DASSAULT SYSTEMES
2013 Third Quarter Conference Call
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Final

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Vice President, Investor Relations

Thank you for joining Bernard Charles, CEO, and Thibault de Tersant, CFO, for our 2013 third quarter conference call. We held our webcasted presentation in London earlier today and have placed the presentation on our website.

Several brief reminders before we begin. Dassault Systèmes' financial results are prepared in accordance with IFRS. We have provided supplemental non-IFRS financial information which is explained in the reconciliation tables included in our earnings press release. Some of the comments we will make on this call will contain forward-looking statements, which could differ materially from actual results. Please refer to our Risk Factors in today's press release and in our 2012 *Document de référence*. On the call today, revenue growth figures are in constant currencies unless otherwise noted.

I would now like to turn the call over to Bernard Charlès.

Bernard Charlès
President and Chief Executive Officer

Thank you for joining today's call.

Summary

This morning we issued our earnings press release, confirming the information we shared with you last week at the time of our preliminary release and call.

- Third quarter revenue and earnings came in below objectives on a sudden shift in timing of deal closures in the last days of the quarter. Our revenue increased 4% reflecting deal slippage, higher shift to rental and lower services.
- The common thread of all three of these components is macro uncertainty, leading to an environment where companies are taking more time to make new investments, extending the time to close transactions.
- Within this environment we delivered solid recurring revenue results, up 8%, and representing 77% of total software revenue.
- And we delivered a strong operating margin performance, well in line with our objective.
- Turning to our business, we are firmly convinced that our strategy will drive a doubling of our addressable market. And the

introduction of our Cloud Industry Solution Experiences represents a very significant step-change forward in terms of user experience, and speed and ease to get started. I am quite pleased by the excellent feedbacks we are receiving from our clients.

Regional Review

Turning to a regional review, the first observation I would share is that Asia had a surprising reversal in the third quarter, with revenue up only 2% compared to the growth in the first half of 11%. We saw negative new licenses revenue growth and were also impacted by weakness in emerging market currencies. Within Asia, South Korea delivered the strongest performance and Japan was stable.

Looking beyond the current scenario, Asia represents a large opportunity for us and we have made significant progress growing our presence. For instance, in China we are expanding our sales capacity there, both on a direct basis and indirect through partners. Year-to-date revenues in Asia are higher by 8% in constant currencies.

High-growth countries, which are an important part of the story for Asia, in particular, experienced a sharp quarter to quarter slowdown, with revenue increasing 1% in the third quarter while year-to-date the growth is about 13%.

In the Americas, total revenue increased 1% in constant currencies on lower new licenses and services. Latin Americas has shown a strong performance both in the third quarter and year to date. Through the nine months, Americas' revenue is higher by 5%.

In Europe, revenue increased 7%. Results were largely as expected reflecting both the macro environment and seasonality. Germany and the UK delivered a solid performance on a comparative basis. We also saw improvement in Southern Europe. Revenue results were driven by strong year over year growth in recurring software revenue. Of the three regions, Europe has demonstrated the strongest evolution of recurring software revenue. Year-to-date, revenue in Europe grew 5%.

Software Results by Product Line

Our software revenue in the third quarter increased 4% with transaction slippage at the end of the quarter affecting most brands.

Our PLM brands grew 3%. CATIA and ENOVIA results were more affected with some purchases moving forward but in the form of rental revenue. SIMULIA has continued to deliver good growth with the large majority of its software revenue coming in through a usage model. DELMIA benefited from the addition of Apriso where the first quarter of integration went largely as anticipated. The mining sector is under significant pressure and so GEOVIA's results reflect this as we discussed last quarter. While new solutions are in process, they will benefit the future.

SOLIDWORKS software revenue grew 6%, led by recurring software and a slight increase in new licenses revenue. Unit volume was lower by 6%. It is a clear indicator of the macro environment, with the shortest sales cycle of the Group.

Delivering Significant Business Value to Customers

Our work with clients clearly illustrates the significant business value being delivered with the use of our software applications, business platform and industry solution experiences.

- For example, to be able to deliver their A350 program on target and on time, Airbus is using our design, simulation and manufacturing software on a single platform so that employees and partners can collaborate in real-time altogether.

- IBA’s medical devices are helping doctors treat cancer. Our industry solution experience, called ‘Licensed to Cure’, addresses several key business issues for IBA, beginning first with cycle time reduction, regulatory compliancy and accelerating innovation by having all parties collaborating together.
- For the industrial equipment manufacturer, MeadWestvaco, they are using our ‘Single Source for Speed’ and ‘Perfect Packaging’ industry solution experiences to help them create superior packaging and differentiate their products from competitors.
- Celio, a leading men’s manufacturer headquartered in France with stores around the globe, is using our ‘My Store’ industry solution experience, enabling them to ensure a consistent brand experience, improve merchandising and realize an improved return from their merchandising efforts in terms of sales.
- And finally, Lotus Formula 1 is able to improve operational efficiency and drive performance enhancements in a shorter period of time.

These examples demonstrate how our software is integral to help companies well address their key business requirements –

- ➢ Operating and innovating globally while protecting one’s intellectual property;
- ➢ Ensuring and documenting regulatory compliance;

- Driving cost effectiveness while also delivering excellent quality;
- Propagating best practices across their global manufacturing, while retaining local flexibility;
- And most importantly creating unique experiences for their end-customers with their products.

Cloud Industry Solutions Experiences

In July we introduced a ground-breaking new user experience and our first Cloud portfolio offerings to select customers with our **3D**EXPERIENCE Release 2014.

Our key objectives are to provide to the market a unique new user experience with a single access point to all Dassault Systèmes' applications, a unique visual experience, and a streamlined user interface. We also want to offer this new platform on the cloud, in addition to, of course, on premise, to simplify administration and users' access.

Our IFWE compass is much more than simply a software navigational interface. It gives our customers a holistic, inclusive and unified view of their business and ecosystem to create better experiences for their end-consumers.

The feedback from customers and resellers has been excellent, so let me share several of their comments.

- SHOP, in the AEC space, was amazed by how intuitive and easy it was for users to set up their personal dashboards in seconds. Importantly, thanks to our compass, users have a single access to both the management of the projects and the authorship – truly unique and unprecedented in the Architecture, Engineering and Construction sector.
- Tesla Motors is clearly seeing the value of **3D**EXPERIENCE on the Cloud to work closely with key suppliers in design collaboration – sharing together while also protecting the security of data.
- DESYS, a reseller in Germany, is seeing the ease coming from simplified administration and user access.

So we are very pleased with the progress and look forward to sharing more with you when we release fourth quarter earnings in February.

Let me now turn the call over to Thibault.

Thibault de Tersant
Senior EVP and CFO

Good afternoon and good morning to all of you.

Summary

- As we discussed during our preliminary release conference call last week, our third quarter financial results came in below our objectives, largely reflecting the macro uncertainty, leading customers to extend the time-frame for new investment decisions.
- Revenue increased 4% in constant currencies, compared to our objective of 8 to 9%. Deal slippage accounted for about 2.5 points of the revenue gap and a higher than expected shift to rental accounted for about 1.5 points of the difference.
- At the same time, we saw good growth in recurring software, which represents the largest portion of our revenue. Specifically, recurring software revenue increased 8% on strong growth in both maintenance and rental licensing. Renewal rates on maintenance are very high with continued low attrition.
- The non-IFRS operating margin was 31.6%, comparing favorably with our objective of about 31%.
- Our cash flow and balance sheet continued to show strength. Net operating cash flow this quarter does require a short explanation

but to be clear it continues to reflect our strong operating profitability.

- Finally, as we announced this morning, we have completed the spin-off of Inceptra, our last business partner activity conducted within Dassault Systèmes, enabling us to focus 100% of our attention on our Value Solutions channel partners.

Now let's move to some further details of the quarter.

New Licenses Revenue Review

- New licenses revenue decreased 10%. The deal slippage of €12 million was comprised of about 50 transactions across all brands. We expect the majority of the transactions to close in the fourth quarter.
- The second component of the new licenses shortfall is actually good news in that we had a number of deals that closed. However, they were completed under our rental model rather than upfront, purchase model. The net reduction to new licenses revenue from this higher mix of rental was €8 million.

Services Revenue and Gross Margin

- Moving to services, revenue totaled €44 million and increased 5%. Revenue was about €4 million lower than we had anticipated and was a part of the revenue shortfall.
- At the same time, the gross margin for services improved to 14.3% compared to 8.3% in the year-ago quarter with the improvement linked to two factors, a right-sizing of our services teams and a favorable mix of projects in terms of improved profitability management.

Operating Income, Operating Margin and Earnings

- Staying on the topic of profitability let me review our overall operating performance in the third quarter. While non-IFRS operating income decreased slightly, our operating profitability was on target with a non-IFRS operating margin of 31.6% as we were focused on closely managing expense growth to offset dilution from acquisitions.
- Reflecting our revenue results and strong currency headwinds, non-IFRS EPS was 88 cents, compared to our objective of 92 cents. There is a negative impact from currency of about eight points, with non-IFRS EPS decreasing 1% as reported.

- On a year-to-date basis, non-IFRS operating income increased 2% to €455 million and non-IFRS EPS increased 5% as reported to €2.48, absorbing 5 points of currency headwinds.

Cash Flow and Balance Sheet Highlights

Now, let's move to a discussion of our cash flow. As I mentioned at the outset of my remarks, net operating cash flow continues to be strong. The comparison this quarter simply reflects timing differences and they relate mainly to taxes.

- Net income adjusted for non-cash items was €136 million, representing an increase of 13% compared to €120 million in the 2012 third quarter.
- Net operating cash flow was €75 million. Compared to the year-ago period, it was lower by about €40 million and €39 of this €40 million is explained by the variation in income taxes payable within working capital. The components include utilization of tax credits in 2012 and higher tax payment installments in 2013 based upon the higher taxable income in 2012 compared to 2011.
- In the presentation we have provided the details to the working capital variation of our cash flow statements.

Turning to the balance sheet, unearned revenue at September 30th totaled €478 million, growing 5% year over year excluding currency effects.

Fourth Quarter and Full Year Financial Objectives

Now, let me spend a few minutes on our fourth quarter and full year financial objectives.

- Last week with our preliminary earnings release we set the low end of our fourth quarter revenue at €565 million. It was developed incorporating transactions where we see a high likelihood of closure and reflects the assumptions of a higher proportion of new business in the form of rental and transaction delays pushing a portion of the pipe to 2014 just as we experienced in the third quarter.
- So we keep our growth assumptions at the low end and we adjust it to reflect the Inceptra spin-off which we are announcing today and a change in our US dollar exchange rate to $1.40 from $1.35 formerly to reflect weakening in the last several days which happened, and this with Inceptra has a €10 million impact.
- The revenue range in total for the fourth quarter is €555 to €575 million, representing growth of 4 to 7% in constant currencies. Compared to our outlook for the fourth quarter we gave in July we are essentially taking away about €30 million of revenue.

- We are anticipating new licenses revenue growth in this revenue range. As a reminder, recurring revenue is expected to grow about 5% or so in the fourth quarter, reflecting €6 million of exceptional items in the 2012 fourth quarter coming from prior quarters and also one-time compliance transactions as I mentioned last week.
- Looking at profitability, there is no change to the low end non-IFRS EPS figure we gave of 97 cents and the full range is 97 cents to €1.02 in the fourth quarter. We have included higher French corporate taxes in calculating our EPS estimate. And we retain the fourth quarter non-IFRS operating margin of about 34 to 35% based upon our investment plans.

Now with respect to the full year, let me summarize the evolution compared to our July update. We have also provided a bridge which you can view in our quarterly presentation.

- For 2013, our revenue growth objective in constant currencies is now 5 to 6% growth, with a reported revenue range of €2.06 to €2.08 billion, reflecting our currency exchange rate assumptions; a stable non-IFRS operating margin between 31 and 32%; and non-IFRS earnings per share of €3.45 to €3.50. On a reported basis, this EPS range represents growth of 2 to 4%, with currency headwinds estimated at about 4 points or so.

Reconciling our revenue and EPS objectives to what we shared in July:

- From a revenue perspective, the reduction comes from: a €37 million impact from lengthening sales cycles and a higher shift to rentals; a €12 million currency impact, explained by the weakening of emerging markets currencies and of the US dollar; and a perimeter impact of €4 million related to the Inceptra spin-off;
- From an earnings perspective, the decrease comes from three principal items: a 9-cent impact from activity, a 3-cent impact from higher French taxes and a similar impact of 3 cents from currency. Share count and Inceptra offset each other.
- From a currency exchange rate perspective, our fourth quarter assumes a US dollar exchange rate of $1.40 per euro and 130.0 yen per euro. For the full year, these figures are $1.34 per euro and 128 yen per euro.

Let me turn the call back to Bernard now.

Bernard Charlès
President and Chief Executive Officer

Thank you, Thibault.

While still showing growth overall, the results of the quarter as I indicated last week were not the results we had expected to show and had anticipated up to the very last days of the third quarter. Certainly, the environment is complex and despite our caution, in place for many years now, these sudden shifts were not possible to anticipate.

But on balance I think we are continuing to progress. And what is clear is that we are:

- One, building our presence and market leadership across a wider geographic field;
- Two, continuing to penetrate further the industries we serve including extending the users we touch within companies;
- Three, preparing our future in Research and Development and in sales and marketing;
- And, four, we see a significant market opportunity in front of us with our **3D**EXPERIENCE strategy and our business platform, an EXPERIENCE platform and our Industry Solutions Experiences.

And we see an expansion of how our customers can work on premise and on the cloud with our upcoming **3D**EXPERIENCE Release 2014X being introduced early next year and introducing our Cloud Industry Solutions Experiences.

Thibault and I would be happy to take your questions now.

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