

**DASSAULT SYSTEMES**  
**2019 Second Quarter Conference Call**  
**Wednesday, July 24, 2019**  
**FINAL**

**François-José Bordonado**  
**Vice President, Investor Relations**

Thank you for joining us on our earnings conference call, with Bernard Charles, Vice Chairman and CEO, and Pascal Daloz, Executive VP, CFO and Corporate Strategy Officer.

- Dassault Systèmes' results are prepared in accordance with IFRS.
- Most of the financial figures on this conference call are presented on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.
- Some of our 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 2018 *Document de référence*.

All earnings materials are available on our website and these prepared remarks will be available shortly after this call also.

I would now like to introduce Bernard Charles.

**Bernard Charles**  
**Vice Chairman and Chief Executive Officer**

Thank you for joining us today.

**SUMMARY OVERVIEW**

When we unveiled our new expanded purpose in 2012 and then our **3DEXPERIENCE** platform in 2014, we saw the possibilities. **NOW**, we see the realities coming altogether as industries, companies and users embrace the **3DEXPERIENCE** platform and the immense value of the virtual world and real world to work together.

As our progress during this year's first half demonstrates, we are focused on addressing three centers of gravity: customer-centric, citizen-centric and patient-centric experiences. All three are well aligned with our purpose to provide business & people with **3DEXPERIENCE** universes to imagine sustainable innovations capable of harmonizing product, nature and life.

So, let's look at our score-card at mid-year:

- Within the backdrop of a more volatile global environment, our revenues and earnings came in at the high end of our Q2 financial objectives.
- Key details include a record quarter for **3DEXPERIENCE**, and a strong first half.
- Our software growth for the first part of the year was well balanced across our Core and Diversification Industries, with double-digit growth for both.
- Since 2012, we have shared our expectations that one day, Life Sciences would become a core industry for Dassault Systèmes. With the completion of the Medidata Solutions acquisition, subject to regulatory and shareholder approvals, that day is just a few months away, hopefully.

Therefore, looking at our progress I think it is a solid score-card.

Importantly, we are preparing the future, thanks to the enormous talents at Dassault Systèmes. We are working to advance the Company but equally important our impact on the world.

### **THE PLATFORM IS A GAME-CHANGER**

The core to our progress and opportunities for the future is the **3DEXPERIENCE** platform. The challenges for all major industries are very significant. Without a platform to help them connect all possible contributors, they will not be able to maximize their innovation and performance. This is true for industries, AND it is also true for cities and in health for patient care.

### **DELIVERING ON TRANSPORTATION & MOBILITY CHALLENGES**

Let me begin with industries, with our largest industry Transportation & Mobility, to provide you with some examples.

- Thanks to our platform strategy, PSA has selected us as their preferred digital partner for transformation. They are expanding their use of the **3DEXPERIENCE** platform with the goal to enable every group within the organization to contribute to the value creation process.
- The Guangzhou Automobile Group (GAC), with five global R&D centers in China and in the U.S., has decided to move to the **3DEXPERIENCE** platform, using our **POWER'BY** functionalities. With the platform they will be able to increase their R&D efficiency and collaboration across more than 4,500 users.

- Renault Group, a large **3DEXPERIENCE** platform user, is now adding **3DEXPERIENCE** on the Cloud for its in-house laboratory developing disruptive mobility solutions for urban areas.

## **DELIVERING ON CHALLENGES IN AEROSPACE & DEFENSE**

Just a few words on the aerospace sector where there is significant innovation underway in a number of areas and where the **3DEXPERIENCE** platform is becoming mainstream.

- Safran Electronics is using the **3DEXPERIENCE** platform to support their digital transformation and master the configuration management process throughout the lifecycle of their products.
- Dassault Aviation has expanded its use of the **3DEXPERIENCE** platform, with our ENOVIA, Exalead and Netvibes apps to leverage AI and Big Data to improve its fleet management as well as new categories of services for their equipment.
- An American start-up, Boom is designing a supersonic passenger jet. A **SOLIDWORKS** customer, Boom has now decided to move to the **3DEXPERIENCE** platform to support their ambitious effort from concept design through to manufacturing.

## **DELIVERING ON CHALLENGES IN THE HIGH TECH INDUSTRY**

Moving to High Tech, this industry faces a number of challenges as it broadens its reach into every part of our lives, from wearable devices, to connected experiences, including smart products. The product cycles are very fast, but are backed by years

of intensive research. Less visible, High Tech must deal with an entire range of issues around safety and health.

- We are working with Bosch Car Multimedia, who has adopted the **3DEXPERIENCE** platform and our model-based systems engineering approach to test and validate the digital model.
- Fuji Xerox, a joint venture, is using our SIMULIA CST Studio Suite to virtual simulate electromagnetic compatibility before constructing physical prototypes.

## **CONSTRUCTION, CITIES & TERRITORIES**

Now, let's move briefly to our work addressing construction, cities & territories. With upwards of 70% of the global population to be in urban environments, the cities that will survive and thrive in the decades ahead will be those that are focused on improving the experiences of its citizens.

In this morning's presentation in Paris, we highlighted one of our Architecture clients. The firm is using the **3DEXPERIENCE** platform to help Hong Kong entities analyze how to improve walkability and citizens' experiences through pedestrian flow simulation with a complete digital model of the city.

**Addressing the workforce of the future, highly ranked** Southern California Institute of Architecture is an incubator for a new generation of problem solvers redefining architecture, looking out on other industries, in other areas, and using the **3DEXPERIENCE** platform to create new approaches and rethinking solutions to problems.

## **LIFE SCIENCES: PROPOSED ACQUISITION OF MEDIDATA SOLUTIONS**

Moving to Life Sciences, beginning with the proposed acquisition of Medidata Solutions. We held a detailed joint call on the day of our announcement, June 12<sup>th</sup>. Medidata is a leader of the digital transformation of the Life Sciences industry for clinical development, commercial, and real-world data intelligence.

This acquisition reinforces our position as a science-based company by providing the Life Sciences industry with an integrated business experience platform for an end-to-end approach to research and discovery, development, clinical testing, manufacturing and commercialization of new therapeutics, from small to large molecules, and health technologies.

## **LIFE SCIENCES: INVESTING IN BIOSERENITY**

Demonstrating our further support for patient-centric experiences in Life Sciences is BioSerenity, a startup who has been part of our **3DEXPERIENCE** Lab. It is developing wearable medical devices and digital point-of-care solutions that leverage textile innovation and artificial intelligence. Importantly, its products enable patient-centric care to move from the hospital or clinic to the home with online telehealth services. Their devices could also be used in clinical trials.

## **MODELING AND SIMULATION IN LIFE SCIENCES: OUR LIVING HEART DIGITAL MODEL**

**Well illustrating the role of modeling and simulation in Life Sciences for Practitioners is our Living Heart**, the first commercial and personalizable model of

the human heart, now available to anyone on the **3DEXPERIENCE** platform in the cloud. Today at our North America headquarters in Boston, we are holding the 5th Annual meeting of the Living Heart Project Community with representatives from industry, research, clinical practice as well as regulatory agencies.

We are also pleased to announce that the U.S. Food & Drug Administration has signed a 5-year extension to the Living Heart Project collaboration and a project to use the **3DEXPERIENCE** Platform and the Living Heart as a virtual patient population to reduce the time, cost and regulatory burden on human and animal testing.

### **Global Innovation Index: Life Sciences**

The role of Life Sciences as a critical enabler for global innovation was further underlined by the release this morning of the annual Global Innovation Index, with the theme this year focused on the medical innovation landscape over the next decade. This study illustrates how critical is the Life Sciences industry's continued transformation towards a patient-centric experience.

Pascal, you have the floor now.

**Pascal Daloz**  
**Executive Vice President, CFO and Corporate Strategy Officer**

Hello and thanks to all for joining us today.

**H1 2019 Performance at a Glance**

I think our First Half Business and Financial Performance very well illustrates our key growth drivers at work. They have helped position us very well with respect to the completion of our five plan to double EPS to about €3.50 in 2019. More importantly, they are demonstrating that the principal components to our 2023 plan are well in place and animating our results, with the **3DEXPERIENCE** platform, strengthening organic growth, our industry diversification and our addressable market expansion.

Reviewing briefly our results, we came in at the high end of revenue, software and ahead on EPS based on a strong operational performance. Both revenue and earnings per share were up double-digits in Q2 and H1.

Importantly, **3DEXPERIENCE** traction is continuing to increase and in turn is representing a greater proportion of our software and licenses revenue. For Q2, **3DEXPERIENCE software revenue** increased 52%, bringing first half growth to 40%. **3DEXPERIENCE** licenses revenue growth was up even higher for both periods.

**H1 SOFTWARE REVENUE BY REGIONS**

On a regional basis, **Americas** software increased 16% in H1 led by our direct sales channel. We had a number of **3DEXPERIENCE** wins, from aerospace to energy to consumer industries, strong recurring revenue growth as well as the benefit from acquisitions.



In **Europe** software revenue grew 11% for H1 with Q2 up 13%. The strongest performances were in Northern and Southern Europe as well as Western Europe. We had a number of large **3DEXPERIENCE** deals in automotive, aerospace and industrial equipment.

In **Asia** software revenue was higher by 9% for Q2 and H1, with a mixed performance. Growth was very good in China and in India. And from a channel perspective, both Value Solutions and the Professional Channel had strong growth in licenses as well as recurring software revenue.

## **SOFTWARE REVENUE BY BRAND**

Zooming in on brands:

CATIA software revenue increased 12% in Q2 and 9% for H1, with licenses revenue up double-digits in both periods. **CATIA is now a key driver of our 3DEXPERIENCE software revenue growth.**

ENOVIA grew 9% in Q2 and was up 14% in H1, on a double-digit licenses growth reflecting a high level of **3DEXPERIENCE** activity.

SOLIDWORKS is seeing a moderation of its growth on mixed results for licenses activity, with strong growth in Asia and more difficult compares in Europe and in the Americas. Recurring software revenue performance continues to demonstrate very stable renewal rates. Overall, its software revenue growth was 4% in Q2 as well as H1.

**Other Software** increased 20% in Q2 and 21% in H1, led by a very good dynamic in manufacturing with our DELMIA brand, and a solid performance in simulation with SIMULIA.

## **TOTAL REVENUE AND SOFTWARE REVENUE**

Moving to our financial performance, a key part of our 2023 five-year plan is the progressive improvement of our organic revenue and software growth towards high single digits. Looking at our total revenue and software revenue, they both grew 9% in H1 on an organic basis. For the full year, we would expect this will be a little lower, but, all in all, a several hundred basis points improvement over 2018 and 2017.

### **SOFTWARE REVENUE: Licenses and Recurring Software**

On an organic basis, License and other software revenue increased 7% in Q2 and 8% in H1 well supported by CATIA, ENOVIA and DELMIA among key brands. Recurring software revenue increased 9% on an organic basis for both Q2 and H1, with Subscription growth led by CATIA and ENOVIA. We saw solid performances across most brands with respect to Support revenue growth.

## **SERVICES REVENUE**

On an organic basis, Services revenue increased 15% in Q2 and 12% in H1 with strong growth in **3DEXPERIENCE** related services activity, in our manufacturing and global operations as well, and in digital marketing with a significant improvement for **3DEXCITE**.

A key takeaway on services is as a **forward indicator or opportunity enabler**. As we help our clients deploy the **3DEXPERIENCE** platform, once in place it leads to follow-on orders. So a key priority for us and for our service partners is to ensure a

well-planned implementation and timely roll-outs within the scope of the transformation envisioned.

## **OPERATING PROFITABILITY AND MARGIN**

In addition to good top-line performance, I think we are also delivering well in terms of profitability. For H1, our operating margin stood at 31.8%, ahead of last year by 140 basis points. We had organic improvements of 220 basis points, more than offsetting an estimated 120 basis points of acquisition dilution. For the First Half, currency had a 40 basis point benefit to the operating margin.

## **EARNINGS PER SHARE**

EPS increased 19% in Q2 and 20% in H1, reflecting revenue growth, operating management and currency benefits. The non-IFRS effective tax rates were up slightly for both periods compared to the year-ago timeframes.

**The takeaway here is that our business and operating performances drove double-digit non-IFRS EPS growth for both Q2 and H1.**

## **CASH FLOW & BALANCE SHEET**

Our net operating cash flow was up sharply in H1, increasing 38% to 894 million euros. The principal contributors were growth in net income & non-cash items, accounts receivable management, and lower tax down-payments in 2019 where we now benefit from a US tax change on foreign driven intangible assets enacted in 2018. For the full year, we anticipate strong growth in net operating cash flow, moderating, however, from the H1 growth rate.

Unearned revenue, now called ‘contract liabilities’, totaled 1.02 billion euros at June 30th. This represents an increase of 8% at constant currency and perimeter impact.

## **MEDIDATA SOLUTIONS PROPOSED ACQUISITION REVIEW**

Before moving to our financial objectives, let me give a brief update on the proposed acquisition of Medidata:

- First, from a timing perspective: since the announcement on June 12<sup>th</sup>, we have now received antitrust clearance in the United States as well as Germany. We continue to work constructively with regulators to obtain other required regulatory approvals. The SEC has approved the Medidata prospectus and the Medidata shareholder meeting to vote on the approval of the merger has been scheduled for August 16<sup>th</sup>. We are expecting to finalize the transaction in the third or fourth quarter if all the conditions to closing are completed by then.
- Second, if the transaction has been completed by our third quarter earnings, we will add Medidata to our financial objectives for Q4 and FY2019.
- In our Q2 presentation, we have a chart on the transaction summary including our financing plans. There are no changes to what we shared with you on June 12<sup>th</sup> in that regard.
- Finally, please save the date, November 13<sup>th</sup>, for a half-day, deep dive meeting on our Life Sciences strategy, offer, and growth outlook (assuming completion of the Medidata acquisition). We plan to host the event in New York at the same time as Medidata will have its user conference.

## **FINANCIAL OBJECTIVES**

Now, let's move briefly to our guidance, beginning with the full year 2019:

1. First, we are confirming our total revenue growth objective of 10 to 11% at constant currency.

2. Second, we are upgrading our reported revenue range for the better evolution of currency in Q2 of 20 million euros, and an update of our exchange rate assumptions for Q3, bringing a 15 million-euro increase. As a result, we are moving the mid-point of our reported revenue range higher by 35 million euros. And we are also upgrading our EPS by 5 cents at the mid-point.
3. As a result, our total revenue range is now 3.88 to 3.91 billion euros and our EPS range is 3.45 to 3.50 euros.
4. Our operating margin target tightens to about 32.5%, from 32.0% to 32.5%. We now estimate an underlying improvement of about 100 basis points exclusive of IFRS 16 and currency, up from our prior estimate of about 80 basis points, benefiting from a more favorable software mix, with a higher contribution from recurring software.

**For Q3**, we are targeting a revenue range of about 890 to 905 million euros, an operating margin of about 29 to 30%, and an EPS range of about 70 to 74 cents. Our revenue range embeds a licenses software growth rate of 8 to 12% and a recurring software revenue growth rate of 9 to 11%.

Finally, just a further reminder that our Q3 and Full year financial objectives are presented on a non-IFRS basis with revenue growth rates at constant currency. For purposes of our guidance, we are using a 1.15 US dollar rate per 1euro exchange rate in Q3, then a 1.20 rate for Q4. For the Japanese yen, a 130 rate per 1euro exchange rate before hedging for H2.

## **CONCLUDING COMMENTS**

To conclude, from a business perspective our platform strategy is a game-changer for customer-centric, citizen-centric and patient-centric experiences. **3DEXPERIENCE** is a significant contributor to our direct sales, and is progressively moving forward in

our indirect channels. From a financial perspective, based on the First Half results and our outlook, we are well positioned to meet our five-year goal of doubling our non-IFRS earnings per share to about €3.50 for 2019. And as we look to the future, we are taking major steps to prepare our run-way for growth over the next decade.

We would now be happy to take your questions and thank you for your participation on this call and our earlier webcasted meeting held in Paris.