Second Quarter Fiscal 2023 Transcript

Presenters
Daniel Dines, Co-Founder and Co-CEO
Rob Enslin, Co-CEO
Ashim Gupta, CFO
Kelsey Turcotte, Investor Relations

Q&A Participants
Raimo Lenschow – Barclays
Phil Winslow – Credit Suisse
Sanjit Singh – Morgan Stanley
Mark Murphy – JP Morgan
Kirk Materne – Evercore ISI
Bryan Bergin – Cowen & Co.
Brad Sills – Bank of America
Terry Tillman – Truist Securities
Michael Turits – KeyBanc
Michael Turrin – Wells Fargo Securities
Alex Zukin – Wolfe Research
Fred Havemeyer – Macquarie

Kelsey Turcotte, Senior Vice President of Investor Relations:

Good afternoon and thank you for joining us today to review UiPath’s second quarter fiscal 2023 financial results, which we announced in our earnings press release issued after the close of the market today. On the call with me are Daniel Dines, UiPath’s co-Founder and co-Chief Executive Officer; Rob Enslin, Co-Chief Executive Officer; and Ashim Gupta, Chief Financial Officer. Rob will start the discussion and then turn the call over to Daniel. After that Ashim will review our results and provide guidance. Then we will open the call for questions.

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

This afternoon’s call includes forward-looking statements about our ability to drive growth and operational efficiency, and our financial guidance for the third fiscal quarter and fiscal year-end 2023. Actual results may differ materially from those expressed in the forward-looking statements due to many factors and therefore, investors should not
place undue reliance on these statements. For a discussion of the material risks and uncertainties that could affect our actual results, please refer to our Annual Report on Form 10-K for the year ended January 31, 2022, and our other reports filed with the SEC, including our Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2022 to be filed with the SEC. Forward looking statements made on this call reflect our views as of today; we undertake no obligation to update them.

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

Before I turn the call over to Rob, I’d like to inform you we plan to hold an Investor Day during our Forward 5 user conference on Tuesday, September 27 at the Venetian Hotel in Las Vegas starting at 11:45 AM pacific time with lunch that will feature roundtables hosted by our executive team. Please reach out to IR@uipath.com for registration details.

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

**Rob Enslin, Co-Chief Executive Officer:**

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

Our second quarter results exceeded the high end of our guidance despite an increasing FX headwind and a choppy macro environment.

ARR crossed the $1 billion mark totaling $1.043 billion, an increase of 44% year over year, driven by net new ARR of $66 million.

We now serve more than 10,500 customers. Automation continues to be a central part of digital transformation for companies of all sizes and across all industries. We see this in the breadth of companies that continue to invest in UiPath like ADT, Icertis, Mayo Clinic, Smartsheet, and Take-Two Interactive which are just a few of the organizations that invested in UiPath’s platform in the second quarter. Our relationship with iCIMS, a leading global provider of talent acquisition software, is a good example of the power of automation. During the quarter they expanded their UiPath deployment and, looking to the future, they plan to embed UiPath’s Automation Cloud Robots and Integration Service into the iCIMS Talent Cloud to enable their customers to automate routine tasks and business processes.

Success stories like these and the dozens of customers and partners I have met since I joined UiPath, leave no doubt in my mind that we will be the enterprise automation
provider that all organizations will embrace over time. That’s because we have moved automation beyond RPA to a full suite of end to end platform capabilities.

Our PostFinance AG win says it better than we do. PostFinance, a retail financial institution in Switzerland, has been on its automation journey for three years with a competitor in RPA and another in Process Mining. Driven by a search for a more efficient automation platform with a wider scope, they determined that the UiPath platform is the only one in the market that can fulfill all their current and future needs, while significantly reducing the total cost of ownership for their automation program and helping them to achieve their strategic goal to become more efficient.

Our platform not only allows customers to discover automation opportunities, but also redesign and improve previously disjointed processes, freeing them from the endless cycle of outdated approaches and unlocking true digital transformation. Digital transformation is one of the most important secular trends and UiPath’s platform is central for companies to reach their goals.

Over and over executives tell me that automation has accelerated their business, improved their customer and employee experience, increased speed to value, and allowed them to redeploy capital. These kinds of outcomes elevate our customer discussion from the RPA Center of Excellence, which is automating process by process, to C-suite executives who have a holistic view of enterprise requirements.

A great example of this evolution is a US based global power technology leader. A customer since 2018, they have automated over 160 processes across Finance, Supply Chain, HR, IT, and Shared Services saving over $4 million. Now, with C-suite sponsorship, they have expanded their program to the full UiPath Platform both on premise and in the Cloud and are launching a Citizen Development and Attended Automation program.

My takeaway from the last few months is that the market is clearly evolving and UiPath is driving that evolution. We have a first mover and technological advantage and as the automation leader we continue to expand the value we can deliver for our customers.

That being said, while we believe our business has considerable room to grow, our topline metrics have slowed and we need to evolve how we manage our business. Our go forward priority will be to balance investing for long-term growth while managing the business to consistently expand non-GAAP operating margin and deliver sustainable positive adjusted free cash flow in fiscal year 2024 and beyond. As we said during our IPO, over the long-term we expect to achieve a non-GAAP operating margin of greater than 20% and our commitment to that objective has not changed. Let me be clear, I don’t believe we need to sacrifice growth to achieve our profitability targets, this
market is large and early stage, our customers are committed to UiPath and they love the outcomes we deliver.

In the short-term we are strategically repositioning the company to increase velocity, efficiency, and customer centricity. This includes elevating customer conversations, selling business outcomes, and helping organizations realize the transformational benefits of automation. We have the opportunity to be the essential automation gold standard for customers delivering technology that is integral to their business strategy.

To get there we are aligning around four strategic objectives:

- First, investing in our platform to increase our competitive moat and delight our customers with disruptive and innovative capabilities that improve outcomes, accelerate return on investment, and leverage the Cloud.

- Second, increasing velocity and productivity. This is where we are expending the most energy and also expect the greatest return. We need to set ourselves up to take advantage of our incredible new platform releases like 2022.10, which we plan to unveil at FORWARD 5 in a few weeks. This includes branding and marketing around business outcomes that resonate with the C-suite, simplifying our sales motion to lower cost, building strategic partnerships that elevate our brand and serve as distribution channels, and coalescing around partners that can really move the needle.

- Third, we are bringing together a diverse team aligned around driving UiPath to the next level. Every business that grows at our rate requires experienced leadership. We have great bench strength, having already elevated internal leaders to new roles, and a strong brand that is attracting a great pool of new talent as you saw by today’s sales leadership announcements.

- Finally, and equally critical, we are committed to sustained, profitable growth by leveraging our scale and exercising disciplined resource allocation. Profitability is a core pillar of our go forward strategy.

While we are reducing our near-term forecast to account for a significant FX headwind, the macro environment, and our internal repositioning, I am confident in our strategy and I firmly believe from my experience that we are on the right track to achieve our growth and profitability objectives and I am confident in our strategy.

I’ll now turn the call over to Daniel.
Daniel Dines, Co-Founder and Co-Chief Executive Officer:

Thanks Rob.

We frequently talk about our market leadership and in July we were positioned by Gartner as a Leader in the 2022 Gartner® Magic Quadrant™ for Robotic Process Automation research report, for the fourth year in a row, positioning UiPath highest for Ability to Execute and furthest for Completeness of Vision. We are gratified to have received this recognition.

We continue to hear from our customers that the breadth of capabilities in UiPath’s Automation Platform is why we win. UiPath is the only company that offers a complete solution including Task and Process Mining, Document Understanding, Test Suite, RPA, and Low Code deployed on-premise or in the Cloud.

Task and Process Mining are key to helping customers discover new opportunities for automation and in June, we were named a Process Mining Leader in the Technology Vendor Landscape, according to the Everest Group PEAK Matrix® for Process Mining Technology Vendors 2022 for the third consecutive year. And, in our upcoming 2022.10 platform release we will introduce new Process Mining capabilities.

At the other end of the automation lifecycle, Test Suite is emerging as a meaningful growth opportunity for UiPath and an important tool for customers to scale their programs resiliently. The value of Test Suite expands when customers use UiPath’s Test capabilities for both RPA and application testing, driving our platform adoption in a new market.

Finally, we have long believed that the combination of UI plus API plus AI automation is the key to customer success and are really excited about the acquisition of Re:infer. By adding Re:infer to our platform we can now leverage natural language processing and machine learning technology to do what we call communications mining, transforming massive amounts of unstructured data into actionable information with speed and accuracy which customers like UBS, Paychex, and Farfetch are already doing. Combining Re:infer with the breadth of our AI-powered capabilities unlocks new opportunities for our customers.

We are very excited to unveil our newest innovations at FORWARD 5 where we will announce exciting functionality in our 2022.10 platform release across all elements of our platform. We hope to see many of you there.
With that, I’ll turn the call over to Ashim to talk in more detail about our second quarter results and provide guidance.

Ashim.

**Ashim Gupta, Chief Financial Officer:**

Thank you, Daniel.

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 delivered a solid second quarter in the face of increasing FX headwinds and a more measured buying environment. Customers understand the meaningful business outcomes that automation delivers and the competitive differentiation of UiPath’s Automation Platform. In fact, two of our largest deals in the quarter were new customers making multi-year commitments to our platform which is really nice to see.

Turning to our numbers, second quarter ARR totaled $1.043 billion, up 44%, driven by net new ARR of $66 million. On a year-over-year basis, FX created an approximately $8 million headwind to net new ARR in the quarter, and a $12 million headwind to the total ARR balance.

Dollar based net retention was 132%. Normalizing for FX and excluding the impact of Russian sanctions, dollar based net retention was 135%. Consistent with the broader macroeconomic environment, DBNRR was meaningfully stronger in the Americas. Dollar based gross retention was 98%. This best in class metric is consistent with previous quarters as customers are committed to our platform which is driving quantifiable ROI.

As of the end of the second quarter customers accounting for at least $100,000 in ARR grew more than 30% year-over-year to 1,660. While customers contributing over $1 million in ARR grew over 60% year-over-year to 190.

Revenue grew 24% to $242.2 million. Normalizing for the year-over-year FX impact, which was an approximately $20 million headwind, revenue grew 35% year-over-year.

Remaining performance obligations increased 36% to $709.0 million. Normalizing for the year-over-year FX impact, which was an approximately $51 million headwind, RPO grew 46% year over year.

Current RPO increased 37% to $442.6 million.
Total gross margin was 84% reflecting ongoing investments in support and Cloud infrastructure as we scale that business. Software gross margin was 91%. Looking ahead, we continue to expect gross margin to be greater than 80%.

Second quarter operating expenses of $215.7 million increased 34%, reflecting only one month of benefit from the steps we took in the second quarter.

GAAP operating loss of $120.2 million included $88.3 million of stock-based compensation expense.

Non-GAAP operating loss was $11.2 million.

Second quarter non-GAAP adjusted free cash flow was negative $23.3 million.

And, we have $1.7 billion in cash, cash equivalents, and marketable securities and no debt.

Let me now turn to guidance.

First, we guide to what we see in the pipeline which continues to fluctuate given the choppy macro environment which we anticipate will continue.

Second, more than half of our business is outside the US and we price in local currency, including Euro and Yen. As a result, there is a material FX headwind for both ARR and revenue that has significantly increased as we’ve moved through the year.

Lastly, going forward, as Rob said, profitability is a core pillar of our go forward strategy. While the reduction in our top-line near-term forecast reflects the FX headwind, of the macroeconomic environment, and our internal repositioning, we are committed to our goal of achieving non-GAAP profitability and positive adjusted free cash flow in fiscal year 2024.

Turning to the numbers:

- First, for fiscal third quarter 2023, we expect ARR in the range of $1.091 billion to $1.093 billion, including an incremental FX headwind of approximately $5 million. Excluding the foreign exchange impact, ARR is expected to grow 36% year-over-year at the midpoint of guidance.

- We expect revenue in the range of $243 million to $245 million, including an incremental FX headwind of approximately $10 million. Excluding the foreign
exchange impact, revenue is expected to grow 22% year-over-year at the midpoint of guidance.

- We expect non-GAAP operating loss to be in the range of negative $(30) million to negative $(25) million, reflecting the timing of investments that shifted from the second quarter to the third quarter and an incremental FX headwind of approximately $5 million.

And, we expect third quarter basic share count to be approximately 550 million shares outstanding.

For the full year we expect.

- ARR in the range of $1.153 billion to $1.158 billion, including an incremental FX headwind of approximately $15 million. Excluding the foreign exchange impact, ARR is expected to grow 30% year-over-year at the midpoint of guidance.

- Revenue in the range of $1.002 billion to $1.007 billion, including an incremental FX headwind of approximately $25 million. Excluding the foreign exchange impact, revenue is expected to grow 22% year-over-year at the midpoint of guidance.

- Non-GAAP operating loss of approximately negative $(15) million, including an incremental FX headwind of approximately $15 million. Excluding the foreign exchange impact, non-GAAP operating income is expected to be $25 million for the full fiscal year.

Now, I’ll turn the call back to Rob.

Rob Enslin, Co-Chief Executive Officer:

Thanks, Ashim.

Crossing $1 billion in ARR this year is a big achievement, but it is just the first milestone for us. I am confident that this is a multi-billion dollar company that customers see as integral to how they run their business. We have a strong foundation to scale and we are making decisions that put us on track to achieve growth and profitability.

Our potential is enormous and we believe in the long-term vision of the company now more than ever.
I look forward to meeting many of you over the coming weeks and to laying out our strategy in more detail during our Investor Day on September 27th.

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

**Operator**

At this time, we will be conducting a question-and-answer session.

Our first question is from Raimo Lenschow with Barclays. Please proceed with your question.

**Raimo Lenschow**

Perfect. Thank you. Thanks for the extra clarity, Rob. Can you if you think about the strategic changes that you talked about. Can you kind of double-click on that a little bit more in terms of like the initiatives you're doing there, and usually when you do that, you kind of have a period where you know you're negatively impacted and then it should get better afterwards, which is why you're doing it. Can you just talk a little bit about how you see that evolving at the moment? And the second follow-up question for Ashim. If you think about at the beginning of the year, you were one of the first to kind of a call out some macro uncertainties. And back in March, you talked about the renewal pool and you didn't know how customers would behave, if you think about the additional comment you made to-date, is that still the same issue? Is there something else that is happening? Can you just elaborate there a little bit more? Thank you.

**Robert Enslin**

Sure. Let me go first, Raimo. Thanks for the question. Yeah. As we evolve and reposition the company, we spoke early on about how we’re driving digital sales, which is basically a combination of inside sales in our emerging segment. And we're very happy with the progress that we continue to make in that space. We need to position the company to drive business outcomes into the C level suite and position the enterprise automation platform to be the winner. And we actually believe that the product is absolutely incredible. And in order to do that, we are aligning the sales organization around that, bringing in new experienced talent. We promoted some talent internally as well. We've just announced the European leader and we've seen some promising signs in North America as we move the automation platform. So we are pretty confident that over time this is the right strategy. And as we said, we have laid it out at Investor Day in very, very clear terms.
Ashim Gupta

And then, Raimo, just when you think about our guidance and tracing back to the first year, first, I remind everybody, look, we have a very strong foundation globally. So we actually have a very good view of just the overall exposure that's there. Here's what's different. FX continues to get worse and deteriorate, right? We came to parity on the euro. The yen continued to deteriorate as well as the quarter has progressed. We do see weakness in Europe and Japan in particular, and we see that reflected. I mean, in our dollar-based net retention rate, we still see that as an asset when you take out the impact of FX. When you break that down one level further the Americas dollar based net retention rate where it's not as exposed to the macroeconomic environment, we see a lot of strength there. We continue to see strength there.

We also see strong gross net retention rates which we talked about at 98%. So we still feel very confident in the value around our renewable base that our software is performing. So we look at our pipeline, we look at the activity, we listen to what customers are saying, and we just find it appropriate given the environment to provide the guidance that we did here.

Raimo Lenschow

Okay. Thank you.

Operator

Our next question is from Phil Winslow with Credit Suisse. Please proceed with your question.

Phil Winslow

Hi. Thanks for taking my questions. I just wanted to focus on the guidance in terms of what you're hearing from customers. Maybe, Rob, you can start with this. In terms of just the lowered sort of net new ARR expectations, obviously excluding FX, what are you seeing in terms of the change from customers? Are they just simply shrinking? Maybe sort of the scope of the deployments or just deployments are whole getting pushed out? Any sort of more color there would be helpful. And also maybe compare that to what you have done in the first half. And I just have one follow-up for Daniel.

Robert Enslin

Yeah. Thanks, Phil. I would say to add on to Ashim's comment, we're definitely seeing budget discussions taking longer, C-level executives getting engaged in it. We view
automation, obviously, as a key growth lever for companies, but we definitely seen those outcomes. And as we position your experienced leaders, we're going to be able to deal with that more. As I said early on, we do see the benefit though of that discussion in North America, where we are starting to see some really positive signs in the upper end of the segment as well.

Philip Winslow

Got it. And then, Daniel, on the technology side, obviously, you've been investing organically and inorganically in expanding your portfolio. They're really trying to build out an end-to-end suite. When you talk to customers, what is starting to resonate? Is this start to resonate with them? In particular, are there parts of that suite that are starting to carry more weight? Thanks.

Daniel Dines

Yeah. Hi, Phil. Look, I would say that our entire platform resonates very well with the customers. They find the value from a process discovery, which is very important in finding opportunities for automation to implementing where we play for personal automation and enterprise automation, to delivering great outcomes, measurable outcomes. We are seeing meaningful traction with our Test Suite which is not only for testing RPA but also for testing application implementation. And we are seeing it is becoming like a clear path in digital transformation. Those people are implementing new systems and it's a lot of manual labor involved in testing the new systems. I mean, it makes a lot of sense to automate the manual testing, and then reuse the building blocks into delivering an end-to-end automation.

Operator

Our next question is from Keith Weiss with Morgan Stanley. Please proceed with your question.

Sanjit K. Singh

Hi. This is Sanjit Singh for Keith. Thank you for taking the question. Rob, I wanted to get a sense of some of the spending hazard in these. So outside of the FX sort of impact. But in terms of customers trying to expand their business with you or attracting new customers, at a high level, you would think that automation would be a super high priority, given the inflationary environment, given the need to get more efficient.

And so in terms of the sources of those – that spending hesitancy, is it about the implementation cycle? Is it about the payback period? I assume it sells itself on an ROI
basis. But if customers are prioritizing projects with a 12 months or less payback, this sort of automation fit the bill, if you like, or alternatively are there potentially competitive issues that are sort of lengthening the sales cycles or lengthening the evaluation process. Any sort of color on the nature of the hesitancy to get deals done.

**Robert Enslin**

Yeah. There is no question customers see the benefit of automation. I would say the automation market is evolving and it’s new. And when we look at the broader platform, that takes into account what I would say speed to value. And I’ve spoken to some senior executives here in New York City in the bank and they are looking to utilize UiPath platform to drive really financial transformation in the organization.

So we see that in many of our conversations, that’s absolutely true. But as we look at it, those decisions are taking a little bit longer. They take a little bit more foresight and customers are taking just a little bit longer to drive it. As we build ROI calculators and drive the business outcomes with these customers, I’m absolutely convinced that automation is definitely going to help companies do not only digital transformation but drive speed to value.

In the lower enterprise segment, one can look at the emerging markets. We are still very relevant and product is relevant and we’re doing very, very well in that segment, and that’s where we acquire customers and we continue to acquire customers.

So I would say over time I feel really confident that we will be able to deliver. And at the top end of the – of the market, we need to focus on a denser ability to drive consumption with our largest accounts and that’s something that we focused on as well.

**Sanjit K. Singh**

Understood. I really appreciate the thoughts. And then as a follow-up, Ashim, I just want to get maybe some context around the guidance. So as you look to the Q3 and Q4 implied guide, are you extrapolating just the trend that you’ve seen through July, through August to the balance of the year on things like Americas has been a source of strength. Do you assume that this strength continues in the Americas, or are you being more conservative on that side of the business too? In some sense, are you saying something that’s worse than what you’ve seen or just extrapolating what you’ve seen thus far?
Ashim Gupta

No. I mean, like we always say, we're very consistent with the way we guide. We guide to what we see in front of us today. And we see America's strength. We have a lot of confidence in that business as we look at our pipeline and as we look at our execution there, I think Europe and Asia continue to be outsized impacted in terms of from a macro and a foreign exchange standpoint. And both of those that we have guided in. And the other piece is, as Rob said, we're repositioning the company and we're really excited about the leadership announcements that are out there. And so we're also just accounting for the transition that's natural as any company repositions itself in certain areas. So those are the two factors that really give context around our guidance to drive.

Operator

Our next question is from Mark Murphy with JPMorgan. Please proceed with your question.

Mark R. Murphy

Yeah. Thank you very much. Ashim, is it possible to disaggregate the reduction in ARR? I think it's about 6% for the year. Into those three factors, I think you had mentioned FX, macro, and your own internal repositioning. In other words, are those equivalents or are there varying magnitudes across those three?

Ashim Gupta

Yeah. I mean, when you look at – I think FX is the one that is the most quantifiable in terms of where that is. And so when you look at it versus the prior consensus in terms of the changing guidance, we look at that as $15 million to $20 million in terms of the impact just from FX. The macro and kind of some of the internal changes that we're doing and other items, for that, that's really hard to disaggregate. I would say we look at both of those as in play as we give our guidance, that's there. So the FX is quantifiable and I provided that, Mark. The other two, I would just say, is more guiding based on our pipeline that we see in front of us today.

Mark R. Murphy

Understood. Thank you. And then I had a quick follow-up perhaps for Daniel or Rob. I'm wondering if you're seeing equivalent growth rates for automations that run entirely inside a Microsoft environment versus those that are stretching across multiple environments. And if there's any way you can just remind us, what is that mix standout of the kind of Microsoft-only environment today?
Daniel Dines

Well, traditionally, and it continues today, our technology was mostly used for complex processes that usually spend multiple systems. This is actually the strength of our technology, and most of our customers have multiple enterprise systems. It's a big difference between an enterprise automation platform that works very well across multiple system and in application automation that Microsoft and similar system application providers have basically entered the market recently. So I am very confident that we have the only complete platform that offers an end-to-end process automation that is differentiated for all customers.

Operator

Our next question is from Kirk Materne with Evercore ISI. Please proceed with your question.

Kirk Materne

Yeah, thanks. Rob, I was wondering, can you just talk about the environment maybe from a vertical or an industry perspective. Are you seeing any difference in the discussions you're having in certain industries rather than others at this point in time? And I guess just some of the earlier questions on the sales organization, anything you all are thinking about doing sort of towards the end of this year or any sort of changes with some of the new folks coming in, be more positioned at the beginning of fiscal 2024? Thanks.

Robert Enslin

Yeah, thanks, Kirk. Good question. So we're evolving the sales organization in flight. I would say, when you look at the industry, we continue to see significant demand for financial services, for health care, and for manufacturing. I wouldn't say the environment impacting any of them more than others, for sure. I would say it's much more geographical, some things that we're doing in terms of, we're driving significant uptick with partners for sure. We're looking at distribution models. We're looking at the emerging to graduate accounting to the enterprise segment. And as I said, at the density level.

The majority of those changes will take place in the beginning of the year as we have brought in new talent and we align our outcome to that. But we feel good about what we see in the market already around business outcomes and our enterprise automation drives speed to value for companies.
Operator

Thank you. Our next question is from Bryan Bergin with Cowen. Please proceed with your question.

Bryan C. Bergin

Hi. Thank you. I wanted to ask on the revenue headwind associated with just the cloud transition. I think it was four points previously. So, first, any change to that assumption? And then just thinking out further, should we expect a more deliberate push on cloud deployment by clients that cause that headwind to potentially get worse as we go forward beyond this fiscal year? And I guess can you give us any sense of deployment mix in the revenue base now and how you're thinking about puts and takes of that progressing. It would be helpful.

Ashim Gupta

Yeah. So the four points stays relatively consistent for the second half. We don't see any change in our assumption there. The launch of our Automation Cloud robots was very successful, but it's on track with the way we've discussed it and modeled it post our launch of 2022.4. When we think about going forward, Bryan, like longer-term assumptions, those are things we'll discuss at Investor Day, but we don't see anything significant at this moment versus the previous assumptions that we've given.

And in terms of Automation Cloud robots, which is the biggest impact from a revenue standpoint, we've already gotten a dozen customers there. It's been great feedback. We mentioned items in our script and there is a great partnership emerging there that is using there and we see other companies as well like SmartSheet and other companies very interested to see how they can take advantage of those Automation Cloud robot capabilities. To sum it up, no change in the assumption. We'll talk more about that in Investor Day, but there's no significant difference at this moment in terms of that as a headwind.

Bryan C. Bergin

Okay. And just understanding FX you've given for ARR on the back half here, any further color you can give on MDBR as you go through 3Q and 4Q?

Ashim Gupta

Yeah. I mean, net dollar-based rate retention rate, we had a 300-basis-point FX headwind that is there. Like I mentioned, when you disaggregate it, really Europe and
Japan had the largest on the deceleration of the net dollar-based retention rate. We do have confidence in as we reposition the company to reaccelerate that and as FX and macro stabilizes. Right now those are the two big largest pressures that we feel is just really from those two geographies.

Operator

Our next question is from Brad Sils with BofA securities. Please proceed with your question.

Brad Sills

Oh, great. Thanks so much. I wanted to ask about land versus expand. I think a couple of years ago the company pivoted more towards expansion deals, understanding that the installed base was such that there was that opportunity. You can see dollar-based net retention has been holding nicely in the 130-plus range here. Is there any plans to go back towards land potentially here or do you still see that opportunity within the installed base to kind of continue to drive this kind of growth with more focus on expansion deals?

Robert Enslin

Yeah, Bryan, great question. So we definitely see the opportunity to drive expansion deals as the automation. The enterprise automation platform becomes very relevant for companies. That is how we would want to want to do it. We would also want to see how we can drive it in the really top segment in key accounts and provide a density model there. And we're also looking at customers in terms of the propensity that they have to expand. So, we're actually looking at the full segmentation and how do we drive an efficiency model in terms of acquiring a company, promoting a company and ensuring that they have density with consumption.

Brad Sills

Understood. Thanks, Rob. And then, one more, if I may, please, just you mentioned bolstering the competitive moat. What are some of the things that you think of in the roadmap here that are behind that potential to continue to build upon the platform and the capabilities that do differentiate UiPath? Thank you.

Robert Enslin

So, I'll start and I'll hand over to Daniel. Just having spent the last three months visiting customers and partners doing world tours, I've been to Asia, Europe a couple of times.
I've met probably 60-plus companies. I will tell you that we have a very unique platform that nobody else has in the market in an end-to-end way, from discovery to process understanding, ability to fulfill it through RPA and AI and ML, and the ability to connect, to test, and then have insights into how they can operate in a company. That message, when we connect that branding to the C suite, I think, is going to be incredible.

And then, Daniel can talk a little bit about the details on the technology.

Daniel Dines

Yeah. So, we're the only platform that succeeded in combining API-based automation with UI-based automation. We deliver it in a single low-code/no-code platform that is easy to learn. This is tremendously important to automate a vast array of existing processes and new processes. We completed the platform by adding document understanding. That is based on our AI foray and machine learning and we are making steady progress there. We are building a world-class platform.

We have acquired process mining three years ago. We've done cloud re-platforming of the technology and we are the clear number two in that part of the technology and we are closing fast the gap with the number one in the process mining. Plus, our discovery suite that combines process mining, test mining, test capture, automation hub is unparalleled and helping our customers discover both processes at system logs level and tasks on harvesting the data on the desktop level. We are making steady progress on mostly integrated all the components of the platform to deliver in the single unified experience for the end user.

Operator

Our next question is from Terry Tillman with Truist Securities. Please proceed with your question.

Terry Tillman

Yeah. Thanks for taking my question and then follow-up. I guess, Rob, first question for you, there's been a number of questions about just the strategic repositioning of the company, go-to-market kind of excellence that you're focused on. If you had to look, just given your time so far at the company and just thinking ahead over the next 12 to 24 months, where do you see the biggest impact, though, to this key metric ARR? Is it new customers on the enterprise side coming into the fold, can digital sales actually add up to a lot more or the expansion with your existing enterprise customers? Can you kind of pick apart those three areas or maybe I'm missing something? Just trying to
understand what could have the biggest needle mover. And then, I had a question for Ashim.

Robert Enslin

Yeah. We need to do both on that. In other words, selling products in the emerging enterprise segment is a great way to acquire new customers. Then, we need to determine how to reposition these companies so that we actually drive enterprise level scale activity. When we look at enterprise level scale activity, that's where we're talking about driving enterprise automation, as a theme through companies. So, we have to do both. We have to continue to acquire companies. We have to understand which part of these companies have the propensity to expand. And when we know and understand where the propensity is, we need to make certain that we provide dense coverage to them so that we can accelerate the expansion as well. So, we're looking at that level of efficiency and we also are leaning on our partners in this space to help us drive this.

So Terry, it's not just one play. It's multiple plays. I think we've done really well at the acquisition. I think our digital sales organization is really very, very good and very scaled and you can see that across the board. And we have a unique opportunity to evolve enterprise automation to become truly a business play that drive speed to value. We're also looking at creating solution packages so that it makes easier for companies to understand what we're selling and how to position it, and that applies as well to our sales folks. All these pieces coming together we will lay out at Investor Day very, very clearly for everybody to understand how this will evolve over time.

Terry Tillman

Got it. Thanks, Rob. And just a follow-up for Ashim, I think you all talked about a path to non-GAAP EBIT or operating income profitability and free cash flow positive. Is that for the full year of FY 2024 or would that be at some point within the year when you hit that – those metrics? Thank you.

Ashim Gupta

Yeah. Look, we're committed to profitability. I just want to emphasize that to begin with. We're going to talk more about this at Investor Day. What we said in the script is pretty clear in terms of we want to get sustainable and profitable in the short term and in fiscal 2024 is definitely insights for us, but we're going to talk more and provide more specific information at Investor Day.
Our next question is from Michael Turits with KeyBanc. Please proceed with your question.

Michael Turits

Hey, guys. Couple of questions. Just kind of coming back to Ashim, I think, maybe back to Raimo’s question about going back to Q4 when you had seen some negativity. So just walk us through this trajectory, if you would, where in Q4, you said you are seeing macro pretty much across the board and impacting the pipeline, not just in Europe. And then last quarter, I think you said that customers were starting to get a handle on things. And now, things seem worse again from a sales cycle perspective and particularly bad in certain geos. So if you could just walk us through why bad, been better and bad again, that would be helpful.

Ashim Gupta

Yeah. So one is like I want to make sure, like we guide to what's in front of us, right? That is a very consistent way in which we guide from – that we have from the very beginning. It's a really dynamic environment. I just – I want to make sure, I think we all can attest to that and we feel it. So really, coming out of last quarter, we felt more optimism in EMEA, in particular, when we were guiding in terms of that. Right now, we see it. It's much more challenging than expected on the ground there. Rob can also give more color on that as he has his discussions with customers. So really, Japan, EMEA, Europe, as well as kind of some parts of Asia, like they all feel just more challenged when we look at the dynamics right here today and we guide what's in front of us. At the same time, we feel like the opportunity for automation, it's big. We see our customers engage. Our dollar-based net retention rate, to me, shows the durability of our model and the value proposition that we have. And as we talk about guidance, we want to make sure that we are responsible and prudent and de-risk the second half of the year, just given the dynamic environment in which we're in.

I'll let Rob give more color on Europe, et cetera.

Robert Enslin

No, I just think it's consistent. I mean, having spent time in Europe in the last couple of months, so we'd say we had slight optimism that companies that got used to what is happening in the world, I think we said the world become more regional, but I think the level of what's happening now with inflation and energy and so on is having an impact.
And companies are thinking about what to invest and where to invest and they're taking significant amount of time to make those decisions. The more we focus on automation in helping companies and delivering that message to companies, I'm pretty convinced that we will be more successful in Europe for sure.

**Michael Turits**

And then, my follow-up, I think someone else asked about competition but not sure if you answered it or maybe I missed it, but is there any change in the competitive environment, whether it's typical people we would think of like Microsoft or not just other companies doing RPA, but think of it as maybe potential for competition with substitute products, whether that's something like low code or you do have some offerings also. So, are you seeing more competition strictly in RPA and then maybe with alternative ways of solving the problem?

**Daniel Dines**

We are not seeing any material change in the competitive landscape since in the past three months. And we continue to see Microsoft but limited to personal automation. In enterprise automation, we are competing with more of our traditional competitors. We are not seeing the new entrants like ServiceNow, Salesforce into our opportunities. We are seeing them in less than 1% of our opportunities. At this moment, I'm pretty confident we have a very differentiated platform that it's a clear leader in automation, as attested by various analysts, by our customers, by anyone, basically.

**Operator**

Our next question is from Michael Turrin with Wells Fargo Securities. Please proceed with your question.

**Michael Turrin**

Hey, there. Thanks. Good afternoon. Appreciate you taking the question. I know there have been several on the go-to-market changes but I do want to go back to that topic. We saw Chris and Rob join earlier in the year. We have a few new regional announcements on the team there this quarter. Commentary in terms of the backdrop still sounds clear that automation is a big opportunity. But given changes in go-to-market, changes in macro, how do you make sure you aren't taking your eye off the ball in the core automation space? And are those changes things you're able to kind of shore up ahead of the user conference, the customer conference, and just the upcoming importance of the fiscal Q4 period that you have in front of you?
Robert Enslin

Yeah. We feel confident that we have shored up, but I would also add in terms of the RPA or the automation, the core automation, that continues to expand, and you see that in the digital sales piece. But as we reposition, the broader enterprise automation is a platform play that we have to drive through business outcomes and faster ROI environment. And many of the leaders that we brought in understand that and we will bring in more experienced leaders as well to actually to drive that environment.

And to be honest, when you look at this, and many of you will be at Investor Day, the attendance for FORWARD 5 is amazing. So I'm absolutely convinced, one, is we have the right strategy. We'll lay it out very, very clearly for you. You'll see that we are focused on ensuring that we will get enterprise automation at the right level. And at FORWARD 5, with the amount of folks that are showing up, it clearly shows that we are the automation leader and we have a unique value proposition across the board for all aspects of automation.

Michael Turrin

Thank you.

Operator

Our next question is from Alex Zukin with Wolfe Research. Please proceed with your question.

Alex Zukin

Hey, guys. A lot of mine have been asked but just two more kind of clarifying questions on previously discussed topics. Maybe the first one, just it sounds like the guidance has been de-risked for incremental macro deterioration in Europe but have you reflected anything in terms of incremental macro deterioration in the US in the guidance?

And then, as a follow-up, just the confidence interval here around, to some extent, just to Michael's point, that the execution changes that you're putting in place and the repositioning don't have an outsized impact on actually closing the business at the end of this year's Q4.

Ashim Gupta

So, I'll start with the guidance. So one is I think that the Americas, from our standpoint, we guide what's in front of us. As of this point, we don't forecast further deterioration in
Americas. We have our sales leader in place that the announcement came out that was recently promoted has been with the company. From a macro standpoint, we still feel good about the pipeline relative to Europe and to Japan. And the indicators, like I said, we have strong dollar-based net retention rate, we are not FX exposed in Americas. So, I think we are appropriately guiding for where we are today. Of course, anything can change from a macroeconomic environment but we guide for with what's in front of us at this moment.

And then, in terms of the overall year, like again, we've accounted for not just the macro but also the repositioning of the company, as Raimo kind of talked about even in the beginning. We've de-risked that in as a part of our guidance, the impact that comes with any change. And we feel very positive and excited about the change for our long term, but we acknowledge some of the short-term risk that that could create.

Robert Enslin

Yeah. We've de-risked and when we say we see positive signs in North America, we look – we're seeing the opportunity of deals – larger deals coming into the pipeline and we have actually implemented a very strict forecasting policy. So, we feel really good about the de-risking and the opportunity in front of us in North America.

Alex Zukin

Perfect. Thank you, guys.

Operator

Our next question is from Fred Havemeyer with Macquarie. Please proceed with your question.

Frederick Havemeyer

Hey. Thank you. I think likewise, many of my questions have been asked, but I wanted to check in about just sales across the platform. Clearly, we understand that UiPath is going to market with an end-to-end automation platform. But are you seeing any particular segments that are kind of running a bit hotter or are you seeing more demand or some areas that might be a little bit softer or receiving additional scrutiny, say, between RPA versus process mining versus task mining, just various different aspects of your platform.
Ashim Gupta

So when we look at across the platform, we see customers wanting to buy the platform. And I think the metric that actually reflects the best is our customers greater than $100,000 and our customers greater than $1,000,000, which we showed continued positive momentum in both of those areas. We've discussed in the past that we do have ELA offerings that are there for customers. And what's attractive for that is they get the full breadth of our platform and full automation capabilities, from Discover to the core RPA to additional capabilities as well. So, those two metrics really show that. Do we believe there is still more opportunity? Yes. And I think Rob talked about that in the script. And that is some of the areas that we're going to be talking about in Investor Day.

Rob can add as well for his comments with customers.

Robert Enslin

I think you answered it. I think that there's opportunity. There's significant opportunity. This market is not constrained. We need to go after that opportunity. Test Suite is clearly an amazing product in the market and that it connects Test Suite testing, test automation across all platforms and it allows you to automate automations inside the automation platform. So, I think we have a unique and a big opportunity in that space. And on the Discovery side, customers are just getting started.

Frederick Havemeyer

Thank you. And if I can get one more in, your announcement today of hiring Mark Gibbs, his background in SAP, also, just it looks like the integration you announced with Workday, is there anything to read here that you're seeing more opportunity in either HCM or in ERP-related workflows and automation there, because it's clear certainly that some of the players in the space have been focusing on automation?

Robert Enslin

Yeah. And maybe we haven't been clear but I would tell you, I'd phrase it maybe a different way – I see a significant opportunity in embedding automation into technology products where those products will drive higher value services for their customers. I think iCIMS is a great example of that, and we are talking to a number of technology providers in this space. So, I think that is a runway that we can drive for.

Our product is really well-suited to being embedded in other solution sets. And clearly, when you look at the different ERP markets or transaction provider markets, we focus on sub-processes. And so, we are additive, additive in terms of how customers would
see value. And any customer that's going through digital transformation or migration, whether it be SAP or Oracle or Workday or Salesforce, including automation into that transformation is an incredible opportunity, and that's where we see the CIOs will see automation going forward.

Operator

We have reached the end of the question-and-answer session, and I would now turn the call over to Robert Enslin for closing remarks.

Robert Enslin

Thank you very much, everybody, for attending today. We really appreciate it. And we look forward to seeing everyone at Investor Day.

Operator

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