

DASSAULT SYSTEMES
2017 First Quarter Conference Call
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Final

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Thank you for joining Bernard Charles, Vice Chairman of the Board of Directors and CEO, and Thibault de Tersant, Senior EVP and CFO, to review our 2017 first quarter business and 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 2016 *Document de référence*.
- Revenue growth figures are in constant currencies, unless otherwise noted.

I would now like to introduce Bernard Charles.

Mr. Bernard Charles
Vice Chairman of the Board and CEO

Thank you for joining us here and good morning and good afternoon.

INTRODUCTION

Before reviewing the first quarter, where we had a solid start, let me share my personal perspective with you.

With 3DEXPERIENCE Dassault Systèmes is pioneering the next generation innovation platform supporting breakthroughs for clients in products, customer experiences and new business models. Our platform and the industry solutions experiences we have introduced fit very well with our customers' requirements.

We now reach a much broader scope of our clients' departments. We believe 3DEXPERIENCE is a game-changer for industry digitalization with the platform phenomenon.

In turn with 3DEXPERIENCE we are now addressing a much larger software market scope – 26 billion in USD, a doubling of our previous perimeter – and we have a significant revenue opportunity and runway. On an individual customer basis, we have the potential to expand our relationship across multiple departments and from a revenue perspective, double our sales footprint within an individual client and its ecosystem.

In that regard, while it took a number of years to reach our first billion, our second was reached in six and we crossed the 3 billion euro milestone this past year in 2016 in four years. Thibault will review our revenue goals with you but the mid-point is

3.3 billion euros for 2017, our first year on the road to four billion euros in total revenues.

Finally, I believe SOLIDWORKS has developed a unique position in the entry level market as companies continue to standardize on it resulting in an extension of its market leadership. Based upon results for 2016, SOLIDWORKS' end-market footprint reached 1.25 billion dollars.

FIRST QUARTER, 2017 OVERVIEW

Moving now to the first quarter, our financial results came in slightly above the high end of our objectives. Total revenue increased 8%, the operating margin was stable at 26.2% and EPS increased 4% or 15% excluding the year-ago tax benefit.

Importantly, we gained improved visibility on the year. As a result, we are reconfirming our 2017 financial outlook and upgrading our financial objectives for currency as Thibault will detail.

Looking at the highlights, first it was a strong quarter for SOLIDWORKS all around the globe.

Second, we had an excellent dynamic in our largest industry, Transportation & Mobility, with software revenue up double-digits. Both 2014 and 2015 were very good from a financial perspective for Transportation & Mobility. It was softer last year and we see it returning to strength again during 2017. And in our second largest industry, Industrial Equipment, we are continuing to extend our leadership thanks to both SOLIDWORKS and 3DEXPERIENCE.

Third, we had a strong level of growth in Consumer Product Goods-Retail and Architecture, Engineering and Construction, two verticals where we plan to expand our presence over the coming years. In total, Diversification Industries represented 32% of the total software revenue in the quarter, with High Tech being our largest sector. Its software growth was very good in this first quarter too.

Fourth, our global footprint continued to expand thanks in part to the progress we are making in High Growth Countries.

GROWTH DRIVER: DOMAIN LEADERSHIP SOLIDWORKS in Focus

Moving to our performance in more detail, let's begin with one of our growth drivers - DOMAIN leadership, focusing this quarter on SOLIDWORKS.

During the first three months of this year SOLIDWORKS software revenue increased 12% in constant currencies led by higher new licenses activity. Its performance was solid all around the globe, thanks to its robust and high performing software with core SOLIDWORKS and its specialized software applications; improvements the SOLIDWORKS team have made working closely with its resellers and its extended and active user community. Importantly, users and companies are coming to SOLIDWORKS – whether they were using 2D or 3D – to reach their goal of full digitalization.

GROWTH DRIVER: INDUSTRY VALUE PROPOSITION Transportation & Mobility in Focus

Now, let's look at another key growth driver – our INDUSTRY VALUE proposition, beginning with Transportation & Mobility. Within this vertical we are focused on six sub-segments: automotive OEMS and suppliers, trucks and buses, race cars and trains. During the first quarter Transportation & Mobility software revenue increased mid double-digits.

Now what accounts for our leadership and is triggering a large market opportunity for us in Transportation & Mobility?

First, our industry solution experiences provide support to a much larger set of user roles:

- ✓ Car, Truck and Train program leaders for digital continuity
- ✓ Manufacturing personnel
- ✓ Innovation labs and professionals in design studios
- ✓ Marketing & sales professionals and
- ✓ Systems engineering with electrical and software engineers

In turn, from a business perspective, this means we are now touching most of the critical departments of a company from product planning and design studios, to engineering and product development to manufacturing, marketing and sales.

For example, we are now working with Volvo Eicher Commercial Vehicles, a joint venture between Eicher Motors and Volvo Trucks, looking for **program digital continuity**. They have adopted the 3DEXPERIENCE platform and the 'Modular, Global and Secure' industry solution to support several key business objectives. We are replacing a legacy US-based competitor and are providing the client with digital

continuity for its truck programs, especially important given the high level of variants to be configured, managed and supported.

A second illustration is Faurecia, a global automotive business supplier, what we call Tier 1, where their business focus is on **program digital continuity and manufacturing**. The company is adopting the 3DEXPERIENCE platform, with Modular, Global & Secure and Target Zero Defect Industry Solution Experiences. These solutions leverage applications from the CATIA portfolio, DELMIA, SIMULIA as well as ENOVIA.

The third example is Fiat Chrysler Automobiles, FCA, who selected and is deploying our 3DEXPERIENCE platform and ‘Drive Emotion’ industry solution across its global design studios. This was a competitive win leveraging CATIA’s domain expertise. Design Studios are part of a company’s **‘Innovation Lab’**.

The next example is Ford, which is among our largest customers. We work with them in many areas, but one that you might not think of is **marketing and sales**. Leveraging 3DEXCITE, Ford has created an immersive virtual reality experience for consumers. Some of you may be familiar with it – the ‘Mustang over Manhattan’ experience at its FordHub in Manhattan. Importantly, thanks to 3DEXCITE, clients have a very affordable solution for virtual reality scenarios, creating a virtual showroom in hours rather than weeks.

Now let me share one final perspective with you on Transportation & Mobility. Here I would like to thank one of our client’s - Bosch, who invited us to showcase our technologies at its ‘Connected World, Internet of Things’ Conference recently. Many of you know Olivier Sappin, Vice President and Industry Leader for T&M. At

the Bosch event he illustrated the vital role that a virtual testing environment will play as a key enabler for autonomous driving. Importantly, we can be a critical trusted partner for companies: in the domains of vehicle electrification, in autonomous driving and in the area of connected and shared mobility.

- For vehicle electrification, virtual testing is needed to help INVENT more efficient batteries and to do so, one needs to master new materials. So vehicle electrification for the future really begins at the level of material science and simulation of different materials, two areas of strong focus at Dassault Systèmes, thanks to the BIOVIA acquisition;
- For autonomous driving, virtual testing is of immense utility and frankly it will not be possible without it for several reasons. Among them, it is estimated that multi billion miles would have to be driven. A large portion of this mileage will need to be completed through virtual testing therefore. Imagine for an instant – how do you envision all the potential scenarios that an autonomous car could encounter and test them in the real world? For example, in a city, the car should detect a cyclist and avoid a collision, at night or during bad weather conditions. All the scenarios need to first be evaluated through a virtual testing environment.
- Now think about the second aspect of it, certification, each car configuration will need to be certified. It would be uneconomic to do physical testing. Virtual testing will be critically important.
- And in terms of systems engineering, while our software could be used and would help software engineers to be more productive, our principal focus is on providing an environment for a full system mock-up with software and hardware: All disciplines, with electronics circuit board, electrical cable and mechanical components are now integrated into one unified ‘virtual system

mockup’ for experience that will be used for virtual validation with simulation, to decrease the number of physical prototypes and the costs related to physical testing.

GROWTH DRIVER: INDUSTRY VALUE PROPOSITION Consumer Packaged Goods- Retail in Focus

Another industry I would like to touch on today is Consumer Packaged Goods - Retail. Sales to this vertical are under 5% of our total revenues but we see significant opportunity for expansion. Therefore, we were pleased to see a strong double-digit increase in software revenue during the first quarter.

Among our clients and sectors:

- Unilever has selected BIOVIA, the 3DEXPERIENCE platform and SIMULIA for managing and leveraging its scientific data and to increase its virtual testing. We are starting the implementation this quarter with the ‘Perfect Lab’ industry solution experience leveraging BIOVIA applications.
- We are expanding at Procter & Gamble with the 3DEXPERIENCE platform. In product development P&G is reaching 18,000 users on the 3DEXPERIENCE platform. It was an early adopter of our Perfect Shelf industry solution experience. And is using ‘Perfect Product and ‘Perfect Package’.
- And with QUINTIQ we are expanding into Food and extending our work in Retail with the industry solution experience Perfect Value Chain.

GROWTH DRIVER: SALES EFFICIENCY High Growth Countries in Focus

One of our growth drivers is sales efficiency, leading to a broader global footprint. Among the best performing geos in the first quarter were High Growth Countries where software revenue increased 17% in constant currencies. For example, our clients include Ashok Leyland, ranked 2nd in India for commercial vehicles, and on a global basis, ranked the 4th largest manufacturer of buses in the world. They have adopted our 3DEXPERIENCE platform and several of our industry solutions. Their business objective is to deliver right the first time innovation from concept to production.

Let me stop at this point and turn the call to Thibault.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

SUMMARY OVERVIEW

The first quarter was a solid period in terms of laying the foundations for the year.

- From a financial perspective our revenue and earnings came in slightly above the high end of our guidance.
- Our cash flow performance in the first quarter was strong, at 348 million euros.
- And from a balance sheet perspective, unearned revenue exceeded one billion euros for the first time.

TOTAL REVENUE

In the first quarter our total revenue increase of 8% was led by strong growth in recurring software revenue and services. Excluding acquisitions, our organic revenue growth was 6%.

SOFTWARE REVENUE

Software revenue increased 7%, with new licenses and other software increasing 6%. Recurring software revenue increased 8% in the quarter and represented 74% of total software revenue. We had a very strong quarter in terms of renewal activity with a higher level of contracts completed and signed during the period. For the first half we expect recurring software revenue growth to average about 7%.

SOFTWARE REVENUE BY REGION

Moving to a regional review, let's begin with Asia where software revenue increased 6%. China and India had strong growth as did South Korea. We saw more mixed results in Japan during the first quarter.

In Europe with total software growth of 10%, we benefited from strong growth in several geos most notably France and Southern Europe this past quarter.

In the Americas software revenue increased 5% in constant currencies, with Latin America's software results showing a strong improvement. In North America we continue to see extended sales cycles with large accounts.

SOFTWARE REVENUE BY BRAND

Moving to our software results by product line, CATIA grew 4% overall, with solid growth across the three regions.

ENOVIA software revenue results were more muted in the quarter increasing 2% with fewer large deals in the quarter and a very high base of comparison. Based on the pipeline of opportunities we believe ENOVIA will post another year of strong new licenses revenue growth in 2017.

SOLIDWORKS led the performance this quarter, with software revenue up 12% on strong new licenses activity. Multi-product sales were also good. We believe that SOLIDWORKS is benefiting from its leadership position in its market as Bernard noted.

Other software increased 10% including the results of CST which performed well in line with our expectations. SIMULIA outside of CST also had a solid quarter.

Looking at our SIMULIA offer we now cover more than 75% of the estimated 5 billion dollars simulation software market. And with the 3DEXPERIENCE platform, we are well positioned to help companies manage their multi-physics simulation results. QUINTIQ and EXALEAD also delivered strong quarters.

SERVICES

Services and other revenue increased 10% in the first quarter. We also saw an improved gross margin of 8.1%.

OPERATING MARGIN

Our operating income in the first quarter increased 10% to €200 million. And the operating margin was 26.2%, with acquisition dilution and investments offset by net currency benefits. As I will review in the outlook we are expecting to generate organic operating margin improvement for 2017 as a whole.

EARNINGS PER SHARE

While our operating income increased 10%, earnings per share increased 4% due to a much reduced effective tax rate in the year-ago period related to a tax reserve reversal. Excluding this impact, EPS would have increased by 15%.

OPERATING CASH FLOW

Our operating cash flow in the quarter was €348 million. It increased 12% benefiting in part from a change in timing of US tax down-payments from first quarter to second quarter with a favorable effect on working capital evolution. We also had an increase in unearned revenue of 9% in constant currencies, well in line with our recurring software revenue growth of 8%, also in constant currencies.

2017 FINANCIAL OBJECTIVES: CONFIRMING AND UPGRADING FOR Q1 CURRENCY

Turning to our financial objectives, as we indicated in the earnings press release we are reconfirming them and upgrading them for the full amount of the first quarter currency upside. We are also introducing our second quarter objectives.

Let me update you on the macro backdrop. Since early February we have seen some slight improvement in it, visible in a few currencies. And specific to our businesses one area of improvement was in mining where after a prolonged period of weakness there seems to be new investments, due to the improvement in commodities. To balance this I still see higher volatility from macro, geo or political risks.

Looking at our full year guidance:

- We are adding 14 million euros to our revenue range, (rounding to 15 million), bringing it to 3.29 to 3.315 billion euros. This represents a growth range of 6 to 7% in constant currencies.
- Our operating margin target is maintained at about 31.5% and embeds an estimated 50 basis points of organic improvement excluding currency.
- For EPS, we are increasing the range by 2 cents, to 2.67 to 2.72 euros. This represents an EPS growth target of 7 to 9%; or two points of growth higher, to 9 to 11%, if you were to exclude the 2016 five cent tax reserve reversal.

Sharing some more color on software, based upon our visibility we expect new licenses and other software revenue growth in the range of about 8 to 10% for the year with increased seasonality favoring the second half of the year, in particular the fourth quarter. This objective of new licenses revenue growth of 8 to 10% is unchanged from what I had shared with you in February. For recurring software

revenue we anticipate growth of about 6% on average for the remaining three quarters.

For the second quarter, our revenue growth target is about 6 to 7% in constant currencies leading to a range of about €805 to €815 million; a non-IFRS operating margin of about 29.4% to 30.4%; and non-IFRS EPS growth of about 5 to 9% to a range of 60 to 62 cents.

Our Annual Meeting of Shareholders will be coming up in May. The Board of Directors is proposing a 13% increase in the annual dividend for the fiscal year of 2016 based on our 2016 results.

Let me now turn the call back to Bernard.

Mr. Bernard Charles
Vice Chairman of the Board of Directors and CEO

Summary

We laid out our perspective on 2017 in February – we see a year where we are progressing toward an inflection point for 3DEXPERIENCE. It is clear that we are bringing the next generation innovation platform to the market. The revenue opportunity for us over the mid-term is significant, as the fit between customer needs and our offer are very strong.

Our focus, therefore, continues to be on improving our execution. We are seeing progress in our different geographies and are working to replicate the success of our best performing ones. In addition to our sales and marketing, we have strengthened our post acquisition processes which are leading to improvements in the performance of our different acquisitions.

Thibault and I would now be happy to answer any questions and thank everyone for their participation on our earlier webcast and this conference call.