is a key differentiator for us as we help customers accelerate their automation lifecycle. This includes Paychex. Paychex has saved more than 425,000 manual hours with more than 35 million bot transactions. They now have over 40 workflows in production and are expanding adoption and operationalizing intelligent automation capabilities through Task Mining and Process Mining, which helped them identify opportunities to save another 40,000 hours annually.

We continue to expand platform deployment options with Automation Cloud Robots which allows customers to deploy unattended robots instantly without IT resources or infrastructure. We already offer a SaaS option for almost every UiPath product, and Automation Cloud Robots brings us even closer to a fully SaaS platform hosted in our Cloud.

As of the end of the fourth quarter, Cloud, which includes both hybrid and SaaS deployments, has grown to more than $140 million in ARR in just over two years. We ended the quarter with more than 3,800 Cloud customers with approximately 55% of our new logos selecting Cloud in the quarter. This includes companies like Snowflake and Recipe Unlimited. Our focus on innovation continues to strengthen our leadership in the automation market and we are excited about our upcoming platform release in May. UiPath 2022.4 delivers the next-gen Automation Cloud which continues our progress towards frictionless development and faster time to value, expands automation access for all, and raises the bar on security and compliance.

We also continue to expand our go-to-market ecosystem. We ended the quarter with approximately 5,100 partners. Building a best-in-breed go-to-market ecosystem requires us to sell with global GSIs and automation experts as well as enable a broad range of organizations with distribution capabilities like Ingram Micro.
These collaborations include sell-to-like with Deloitte which has decided to expand their UiPath usage for their internal automation journey; sell with; and sell through. During the quarter we closed several new and expanded partnerships including Finastra and ISID. Finastra, a UK based global financial software company, plans to bring the power of UiPath automation to financial institutions worldwide. The first phase of this partnership will leverage Finastra’s secure cloud platform to allow partners and automation creators to build and sell offerings to the financial market. Additionally, Finastra expects to include UiPath capabilities in their own offerings which they will monetize directly with their customers.

While ISID Group, a leading Japanese System Integrator, is using automation to respond to Japan’s tightening employment environment. Many leading Japanese companies are responding to this issue through digital technologies and ISID is developing a unique Digital Human Resources Development Service based on the UiPath platform to offer to the wider market.

As we continue to scale, we are building a go-to-market team that is driving long-term durable growth and I want to welcome Chris Weber who is joining us to lead that effort as Chief Business Officer responsible for our global go-to-market strategy and execution. Chris brings over 25 years of experience to this role having most recently helped transform sales and marketing across Microsoft as Corporate Vice President of their Corporate and SMB commercial team. He also led Nokia’s re-entry into the North American market. He has scaled multiple businesses to billions of dollars and brings an entrepreneurial approach, a genuine customer-first orientation, and a passion for the role that automation plays in digital transformation. I would also like to thank Thomas Hansen for his partnership and contributions to UiPath over the last two years and for his assistance during this transition.

Now I want to give you my thoughts on the guidance we provided this afternoon. I just returned from two weeks in Europe where I spent time with our employees in Romania and customers across the region. We have a meaningful business in Europe that has been growing well over the last several years. This includes both employees and customers in Ukraine and in Russia where we have paused business. I can tell you firsthand, this war is having a profound impact on the sense of physical and economic security across the continent and in the UK. We are also starting to hear customers in the US express reservations about both political uncertainty and rising interest rates.

As we start the fiscal year, we believe it is prudent to guide assuming the uncertainty we are seeing in the first quarter will continue. It also takes into account our decision to transition our go-to-market leader which can create short-term disruption.

Our financial model is powerful, and we believe there is considerable opportunity to continue to drive durable growth and improve profitability as we scale the business.
In summary, we had a strong close to our first year as a public company. I’ve said it before, and I truly believe it - we are building a multi-generational company that will change how employees experience work and unlock human potential. Looking ahead to fiscal 2023, digital transformation is accelerating and UiPath is at the forefront of that evolution.

With that, Ashim will take over to talk in more detail about our fourth quarter results and our fiscal 2023 guidance.

Ashim Gupta, Chief Financial Officer
Thank you, Daniel. I want to echo your thanks to Thomas and welcome Chris to the team.

Before I get started, please note that unless otherwise indicated I will be discussing results on a non-GAAP basis and all growth rates are year-over-year.

We are very pleased with our fourth quarter results which capped off a milestone year and continues to demonstrate our strong execution and market leadership.

We ended the fourth quarter with total ARR of $925.3 million, up 59%, driven by record net new ARR of $106.9 million which grew 72% and exceeded the $100 million mark for the first time. Full-year net new ARR totaled $344.8 million, an increase of 51%.

Our results were driven by broad based demand across our platform and strong performance across geographies.

Dollar based net retention rate of 145% for the quarter and a gross retention rate of 98% continue to underscore the stickiness of our platform. Two great examples of expansion business closed during the quarter are:

- Wireless provider T-Mobile US, a leader in 5G, which began their automation journey with UiPath a couple of years ago. Initially T-Mobile was focused on process automation in Supply Chain and Finance. They have recently expanded their use of the entire UiPath platform by adopting Process and Task Mining, Document Understanding, and Automation Cloud. Going forward, T-Mobile intends to leverage Process and Task Mining to aggressively expand their automation portfolio, freeing-up team members to further focus on enhancing the customer experience, increasing process velocity, and delivering more synergy savings post-merger.

- And, Vodacom, one of Africa’s largest telecom companies by revenue and market cap. To achieve their objectives, which are also tightly linked to customer experience, Vodacom has deployed 135 unattended software robots which have delivered to date over 1.2 million hours saved, $1.3 million in opex savings, and $19.5 million in revenue enablement. Their next step is to launch an organization-wide citizen development program for their more than 6,000 employees to drive discovery, scale, and unleash frontline innovation.
Turning back to the numbers, fiscal fourth quarter revenue grew 39% to $289.7 million. On a year-over-year basis, FX created an approximately 600 basis points headwind to revenue growth.

For the full fiscal year, we reported revenue of $892.3 million, an increase of 47% year-over-year.

Fourth quarter remaining performance obligations increased 65% to $682.8 million. This includes an approximately 800 basis points FX headwind to RPO growth. CRPO increased 57% to $422.2 million.

Total gross margin was 88% and software gross margin was 93% reflecting revenue seasonality offset by ongoing investments in services and cloud hosting.

Fourth quarter non-GAAP operating expenses of $213.7 million increased 39%. The increase in expenses was primarily driven by headcount additions and we ended the year with 4,013 employees. As we look ahead to fiscal year 2023, we expect hiring to be measured given our investments in fiscal year 2022.

Fourth quarter GAAP operating loss of $50.9 million included $77.0 million of stock-based compensation expense. Full-year GAAP operating loss was $500.9 million.

Fourth quarter non-GAAP operating income was $41.9 million. Full-year non-GAAP operating income was $73.8 million.

Fourth quarter non-GAAP adjusted free cash flow was $9.8 million. For the full fiscal year, we delivered non-GAAP adjusted free cash flow of negative $21.5 million. This is in line with our stated objective of being roughly cash flow neutral for the fiscal year.

And, we have $1.9 billion in cash, cash equivalents, and marketable securities and no debt.

Let me now turn to first quarter and full-year fiscal 2023 guidance which we believe encapsulates a realistic view of what we are seeing in our business today.

Our roots are in Romania and the European market, which was a major focus from the beginning and is an important part of our growth profile. Approximately 30% of our business is in Europe and we serve customers across the eastern part of the region and in Russia.

We also price in local currency which has created FX headwinds given the recent strengthening of the US dollar.

Both have a direct impact on our growth profile and guidance.
For fiscal year 2023 we have included the impact of pausing business in Russia, which is approximately a $15 million reduction in ARR of which $5.5 million will be in the first quarter.

In addition, at current FX rates we estimate an ARR headwind of approximately $5 to $10 million for the first quarter and approximately $20 to $25 million for full year fiscal 2023.

For revenue, we expect an FX headwind of approximately $10 to $15 million for the first quarter, and, $25 to $30 million for the full year fiscal 2023.

We have also made prudent assumptions around the profile of large deals in our pipeline given the current environment and factored in the risks that exist with any sales leadership transition.

Our 2023 pipeline is strong and growing broadly. We hear from customers their continued desire to expand their automation programs and the strategic importance of the UiPath platform to their digital transformation efforts and our differentiation from our competitors.

I also want to give you insight into our operating framework. We are committed to investing in this large and growing market while balancing growth and profitability which we have been consistently demonstrating over the last two years. Our financial model has healthy unit economics and strong cash flow, and we expect non-GAAP adjusted free cash flow to be neutral to slightly positive this year.

Moving to the specifics of guidance, I want to reinforce that we run and manage the business to ARR which is where we believe investors should be focused. For modeling we are adding both full-year revenue and full-year non-GAAP operating income guidance to our quarterly cadence.

For the first quarter of fiscal 2023:

- We expect ARR to be in the range of $960 to $965 million.
- We expect revenue to be in the range of $223 to $225 million.
- We expect non-GAAP operating loss to be in the range of negative $30 to negative $25 million.

And, we expect first quarter basic share count to be approximately 542 million shares outstanding.

For the full year fiscal 2023:

- We expect ARR to be in the range of $1.200 to $1.210 billion.
- We expect revenue to be in the range of $1.075 to $1.085 billion.
● And, we expect non-GAAP operating income to be in the range of $0 to $10 million.

Before I close, I want to leave you with a few guidance assumptions and modeling points:

First, for the fiscal year we expect first half net new ARR to comprise approximately 35% of full year net new ARR and to grow sequentially each quarter. For revenue, we expect first half revenue to be equally split between the first and second quarter and to grow sequentially each quarter thereafter.

Second, we are extremely pleased with the growth of our cloud business. While this is a net positive, we expect growth in our SaaS offerings to be an estimated 4% headwind to full year revenue growth this year.

Third, we started amortizing sales compensation expenses at the beginning of fiscal year 2022. Given last fiscal year was the first full year we amortized these expenses, we are facing a 300-basis point headwind to non-GAAP operating margins in fiscal year 2023 relative to 2022.

Finally, please note that we pay our annual corporate bonus and our fourth quarter sales commissions in the first quarter which will result in a substantial cash outflow in the first quarter. We expect non-GAAP adjusted free cash flow to be driven by normal seasonal patterns and to be neutral to slightly positive for the fiscal year.

In summary, we are pleased with our fourth quarter results, and we are confident in the opportunity ahead of us and the transformational potential of automation. We look forward to speaking with many of you in the coming weeks.

We’ll now take questions, and I will turn the call over to the Operator. Operator, please poll for questions.

Operator
Thank you. And at this time, we’ll be conducting our question-and-answer session. We will allow for one question and one follow-up question from each analyst. And our first question comes from Raimo Lenschow with Barclays. Please state your question.

Raimo Lenschow
Thank you. Two quick questions from me and congrats on a strong end of the year. The first question is, I appreciate it's tough to come up with guidance with all the uncertainties out there, can you talk a little bit about how you did it? Did you kind of assume lower closure rates because you know your pipeline? So, I would assume it's the closure rate thing that drove the guidance. And then the second point is on the changes to the go-to-market model. I know we have a new leader and it's kind of maybe a little bit too early to talk about it, but would we expect like significant changes there? Thank you.
Daniel Dines
Hey, Raimo. Nice to hear from you. So, on the guidance, you guys know that we always drive – looking at what is in front of us. And right now, we are seeing the impact of the war in Ukraine. And as you know, we have a sizeable business in Europe and it's more than 30% of our business, and we are seeing uncertainty in Europe. In the last month, we have all experienced some deterioration on the global macro-economical climate, and we have accounted for kind of normal destructions caused by the leadership transition.

On the leadership transition, first of all, I can thank once again to Thomas, for his contribution, he's a great leader and he help us in the last two years scale from less than $0.5 billion to what we guide today, more than $1 billion in ARR and revenue. And as for the folks that know us, we always are proactively trying to bring best talent in the company, the talent that is capable of taking us to the next stage of growth. And this is exactly the stage where we are today.

And I know Chris for a while, he's been in my network for a while. He's an amazing business leader that has experience of scaling businesses at this stage and beyond. He is an inspirational leader. He is really well connected to our customers. And I believe that he and the rest of executive team will continue to drive this business to really solid growth. The business opportunity is here. Demand is here. We are bullish for the business for the rest of the year. We have been capable of distancing ourselves from the pack. We are the undisputed leaders in the automation. And overall, we are all seeing really good, great business prospects.

Ashim, you can add to this.

Ashim Gupta
Yeah. I think, Raimo, just on guidance in terms of the assumptions that we had, half of our guidance is very quantifiable directly. So I just want to make sure we walk down the impacts. So, with Russia, it is quantifiable that we have a $15 million impact on Russia. We mentioned in the script a $5.5 million of that $15 million is literally just from the appropriate accounting of the businesses that are there. And then the balance is just from the fact that Daniel has made the decision for now to take a pause with our Russia business.

The second piece of it is FX. So, FX has between a $20 million and $25 million impact for us. We roll forward our guidance to current FX rates, and that both includes our sizable business in Europe with the euro weakening, but also with Japan where just even in the last 30 days you've seen a significant movement with the yen. The remaining balance that we see there is, we look at our pipeline and we have a very strong pipeline, as Daniel mentioned. There's a number of large deals which we're excited about. We've won those deals in the sense of they're not being baked off by competition. But given the macro climate, there's just uncertainty around that, and we we've quantified that and incorporated that into our guidance today, which is the balance after you subtract out the $15 million for Russia and the $20 million to $25 million for FX.
Raimo Lenschow
Okay. Makes sense. Thank you.

Operator
Next question comes from Keith Weiss with Morgan Stanley. Please state your question.

Keith Weiss
Got it. Thank you guys for taking the question, and a very nice quarter in Q4. Maybe sort of tailing on, on Raimo’s question. So, obviously, we’re trying to wrap our heads around sort of the juxtaposition of what was a really strong Q4 and seeing even on an adjusted basis 60% growth in net new ARR. And if I’m doing my math right, the forward guide assumes that 18% decline in net new ARR for the full fiscal year FY 2023.

If we think about sort of the operating margin side of the equation and the OpEx side of the equation, can you walk us through kind of the response on that side? You mentioned kind of slowing down hiring, but if you’re expecting to sell 20% less basically in net new ARR, and there more that you should be doing on that side of the equation to sort of soak up some of the slack in terms of the sales force. And how are you thinking about kind of preserving that, that bottom line, if we are going through this period of weaker demand?

Daniel Dines
Thank you. First of all, I would like to thank you for your nice words about the quarter. We believe that we had a solid year. We are really pleased with the results.

Going on to the guide, again, I will reiterate that we are guiding for what is in front of us. We assume that the headwinds will continue for the rest of the year. We are looking always to balance the growth and the productivity for the company. We are looking to drive our business to in excess of Rule of 40, taking ARR and free cash flow into account for a longer-term prospect of the business. Nothing has changed in the fundamentals of the business, and I will let Ashim to comment more on the margins.

Ashim Gupta
Yeah. I mean, Keith, I also just want to start with the point on the 18% decline in net new ARR. When you actually factor in the impact of Russia and FX, when you normalize for that, that really is talking about an 8% decline, which in the current environment that we talked about, we believe just kind of stays in line with our – with the guidance philosophy that we – the prudent guidance philosophy that we have had from the very beginning of our journey here.

In terms of operating margin, I don’t characterize the hiring as the slowing down. I characterize it as just measured given the investment that we’ve put into the company in 2022. And we are very pleased right now with the performance of our investment. We feel confident about the size of our field force and the sales capacity to be able to really take advantage of the market not just for 2023, but also for 2024 in the sense of we’ll continue to invest for the long term. At
the same time, at our scale, we're crossing $1 billion. We believe that it is important to demonstrate and show that we can both grow as well as grow profitably, and the balance of leverage is something that is important to us and our leadership team.

Keith Weiss
Got it. That's very helpful. Thank you, guys.

Operator
Our next question comes from Phil Winslow with Credit Suisse. Please state your question.

Philip Winslow
Hey, guys, thanks for taking my question and congrats on a strong close to the year. Just actually my question's sort of in that context of a strong close, because as you pointed out, the net new ARR actually accelerated, strongest quarter of the year. But if I kind of break it down into dollar-based net retention and as well as this new customer growth, it seem like new customer growth was pretty good strong and DBNR was high. So, I guess going to the guidance, if you can maybe sort of unpack it another way. How are you thinking about the guidance in the context of sort of new customer acquisition and that DBNR? Are you hearing from existing customers that they're going to be pausing forward plans, or is this more of yeah, just new customers you think are going to be hard to acquire, maybe just kind of break it down that way. Then I've just one follow-up.

Ashim Gupta
Yeah. When you look back historically at us, so we're a 70% – we've historically been between 70% and 80% expansion and 20% to 30% new logos, right? So, that is – I put that in context of – the impacts that are beyond our control, which is Russia and foreign exchange, I kind of put – I would continue to split within those two realms and then that math and that modeling, obviously, that you can do in terms of what that equates to.

In terms of the other pieces of the guidance, like we talked about, we're going through a leadership transition as well as kind of with the macro-environment. We're really just looking at the prudent assumption around large deals which, again, I think I would just assume the same split as kind of the historical expansion versus new logos.

What I do want to reiterate and Daniel can obviously comment on this further is customers aren't talking about a pause in their automation program as much as what we hear is really just they're kind of working through the environment themselves. And that just creates the uncertainty of the profile and the timing of the deals at this moment. Our customers are very excited about it. I can say personally, like we talked about in the script around some of the customers and Daniel can comment on T-Mobile and other areas, like we still feel enthusiasm from our customer base and we're investing like that.

I'll turn it over to Daniel to give more color on that.
Daniel Dines
Yeah. We are seeing really good momentum across customers, partners. I spend a lot of time with – on the field with our people. Demand is there. I want to remind you that we are operating in a very big TAM. It's in the early innings of this industry and we remain very bullish on our prospects.

Philip Winslow
Got it. And then just in terms of your sales productivity, I mean, it seems like we've seen a slight trend-up in that over the course of the year. When you think of sort of a – well, first off, I wonder if you could just comment on that, sort of what has been driving some of that uptick, I mean, excluding, obviously, the impact from the amortization you talked about. But wondering if you could talk about just sort of sales productivity and the trend over the course of this year.

Daniel Dines
Well, sales productivity has been increased constantly over the past three years, and it's really one of the main driver of net new ARR that we want to bring in the company. We really put a lot of focus on driving sales productivity, measuring across the field. Velocity, we made great investment in our Velocity team, is performing extremely well. So, it's really one of the levers that we pull hard on driving our business.

Philip Winslow
Great. Thanks, guys.

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

Brad Sills
Oh, great. Thanks, guys, for taking my question. I wanted to ask about some of the comments you made around US in North America. I think you were saying you're being prudent on your kind of forecast backing your guidance in the region just based on potential uncertainty, or was that more just a pause that you're already seeing from customers in the region?

Ashim Gupta
Yeah. Brad, like we kind of – one is, I think the macro environment is just overall on large deals. I wouldn't pin it to any specific geography. Of course, Europe is the one which is – everything is unsure, too. But we've also accounted for – and we've said the leadership transition, which is out there. Again, it is nothing that we're seeing anywhere – I would like to emphasize that what we see in front of us is a healthy pipeline. We do not see pauses. We just see uncertainty given the environment. And so we – with our guidance philosophy that we've had from the beginning, we do feel like being prudent is the right way to think about it.
The second piece of it is the profile of the large deals. So, like in terms of just whether that be duration or size, those are things that with the environment – we see customers kind of reworking their own internal budgets just across the board. Automation is still well-funded. The question is just kind of what are the commitments that we have. And I think we’re going to get more clarity of that through the year. And so, starting the year, this – we feel like this is the right way to inform our investors.

**Brad Sills**
Understood. Thanks, Ashim. And then one more, if I may, please just on your comments around the SaaS business providing a 4% headwind. Any color you can provide on just interest in the cloud, are you seeing acceleration in moving RPA to the cloud? What are you hearing from customers there and any more color you can help with understanding that impact? Thank you so much.

**Daniel Dines**
Cloud is our first growing business at this moment. We are investing heavily into the cloud. We are very happy with the release of robots that are hosted into the cloud that will further accelerate the cloud business. And for – our entire product strategy is around cloud. I want to remind you that we are a cloud-first company. We deliver everything in the cloud first and then we go to achieve parity on on-prem and hybrid deployment.

I will let Ashim to comment more on the revenue headwinds because of the cloud transition.

**Ashim Gupta**
Yeah. So, we mentioned in the script we've crossed $140 million and change, so to speak, on our cloud business. We're really – we're very pleased with that progress. And like we talked about in terms of return on investment, we're happy. And I would actually say we're even ahead and we're trending ahead in terms of cloud adoption with our customers given the strength of the offering and the flexibility that we provide our customers.

The second piece of that is just in terms of modeling. We've assumed right now that we're moving a little bit ahead of where we've historically thought in terms of where we are, and we feel very good about the quantification of the headwind that cloud gives to revenue. I do want to, again, emphasize is, we do run the business to ARR. And so, the cloud is – the ARR normalizes for that, and this is one of the reasons why we started disclosing and guiding from the very beginning in terms of how that looks and has an impact on that metric. So we're actually very happy with the numbers and the overall progress. And lastly, the margin rates have really maintained. So, we said we've guided the cloud – we would be a greater than 80% gross margin business. Within our results and our guidance, you can see that continue. And we're happy with the execution by our product teams in maintaining our margin basis even with the cloud adoption.
Brad Sills
Thanks, Ashim and Daniel.

Ashim Gupta
Thanks, Brad.

Operator
Next question comes from Fred Havemeyer with Macquarie. Please state your question.

Frederick Havemeyer
Hi, thank you very much. Congratulations on the strong numbers coming out of Q4, and I’d certainly appreciate what you’re describing, Ashim and Daniel, in terms of guidance. I wanted to ask, are you seeing any significant changes in the competition that’s appearing in new deals, or who your customers are considering now that ServiceNow and others are more aggressively positioning themselves in RPA and more broadly, automation?

Daniel Dines
We are not seeing really any increase in the competitions. On the contrary, we are seeing less competitive pressure in the deals. So, we can comment if you are interested on various major players that we have seen in the business. And in terms of our traditional specialized competitors, we are really seeing less and less of them, we are replacing Blue Prism on automation anywhere in – in many customers. And speaking about the new entrants like Microsoft and ServiceNow, really, we are not seeing them that much. I can comment on both specifically if you are interested.

And then just on the numbers basis, I think it’s really important. We see – when you look at our win rates, we continue to look and analyze win rates between where Microsoft and where some of these large players are playing and where they’re not. We don’t see them a lot. But even when we do, our win rate has no difference compared to where they’re not playing. So we really – the trend of continuing to feel lost as the dominant player in the industry, right now, that is continuing from the data that I see and that we see as a team.

Frederick Havemeyer
Thank you for that context, and I'll sneak another one in here. Your ability to scale to $1 billion-plus in ARR is already a significant success, but often scaling above $1 billion in ARR and durably scaling above that can present new challenges. So, let's ask, did you see anything in your go-to-market organization that made you question your ability to durably drive that growth above that $1 billion in ARR scale that catalyzed your sales leadership change, or is this something a little more tactical perhaps?

Daniel Dines
No, we believe that the leadership change is the one that will catalyze our business of this scale. We're a business of land and expand. And I want to give you some data points that convince me
that our growth profile is going to stay in high numbers for many years to come. If we look at customers over $1 million, we have improved this number by 78% this year, up to 158 customers.

If you look at customers over $100,000, we have increased that number by 50% to almost 1,500 customers. They represent a great pipeline for us to grow the business for many years to come. This year, we added 2,000 new customers to our total base of customers. So, given our land-and-expand profile, our net retention rate that is one of the best in business, we are very bullish on our growth profile.

**Frederick Havemeyer**
Great. Thank you.

**Operator**
Our next question comes from Scott Berg with Needham. Please state your question.

**Scott Berg**
Hi, Daniel and the team. Congrats on the strong sales in the fourth quarter. Thanks for taking my questions. I guess, I want to start off with – following up on the CRO addition here is – Daniel, I know you talked about some potential sales disruptions, which makes it sounds like maybe Mr. Weber will do something different in the organization. But I guess what – I guess, what are you expecting him to come in and do that might be different than what you've done before. Is there anything from his background and experiences that we should particularly look for as you make this transition?

**Daniel Dines**
Look, I think that every time we bring a new leader in the company, that leader has the potential to reignite the passion, to improve the desire of people, to bring new talent in the company, to bring a partner recognition that help us improve our business. I believe – I and Ashim will be great partners to Chris. I want to tell you that I personally led the go-to-market before Thomas for a few quarters. So, we are really passionate about go to market. We are always looking at ways to improve, like we talked about sales productivity. And I believe that we will make great partners with Chris, and we will continue to improve the talent acquisition and the overall performance.

**Scott Berg**
Got it. Helpful. And then on the SaaS transition for this year, Ashim, you talked about 4% headwind. I actually think it's great to see that you're seeing some acceleration in that opportunity since that's where most of the space likely grows over time. But how should we think about pricing of the SaaS product for what you're seeing early relative to the kind of standard term license that you sell? Is pricing – I guess two parts there, one, is pricing consistent or the same or is it different, and then two, how are you seeing customers buy in
that model? Are they buying or consuming the software any differently that we should think
about in terms of maybe contract structure or size? Thank you.

Ashim Gupta
Yeah. In terms of pricing, the list pricing is very similar. It's the same. We actually have what we
call universal pricing to ensure that we stay by our values of making this a customer choice
versus our choice. And I think that is a big differentiation for us in the market.

In terms of discount discipline, given that there is a higher cost of goods sold component, we
obviously are putting the appropriate controls in from a discounting basis to ensure that we
meet the gross margin standards that we've set for ourselves. And right now, we do not see
pressure to that at all. We feel very confident about where we are relative to it.

In terms of buying patterns, it's still early, right? We are very happy with the cloud acceleration.
Initial signs show all the benefits of a cloud platform. Upgrades are obviously – just are flowing,
features are flowing, which is good, it continues to have our customers in on the front end and
having been a customer not weighing down the COEs with that allows them to focus on
building pipeline and driving automation. And we expect this to be a good, supportive metric of
a great and healthy expansion as we go forward and a faster ramp time in terms of customers
coming onboard. Like I said, it's early. We're excited about what we see and we'll continue to
report out the progress throughout this year and beyond.

Scott Berg
Great. And thanks for taking my questions, again.

Operator
Thank you. The next question comes from David Hynes with Canaccord. Please go ahead.

Luke Morison
Hey. This is Luke on for DJ. Thanks for taking the question. So, you gave good detail around the
revenue impact of the geopolitical uncertainty in Russia and Ukraine. But maybe you could
share or expand on the impact you're seeing with your employees, which is to say, how much
of your employee bases in Ukraine and Russia are they working and what's your strategy for
back-filling their responsibilities?

Daniel Dines
We don't have a significant presence in Ukraine and Russia. In Ukraine, we have around 30
developers and we already have contingency plans in the product, or around the areas that
they work on. In Russia, we have a small sales team. I think it's less than 15 people. We don't
have any development capabilities in Russia. And we – since the beginning of this crisis, we
really helped our people in Ukraine. We have raised more than $1.5 million, and the company
was matching one to one all the donations. We are providing homes for the Ukrainians. And we
are in a good position to help in that regard because we have a big base in Romania. We have
almost 1,000 people in Romania, which has a border with Ukraine. We have to admit the – everybody is feeling the tension. But Romania, it's a country that is part of NATO. So, we don't see any potential conflict that can affect – can disrupt us.

Luke Morison
Excellent. Thank you.

Operator
Thank you. The next question comes from Strecker Backe with Wolfe Research. Please state your question.

Strecker Backe
Hi. Thank you for taking my question. Ashim, I want to go back to Keith's question, but just in a slightly different way. As you said, hiring will be measured this year, but based on your guidance, you're still stepping up your investments back into the business. So, can you help us reconcile this and dig into, if not in hiring, where else are these investments going to be going? And then just from a high level, how should we think about the margin trajectory over the next two to three years? Thanks.

Ashim Gupta
Yeah. And thanks for the question. One is, when you're looking at our expense load of this year and kind of the increase that is incorporated into the guidance, some of that is the carryover from last year. Remember, we're going to get a full annualized expense of the employees that we've hired in the second half, which is not incorporated into that. The second is there's a three-point impact – or a 300 basis point impact of our sales commission accounting change as a headwind that you'd have to normalize out of that number.

And then the other piece is, we're thankfully going into a post-COVID world. So the other expenses that we have increased is getting teams back to the office and getting our offices functioning, which we are excited about. We feel like that's going to be a real boost to our productivity levels and to our – and to the morale of the team as it is just on a global basis for the world. And then we have marketing events. Getting back out and engaging customers has always been a great part of our culture, and we've incorporated the necessary investments to be able to do that.

When you look at all of the post-COVID expenses, that's around a 400 basis – around 400 basis points worth of expense that we've added in as a headwind. And then lastly, like I said, we're going to continue to invest just in a more measured way. So, we are still hiring. You look at our R&D and our P&E, we have a great and growing platform. We're excited about our release. I'm sure Daniel will talk about it further, but our test automation has come out to be in a leading category. We're going to continue to invest in our platform and grow in those areas.
And we are committed to expanding. Like, this is for the long term. So when you think about our margin rates long term, I would say we've already been expanding if you look back on a trajectory over the last three to five years. We look at that trajectory to continue and, frankly as we accelerate, scale. That being said, we are constantly going to evaluate the balance of profitability and growth. We've reiterated we feel like we're in a large and early growing market. We're going to make investments. We're not going to be shy about it and we're going to be good stewards of that capital and measure the right returns and have the right hurdle rates internally for it.

**Strecker Backe**
Thank you.

**Operator**
Our next question comes from Mark Murphy with JPMorgan. Please go ahead.

**Mark R. Murphy**
Yes, thank you very much. Wondering if you could just clarify whether you have, in fact, already seen any pipeline softness or any bookings slipping specifically in Europe, or perhaps February and March actually performed well and this is kind of just an extra dose of conservatism really just in case there are spillover effects outside of Ukraine, which might spread across Europe later this year. Just wondering if you've actually really seen anything tangible yet or not.

**Daniel Dines**
Yes. We've seen instances – anecdotally, I can tell you that in Europe, there are companies that are looking at business continuity right now because they stopped their operations in Russia. Many governments in Europe are regulating the funds to help refugees. And we have really quite a material public business. So, there are tactical instances where customers are delaying some deals and are looking to face the realities of the war.

**Ashim Gupta**
And then just in terms of like overall guidance, I wouldn't say any extra conservatism. We continue to feel like we're consistent. We are consistent with our historical guidance philosophy. And when we look at the big deals that are in the pipeline, we feel very strong about them and we've appropriately reflected that impact both for first quarter and total year.

**Mark R. Murphy**
And, Ashim, when – thank you for clarifying that. Are you sensing from customers – when you're speaking with them, do you feel like they're sort of indiscriminately kind of pulling back on all IT categories? I mean, are they sort of at that point as for – or do you think within your guidance, I mean, are they reflecting to you that RPA is a category that's going to be prioritized and kind of fairly resilient through some geopolitical gyrations? Because I think our view is they're trying to overcome wage inflation and labor shortages, and you've got this unbelievable
value prop. I'm just kind of wondering if you have a feel whether it's kind of a broad-based pull-back in IT spend potentially.

Ashim Gupta
Yeah. I would actually just answer more in the affirmative in the sense of – we've got an affirmation that automation continues to be an important part of – the cornerstone of digital transformation. That's why we see these deals remain in our pipeline. I met just actually with eight of our customers in one of our advisory boards within the financial industry. So, we spent an entire day today together. Use cases are extending, they're innovating. This is something that continues to be in the C level.

One metric we didn't talk about, but our $1 million-plus customers continue to expand, as does our $100,000-plus customers. So, we crossed 1,493 customers greater than $100,000. That's up 49% last year. That customer base is broad. In our minds, automation continues to be a really strong part of our program. Our guidance really reflects just the prudence that we feel on the large deals specifically given the macro environment. There's nothing beyond that in our minds.

Mark R. Murphy
Yeah. Okay. Probably a wise thing to be doing and I do want to echo what others have said is actually pretty spectacular finish to the year with that net new ARR number, so congrats on that.

Ashim Gupta
Thank you.

Operator
Our next question comes from Steve Koenig with SMBC. Please state your question.

Steven Koenig
Hi. Daniel and Ashim, thanks for fitting me in here. I have two questions, I'll ask them both at once. So, one is kind of an opportunity and one is maybe a little more of a challenge. So, I'm seeing firsthand expansions at your largest customers in Q4. And when you look at what's driving your largest expansions, how do you think about the broader opportunity in the Fortune 500 type base, they're doing maybe $1 million and not $10 million.

And then I'll just toss out the second question, maybe a little more of a challenge here. So, stock-based comp is obviously an important part of motivating employees. Your stock price is way down. And how does that affect your ability to attract and retain talent? And also, related to that, how do you think about stock-based comp going forward? Thanks very much and congrats on the great Q4.
Daniel Dines
Yeah. Thank you, Steve. And yes, indeed, SMBC is our largest customers. We learn a lot by deploying at SMBC and we’ve seen – it’s like the North Star for us when we think in terms of adoption.

Look, we – I think the value prop stays the same in the – that we described it at IPO. There is a huge number of menial, repetitive tasks out there, they are not automated yet. And our technology is the only one that can really address the long-tail of these tasks. And adoption is solid. Even our cloud expansion proves this is a secular trend. And we are really bullish on our prospects. We are not seeing softness in customer demand. On the contrary, this is – from all my meetings with the field, I got energized. People are seeing, it’s the pull – the pull is really there.

Ashim Gupta
And then on stock-based charges, we have a – we continue to be – and Daniel really drives this – a progressive strategy around our compensation. I think the hiring numbers from last year continue to show the strength and belief and the excitement in our platform and the relevancy to so many people’s lives, and we look at our employee base and they’re excited about the prospects in front of us. The durability of our growth in the market is not – is something that is widely believed across our entire employee base.

In terms of stock-based compensation, we look at that as a percentage of sales to be able to get – to have productivity as we go forward. We do not provide a forecast on this. And again, we’re in the early stages of where we are. The normal dilution that you would see in any company, we look to stay within that range, 3% to 5% at maturity. That is an area that we feel very comfortable with and we don’t see that as a sacrifice in terms of attracting the talent and building the team required to deliver the numbers that we’re all committed to do.

Daniel Dines
Yeah. And I would like to add that over the years, we’ve been, I’d say, very good in managing the dilution in terms of stock-based compensation. Based on our own metrics, we are one of the best company out there. So, definitely, we have room for continue to incentivize our people if this is required.

Steven Koenig
Great. Well, thanks, guys. Appreciate the color.

Operator
Thank you. Next question comes from Terry Tillman with Truist Securities. Please go ahead.

Terry Tillman
Well, thanks for fitting me in. Most all my questions have been answered, but I actually still do have some thoughts. Two really quick ones. The partner activity is impressive. I mean, you’re
adding thousands of partners it seems like. But what I'm curious about is if you could share where you're seeing maybe more incremental traction or momentum, whether it's ISVs, I think Paychex might be one of those, or SIs or VARs or VADs? Are any of those seemingly a lot further along and really kind of lifting the ARR influencing?

And then my second question, I'll just throw it out there now. Daniel, I think you talked about the uniqueness of having Linux-based automation bots. What are you seeing in the market with your Linux offering? Thank you.

Daniel Dines
Hey, in terms of partners, we are seeing solid growth across all the segments, but obviously, the ones that bring us the most significant business are the GSIs. We have Accenture for instance. It's becoming one of our largest partner. The investment that we made in the relationship is paying off. PwC, for instance, it's one of our largest customers and partners. We are driving a lot of business with them. And as an anecdote, they recently announced that they are terminating their relationship with Blue Prism. So, they basically are focusing on us as their automation partner.

And, look, in terms of the Linux-based offering, what we have in the cards is that we are building what we call our serverless offering. That is the core component that will drive the adoption of robots hosting in our own cloud. And on a long-term basis, the Linux robots and the container-based robots will provide us with the economy of scale that is required to drive a large completely SaaS cloud-based business.

Terry Tillman
Thank you.

Operator
And ladies and gentlemen, that ends our Q&A session for today. I'll now turn the floor back to management for closing remarks.

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. And I want to reiterate our support for the people of Ukraine. We look forward to speaking with many of you throughout the quarter. Thank you.

Operator
Thank you. This concludes today's conference. All parties may disconnect. Have a great evening.