DASSAULT SYSTEMES
2015 First Quarter Conference Call
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Final

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Thank you for joining Bernard Charlès, CEO, and Thibault de Tersant, CFO, to discuss our 2015 first quarter financial performance. This conference call follows our webcasted presentation earlier today in London. For your information:

- Dassault Systèmes' financial results are prepared in accordance with IFRS. We have provided supplemental, non-IFRS financial information and reconciliation tables in our earnings press release.
- Some of the comments on this call will contain forward-looking statements that could differ materially from actual results. Please refer to today's press release and to the Risk Factors section of our 2014 *Document de reference.*
- Revenue growth figures are in constant currencies, unless otherwise noted.

I would now like to introduce Bernard Charlès.

Bernard Charlès
President and Chief Executive Officer

Thank you for joining us here and on the earlier webcast.

Introduction

In February we shared with you our financial and business goals. Let me commence today's call with these points in mind.

First, we expect 2015 to be a year of solid revenue growth and double-digit earnings per share growth and the first quarter well illustrates this objective.

Second, we indicated we would continue to focus on improving our operating efficiency and this is visible in the organic operating margin progression during the first quarter.

Third, we are focused on strengthening our execution – demonstrated by the increase of our organic revenue performance compared to last year at this time.

Furthermore, our first quarter activity also illustrates that we are benefiting from diverse growth engines - industries, geos, sales channels, and by multiple access points into companies.

Most importantly, our focus is on continuing to enhance the value we provide to customers, well demonstrated by our most recent 2015x 3DEXPERIENCE platform and Industry Solution Experiences release. To deliver on their objective of successful end-customer experiences industries now need to take into account a broader, more complex set of processes and we believe our open platform and Industry Solution Experiences are very well suited to help companies in different industries take collaboration, modeling and simulation to a much higher level.

2015 First Quarter Performance Highlights

Turning now to the first quarter, our financial results were well aligned with our objectives.

- Non-IFRS total revenue increased 19% in constant currencies. We were particularly pleased with our new licenses revenue, which increased 14% organically in constant currencies. We also had a good evolution of recurring software revenue.
- Non-IFRS EPS rose 18% on organic results and currency benefits.

Regional Performance

Looking in greater detail our regional performance was driven by a number of geos.

In Asia, Korea and India were the strongest geos. In addition, Japan, representing 50% of our revenues in Asia on an annual basis, delivered a solid quarter too. It was the fiscal year-end in Japan so we benefited also from some larger transactions. While the quarter was weaker in China, as there is certainly volatility as we have noted previously, in total we continue to see many opportunities.

In Europe we benefited from growth across most of our major geos. In addition, activity continues to pick up in Southern Europe.

In the Americas, North America had a solid performance, especially with our larger clients. Latin America, while a small part of our sales, was negatively affected by weakness in several of its key industries.

Brand Performance

Moving to our brands, they illustrate very well the different types of users and disciplines we are reaching with our software applications.

In the first quarter of this year, SOLIDWORKS and SIMULIA delivered the strongest results. CATIA had an even performance across regions and is coming off the fourth quarter which is a seasonally high quarter for activity. ENOVIA, as you may recall, had a very large Q1 2014, with new licenses revenue at this time growing 55% in constant currencies. As we look to its pipeline for 2015, we see a year of good growth for ENOVIA.

Within Other Software, SIMULIA represents the largest portion. It had double-digit growth on balanced demand around the globe and also benefited from some larger transactions. In data intelligence, Exalead also did well.

Our 2014 acquisitions of BIOVIA and QUINTIQ as well SIMPACK were in line with plans and are also included in our Other Software revenue line.

Finally, on an organic basis, first quarter software revenue increased 9% in constant currencies, providing good support to our full year revenue growth objective.

Brand Performance: SOLIDWORKS focus

Proving some further details on SOLIDWORKS, its software revenue was up 17% in constant currencies. Activities were particularly strong in Asia and Europe. Units sold increased 18% with ASPs stable.

SOLIDWORKS is on its way to reaching a new milestone, 3 million users in total for educational and commercial users.

Our focus is on continuing to provide additional value to the SOLIDWORKS community. In that regard, the website, MySolidWorks, is available to users under subscription with many benefits that are well appreciated by the user community, visible in renewal rate increases for maintenance subscription.

We also are focused on bringing the benefits of all of our technology, both on premise and on the cloud, to the SOLIDWORKS users and to provide it in a form consumable for them.

And we continue to support and expand our network of resellers serving this community of users around the globe.

Industries Review

Turning to an industry review, we saw a favorable dynamic with customers across a number of industries including our two largest, Transportation & Mobility and Industrial Equipment as well as in Marine and Offshore, Life Sciences, Consumer Packaged Goods – Retail and

Energy, Process & Utilities - so solid progress in our core industries and solid progress in diversification.

Based upon our growth and acquisitions, diversification industries represented 29% of first quarter software, increasing year over year by 4 percentage points.

Looking first at our core industries, we are seeing continued strong demand from our largest industries, Transportation & Mobility and Industrial Equipment with new licenses revenue up double-digits. While it is a small part of our core industries, Marine and Offshore had several key wins.

We are seeing a good uptake of our industry solution experiences in our core industries, as they well match and respond to our clients' strategic priorities around collaboration, modularization, smarter vehicles, energy efficiency and program management.

An illustration of this is with our customer, Ashok Leyland, as many of you know, it is the second largest manufacturer of commercial vehicles in India and the fourth largest manufacturer of buses in the world. We are pleased that our 3DEXPERIENCE platform and our CATIA and ENOVIA applications are being used to help them reduce design lead times by managing the variant complexity. And thanks to our platform's power of integration, decision-making is improved through a unified view of design, manufacturing and sourcing.

Moving to our diversification industries, some of the areas where we are expanding our footprint include, Life Sciences, a key priority for us of course with BIOVIA; Energy, Process & Utilities, and Consumer Packaged Goods-retail.

Our decision to introduce and move to Industry Solution Experiences has been very helpful in articulating the benefits of our solutions to address the critical problems of companies in different industries.

And with the addition of roles which I will discuss shortly, we are taking the same approach to the conversation at the user level that we have taken at the industry level.

Another client example is El Corte Ingles, the largest department store group in Europe and the third largest in the world, is using our 3DEXPERIENCE platform and My Collection for Fashion industry solution experience. The group's goal is to accelerate time to market of its fashion collections.

Turning to Life Sciences, here we are taking the same approach to cover the key business processes with our License to Cure Industry Solution Experience for the pharmaceutical industry.

Roche Diagnostics was attracted to our License to Cure industry solution experience to reduce time-to-market, reduce the number of physical prototypes, and to connect the various disciplines using the 3D data, from R&D to Marketing, Customer Support and Regulatory Compliance.

Industry Solutions Experiences & Roles

Two years ago we introduced our first Industry Solution Experiences and today we now cover all 12 of our industries with multiple experiences. Underneath the experience which is addressing key objectives for a company, we have our industry solution processes, a subset of it, based on our applications. Those applications are also grouped by roles to best match users' needs.

Therefore, to further advance and support the multiple access points of our software, we have introduced role-based offerings in 3DEXPERIENCE 2015x to increase productivity and enrich the user experience. These roles are designed to cover a broader set of activities well-matched to the needs of say a creative designer, project manager, stress analysis engineer or process planner, for example.

Multiple Roles Offering Multiple Entry Points

Since the introduction of our 2021 Horizon with 3DEXPERIENCE, we have been expanding our addressable market in a very meaningful scope. So we have built multiple entry points into a customer through multiple roles.

For the sake of time let me illustrate two today – a Systems Engineer with CATIA and a business process planner with QUINTIQ.

Systems Engineer Leveraging CATIA Systems

Our leadership of the market began with the introduction of the digital mock-up of a product, understanding through discussions with large clients, how important it was for them to have a complete digital representation, a digital twin, – not just of a part but of a complete product – including the most complex products in the world.

Now, clients need more. In order to be able to create successful customer experiences, they need to be able to design and experiment in the virtual world – with any type of product up to the smartest. Building upon our leadership in digital mock-up, Smart systems engineering is therefore at the heart of CATIA, delivering the functional mockup which you can experiment with.

In plain English, what differentiates our offering is that we can both model and simulate embedded systems.

Our goal in Systems engineering is to enable any users, from non-specialists to specialists, to design Smart systems by assembling ready-to-experience content in a modular and reusable way. Our acquisition of Modelon fits very well with this objective, benefiting in particular our work with automotive companies around smart systems of all kinds.

Business Planner Leveraging QUINTIQ

Moving to QUINTIQ, it is working with the London Underground to help manage its subway system. Business planners there are using QUINTIQ to improve organizational effectiveness by integrating and optimizing workforce planning, leading to improved satisfaction for both the London Underground's end-customers (its passengers), and for its employees.

With that summary, let me pass the call to Thibault now.

Thibault de Tersant
Senior EVP and CFO

Good afternoon and good morning to all.

IFRS/non-IFRS Differences and Constant Currency Revenue Growth Comparisons

My comments today are based upon our non-IFRS financial results. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data. In addition, revenue growth rates are stated in constant currencies. In all cases, the reported revenue results were generally significantly higher.

Software Revenue

Looking first at our software results, we had very good new licenses revenue dynamic. Our recurring software revenue also had a solid evolution. We are seeing the increase in new activity from last year, as well as strong maintenance renewals. On the rental side we continue to have a mixed dynamic as we have discussed in previous quarters. Rental represented about 22% of recurring software revenue.

On an organic basis, new licenses revenue increased 14% in constant currencies, so well in line with our full year goal here. And on an organic basis, recurring software revenue increased 7%. Altogether, total software increased 9% on an organic basis, up significantly from last year at this time.

Services and Other Revenue and Gross Margin

Turning to services and other revenue, the results were mixed this quarter. From a revenue perspective, revenue increased 29% in constant currencies, coming from the addition of our acquisitions. In our core services business, we have been pushing more work to system integrator partners so here the growth has been about flat in constant currencies.

In terms of gross margin it decreased to about €3.3 million or 4.5%, compared to €6.4 million or 12.1%, reflecting several factors including a higher level of pre-sales activity by services teams during the first quarter and work to help enable our service integration partners to ramp up and to let them work on customer assignments.

Operating Margin

Turning to our operating margin, our objective is a stable to slightly increasing non-IFRS operating margin for 2015 – at about 30%. To do so our goal is to deliver organic operating margin expansion of about 100 basis points excluding currency effects to offset the estimated dilution from the 2014 acquisitions, which is also about 100 basis points.

During the first quarter our non-IFRS operating margin was 25.8%. As we mentioned last year at this time, the 2014 first quarter included a one-time R&D tax credit benefit. Excluding this benefit, the comparative figure is 26.6%.

We benefited from an improvement in the organic operating margin of about 70 basis points. We were negatively impacted from acquisition dilution of about 2.3 percentage points, and in addition, a 60 basis point impact from an accounting change taken in the first quarter and will not impact the full year.

Currency was a tailwind this quarter, and it came from a number of currencies, outside of our largest ones.

EPS

Turning to our earnings, non-IFRS EPS increased 18% to 43 cents from 37 cents in the year-ago quarter so a very nice level of growth despite the 7 points of impact in the year-ago quarter from the one-time R&D benefit I mentioned before.

Operating Cash Flow Evolution

Moving to cash flow, we had a very favorable evolution in the first quarter, with the cash flow from operations increasing to €265 million, compared to €182 million in the year-ago quarter. In addition to substantially higher net income, we had a very positive influence from working capital evolution.

Unearned revenue increased 8% on a fully organic basis and excluding currency, compared to one year ago and it is in line with our organic software revenue growth. So, unearned revenue stood at €840 million at the end of March.

Our DSOs were 86 days, compared to 83 in the year-ago quarter. We saw an improvement in Europe and the Americas, and a slight deterioration in Asia. The increase of 3 days is completely linked to the acquisitions we did.

Our working capital improvement also benefited from lower tax reassessments in the first quarter compared to the year-ago period. I think it is helpful to separate out the influence of ongoing tax proceedings, the timing of which varies and more importantly, while we are making these payments we are certainly also disputing them as we find them legally unfounded.

Excluding the year-ago tax reassessment payment of €22 million, operating cash flow increased 30% in the 2015 first quarter. Looking forward we will be negatively affected in the second quarter from working capital and operating cash flow perspectives, with a further tax payment reassessment covering three years of about €60 million which we will also dispute.

Net Financial Position

Turning to our net financial position, we are now back over €1 billion with the €308 million increase in cash compared to December 31st, 2014. Changes in exchange rates had a positive influence of about €67 million on the cash increase.

First quarter was a quiet quarter in terms of capital expenditures and share repurchases. However, based upon shares repurchased last year our share count during the first quarter on a fully diluted basis is flat year over year.

Confirming 2015 Financial Objectives and Updating for Currency

Turning to our financial objectives, as we outlined in this morning's earnings press release, we are leaving unchanged our revenue growth objective range in constant currencies. But we are updating for changes in currency exchange rate assumptions, moving the US dollar exchange rate to $1.14 per euro for the full year and the yen exchange rate to 134.8 yen per euro.

Looking first to revenue, our pipeline for the remaining three quarters remains very consistent with what we saw in February. Therefore, we remain comfortable with our revenue growth objective of 11 to 12% in constant currencies for 2015 and we are reaffirming it.

Taking into account changes in our currency assumptions, leads to an increase of about 60 million favorable currency impact to our reported revenue range, which now increases to €2.76 to €2.78 billion.

With respect to our operating margin, our goal is to deliver a stable to slightly improving non-IFRS operating margin in comparison to 2014 through operational improvements designed to offset the dilution from 2014 acquisitions. We estimate an organic improvement target of about 100 basis points to offset the estimated dilution impact of 2014 acquisitions which is about 100 basis points. With the updated exchange rate assumptions, we also estimate about 20 basis points benefit from currency. With that in mind our non-IFRS operating margin target for 2015 is now about 30%, compared to 29.8% previously.

At the EPS level, changes in currency add about 4 cents, so we are now targeting a non-IFRS EPS growth objective of 15 to 17%, compared to 12 to 15% previously. On a per share basis, we are targeting earnings of €2.10 to €2.13.

For the second quarter, our objectives are for non-IFRS revenue growth of about 8 to 10% in constant currencies, a non-IFRS operating margin of about 27% and non-IFRS EPS growth of about 6 to 11% or about 45 cents to 47 cents. In addition to the sales territory re-assignments, I would also remind you that recurring revenue in the 2014 second quarter benefited from maintenance catch-up payments as we discussed one year ago.

To summarize, I think our initial revenue target for 2015, which we are confirming today, well reflects the opportunities we see and takes into account the various fluctuations created by the macro environment, as well as by our businesses and initiatives.

Let me turn the call back to Bernard.

Bernard Charles
President and CEO

Summary

In summary, I think we are well positioned coming off of our first quarter to deliver a year of strong revenue and earnings growth well supported by strengthening organic performance.

We are focused on advancing our client engagements and delivering on our R&D initiatives. At the same time we are continuing to improve our sales execution and operational processes.

Thibault and I are now happy to take any questions and we thank everyone for their participation on this call and earlier today.