

**DASSAULT SYSTEMES**  
**2018 Third Quarter, Wednesday, October 24, 2018**  
**Final**

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**Vice President, Investor Relations**

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

Some brief reminders:

- Dassault Systèmes' financial results are prepared in accordance with IFRS. During 2018, the first year of implementation of IFRS 15, we are providing IFRS financial information on both an IFRS 15 and IAS 18 basis.
- All figures and comparisons on this call are presented under IAS 18 and are on a non-IFRS basis with revenue growth figures in constant currencies, unless otherwise noted. We have provided supplemental IFRS 15 and IAS 18 non-IFRS financial information and IFRS-non-IFRS reconciliation schedules in our earnings press release.
- 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 2017 *Document de référence*.

A copy of this morning's webcasted presentation is available on our website and these prepared remarks will be on our website shortly after the call.

I would now like to introduce Bernard Charles.

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

Thank you all for joining us today.

**SUMMARY OVERVIEW**

To begin let me share my perspectives on our progress through the first nine months.

- We have delivered a solid year-to-date performance, on a strong first half combined with a third quarter well in line with our financial objectives. For the first nine months, total revenue, software, licenses and recurring revenue all have a common growth figure: up 9% excluding exchange rate impact.
- We are building a sustainable growth driver over the medium term with our **3DEXPERIENCE** platform and industry solution experiences. On a year-to-date basis our **3DEXPERIENCE** software revenue grew 19% at constant currency.
- A major component of expanding our reach and market leadership is through geographic diversification. High Growth countries software revenue increased 18% year-to-date and they represented 18% of total software revenue. We saw strong growth across many countries and the results also strengthen our market position in the different industries we address.
- Looking at our performance by industry, our year-to-date software revenue increased double-digits in constant currencies in seven of our twelve industries: with Transportation & Mobility, Energy, Process & Utilities, Consumer Goods & Retail and Consumer Packaged Goods & Retail, Marine & Offshore, Natural Resources and Architecture, Engineering & Construction.
- Finally, with our progress to date and fourth quarter outlook, we are confirming our growth objectives for 2018, targeting total revenue growth of 9 to 10% at constant currency and double-digit earnings per share growth.

## **STRATEGY REVIEW AND IMPLEMENTATION**

As we have discussed we see a global Industry Renaissance: companies across all industries are reinventing themselves to provide new categories of experiences revealing new categories of customers.

This long term trend is going to accelerate with the ‘platform factor’. Indeed, producing new experiences requires excellence in operations and high added value ecosystems. With the **3DEXPERIENCE** platform we provide an operating system – for customers to power industry solutions - and new business model – for customers to power their value networks basically the shift between supply chain to value network.

Moreover, the **3DEXPERIENCE** platform on the Cloud enables companies to very quickly launch and create full digital continuity from day 1, as we see both in our commercial business and in our **3DEXPERIENCE** Lab, our accelerator for start-ups and a footprint into the world of makers.

### **3DEXPERIENCE LABS: A FOOTPRINT IN THE WORLD OF MAKERS**

In that regard, last quarter I discussed our **3DEXPERIENCE** Innovation Centers, which are part of the global efforts by countries focused on industry and workforces of the future. In our center in Wichita in the United States we are helping clients innovate in new experiences and new technologies, exploring how to streamline tools, methods and processes in a very short period of time thanks to experimentation that they undertake at the center where they can basically do everything across the lifecycle. To upgrade their industry positioning at large, our **3DEXPERIENCE**

Innovation Center in Beijing is helping companies to prepare the workforce of the future to address the new challenges.

Today, I would like to discuss a second major initiative, which is our **3DEXPERIENCE** Labs, giving us a footprint in the world of the makers. We want to create an environment that will effectively be ‘an accelerator’ for start-ups. In our presentation this morning we highlighted a range of projects underway. Among them are Zero 2 Infinity creating a small satellite launcher and Leka, a multi-sensory robot for children with special needs. I encourage you to look at these amazing examples.

Our US Fab Lab was set up in collaboration with MIT’s Center for Bits and Atoms and constitutes for MIT the world benchmark. We were pleased that Professor Neil Gershenfeld, director of MIT’s Center for Bits and Atoms and a founder and key influencer on the global Fab Lab movement, spoke at the grand opening. Our **3DEXPERIENCE** Fab Lab in Boston is connected to over 1,800 maker spaces worldwide through the Fab Foundation. We opened our first Fab Lab in Europe several years ago. We provide those maker spaces with **SOLIDWORKS** and more recently we added **XDESIGN** (the new generation of **SOLIDWORKS** products through a browser based on the **3DEXPERIENCE** platform) and **3DEXPERIENCE** Services, in particular the Social Collaboration Services, (regrouping the millions of **SOLIDWORKS** users in the world) and all the Marketplace Services are also connected to that same platform.

So from our clients to the makers’ world, there is seismic shift underway.

## **TRANSFORMING INDUSTRIES, MARKETS AND CUSTOMER EXPERIENCES**

This is why we see a significant runway and opportunity for Dassault Systèmes. We believe industries are prioritizing investments around transformation that will drive significant innovation over the next five years. In other words, these investments are time sensitive.

In all sectors that we serve – whether Transportation and Mobility, Aerospace and Defense or Energy, Processes and Utilities – we observe a radical transformation of the offers. All businesses are putting their next generation portfolios at the TOP of their agendas.

### **Transportation & Mobility Transformation**

In our largest industry, Transportation & Mobility, there are significant investments being made: with over 100 new start-ups around the globe; in research and development to address the technological challenges with electric vehicles and in autonomous driving where virtual simulation will be required, will be mandatory for driving certification. At the recent Paris Motor Show, which is the biggest in the world, companies shared their expectations to have an important portion of their fleet be electric vehicles within the next five years and safety acting as an accelerator for introducing higher levels of assisted driving features. So safety, pollution and traffic are key areas where innovation and resources are being focused.

### **Energy, Process & Utilities Transformation**

In Energy, Process & Utilities companies are making significant investments in two principal areas: in capital facilities lifecycle management and in advanced materials lifecycle management. Last quarter we discussed EDF and also Exxon Mobil. EPU represents another major industry undergoing transformation.

We see that clients adopting our **3DEXPERIENCE** platform, are also using it to enable them to become platform companies in the way that they deliver products and solutions.

- In 2017 we announced that Bureau Veritas, a world leader in laboratory testing, inspection and certification services, had adopted our **3DEXPERIENCE** platform for Marine & Offshore. Today, it is now using the **3DEXPERIENCE** platform for the Nuclear Industry. As environmental and safety-related regulations in the nuclear industry increase in number and complexity, Bureau Veritas needed to improve its efficiency when interacting with manufacturers for their device certification. It adopted an integrated approach with our **3DEXPERIENCE** platform as the foundation for its compliance activities, connecting its entire eco-system.
- One of Bureau Veritas clients, Framatome, is adopting the **3DEXPERIENCE** platform and ENOVIA and CATIA applications and roles portfolios to manage complexity and risk, enable long-term traceability and transform the way they collaborate with Bureau Veritas throughout the certification process.

In the Formulation Industries, the role of platforms is also crucial to support Research and Development. With our ONE Lab industry solution experience and our Science Cloud infrastructure, we integrate people, resources, processes, data and interfaces for improved efficiency and collaboration.

- Evonik, one of the world's leading specialty chemicals companies, is adopting the One Lab industry solution from BIOVIA to increase speed and collaboration and simplify research avoiding unnecessary experiments and improving productivity for scientists to capture, retain, search and reuse results.

## **Consumer Goods & Retail Transformation**

Moving to Consumer Goods, we see a similar opportunity. This industry is being up-ended in a significant manner. Today, PLM is a critical software to manage the significant business process complexity in Apparel; for Design for Goods leveraging our portfolio in design, simulation and manufacturing; and in Retail to provide the white glove services everyone is looking for today, new Urban store trends for example – same day delivery or having the store do the shopping for you with same day pick-up.

These are among three key trends that are driving the adoption of Centric PLM, and why we acquired a majority interest earlier this year. We see Centric establishing itself as the mainstream market leader, similar to what SOLIDWORKS has done in design. Our goal is to help support Centric Software's mission to accelerate the digital transformation of the Fashion, Retail and Consumer sector. I am pleased to report that Centric PLM is building on its momentum in the market and continues to expand its footprint in various geographies in particular in China, across segments (in Fashion, Outdoor, Footwear, Eyewear and Retail) as well as along the Supply Chain.

Let me now turn the call to Pascal.

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

Hello and thanks to all for joining us.

## **BUSINESS & FINANCIAL REVIEW**

### **THIRD QUARTER AND NINE MONTHS FINANCIAL PERFORMANCE**

With our third quarter well aligned with our financial objectives, we have delivered a solid year to date performance, demonstrating improving breadth, with total revenue up 9%, software revenue up 9%, new licenses revenue up 9% and recurring software up 9%. And earnings per share were up 12% or 19% excluding currency headwinds year-to-date.

#### **3DEXPERIENCE Platform and Industry Solution Experiences**

Moving to a business review, let me begin with **3DEXPERIENCE**. On a year-to-date basis, our **3DEXPERIENCE** software revenue grew 19% at constant currency. It represented about 22% of related sales year-to-date compared to about 20% in the same period last year. Some of the larger transactions in the third quarter were in Marine & Offshore, Aerospace & Defense, Consumer Packaged Goods-Retail and in Transportation & Mobility.

Let me zoom in on some specific examples of why companies are adopting our **3DEXPERIENCE** platform and industry solution experiences.

- First is Ge aviation Hamble, a subsidiary of GE Aviation that focuses on aerostructures and is headquartered in the UK. They will use the **3DExperience** platform - from design to manufacturing - to develop next generation aerostructures. The main objective is to integrate the Value Stream from Design to Manufacturing through Simulation in order to provide digital continuity for the entire product



development. The second value is the control of Engineering activities and deliverables through project management. This represents a key win in the supply chain of aerospace where suppliers are moving toward digital continuity from design to manufacturing. Ge aviation Hamble is a supplier to Airbus and Boeing.

- Our second example is in High Tech, where our largest segment is with semiconductor companies. While we are not present in the design of chips, we are the largest provider of the management of semiconductor companies' intellectual property. Nexperia, headquartered in the Netherlands, is a global leader in Discretes, Logic and MOSFETs devices. An independent company since 2017, Nexperia's focus remains on efficiency, producing consistently reliable semiconductor components at high volume. They are adopting the **3DEXPERIENCE** platform with our High Performance Semiconductor industry solution to improve product quality, achieve zero defects and in turn, improve their bottom line.

- The final example takes us to Asia, to a Value Solutions channel customer, Takemoto, a packaging company serving companies in the CPG industry. They are adopting our Perfect Package mid-market industry solution on the Cloud. With more than 3,000 different types of glass and plastics packaging container products, Takemoto's business objectives are to improve global collaboration, increase its agility to produce and deliver products efficiently in small and large lot sizes, and drive innovation and cost performance.

## **REGIONAL PERFORMANCE**

Now let's move to a regional business review. In the **Americas**, software revenue increased 8% in Q3 and 9% year-to-date. From a growth perspective, Latin America has seen sharply improving results, we have put in place a strong team and they are making good headway. In North America this quarter was led by CATIA, DELMIA

and BIOVIA. Overall, in North America our results are solid to date, and we are also benefiting from the addition of acquisitions.

In **Europe** software revenue increased 8% in the quarter and 7% for the first nine months. Activity in Europe was led by North and South Europe, two areas becoming an increasingly important part of our European dynamics, demonstrating our geo diversification in a very meaningful way. We also saw strong growth in Russia. ENOVIA, DELMIA and QUINTIQ all had an active quarter in Europe with large deals.

**Asia** continued to be the best performing region in 2018, with software revenue up 13% in Q3 and 14% year-to-date. While China and India led the quarter, for the first nine months in total we benefited from a broad-based growth.

### **SOFTWARE REVENUE BY BRAND**

Zooming in on brands, CATIA has continued to have a good dynamic, with three consecutive quarters of double-digit licenses revenue growth. Its new acquisition, No Magic, also contributed to this growth, but on an organic basis, CATIA licenses revenues were up double-digits. In the third quarter, this was driven by our direct sales channel, while on a year-to-date basis, our Value Solutions channel took the lead, with good growth across all three regions. CATIA software revenue was higher by 7% in Q3 and 6% year-to-date.

As we shared with you last quarter, SOLIDWORKS Q3 presented a very high base of comparison last year which explains its software revenue growth of 4% in Q318. For the year in total we expect SOLIDWORKS to deliver a good performance and you can see it in the year-to-date software revenue growth of 9%.

ENOVIA's software revenue increased 5% in Q3 and 7% year-to-date. **3DEXPERIENCE** sales represented over 70% of ENOVIA's license software through the first nine months, driving its licenses revenue up double-digits.

Other Software increased 18% in the third quarter and 15% year-to-date. DELMIA and QUINTIQ were the strongest performers in the quarter, and we saw improving results at BIOVIA. Year-to-date growth was led by SIMULIA as well as DELMIA.

Our recent acquisitions are performing well, including EXA, with PowerFLOW in fluid simulation, and Centric PLM for Apparel.

## **SOFTWARE REVENUE**

Zooming in on Software, our Licenses and other software revenue increased 7% in the quarter and with a high comparison base, the organic growth was 4%. We had notably strong results for CATIA, DELMIA, QUINTIQ and BIOVIA, all delivering double-digit licenses growth, and by channel that was also the case for direct sales and indirect sales through our Value Solutions Channel.

On a year-to-date basis, licenses and other software increased 8% on an organic basis and 9% in total. We saw good breadth with double-digit growth for CATIA, ENOVIA as well as DELMIA, well supported by high single-digits growth for SOLIDWORKS. As a reminder, a large majority of SIMULIA's software is purchased on a subscription basis.

Recurring software revenue increased 10% in Q3 and 9% year-to-date. On an organic basis, the growth was 6% for both periods and continued to demonstrate excellent

renewal rates in all the three regions. Recurring software represented 73% of total software year-to-date.

### **SERVICES REVENUE AND MARGIN**

Moving to services, we had a better performance in the third quarter with revenues up 13% at constant currency on **3DEXPERIENCE** activity and the benefit of acquisitions as well. While we had softness in our smaller brands, it was to a lesser extent than in H1. Year-to-date services revenue increased 6% at constant currency and represented 11% of total revenue. For both the quarter and year-to-date, the Americas region drove the growth in services revenue.

The gross margin for services was 7.8% in the third quarter compared to 12.4% in the year-ago period. The gross margin shift reflects several factors: mix, lower utilization as we prepare for projects as well as new resource investments we are making in different parts of the world which will take time to ramp.

### **OPERATING MARGIN**

Moving to our operating margin, our third quarter was in line, bringing us a year-to-date operating margin of 29.4%, stable with the 2017 period. We generated 100 basis points of underlying organic improvement, which enabled us to absorb acquisition dilution of 70 basis points as well as negative currency impacts of 30 basis points.

### **EARNINGS PER SHARE**

Earnings per share of 71 cents was also well aligned with our objectives, increasing 11% in the third quarter, with currency having a neutral impact. The effective tax rate was 29.1%, and is aligned with where we see our effective tax rate for the full year.

On a year-to-date basis EPS increased 19% in constant currencies, benefiting from our revenue growth and lower effective tax rate.

### **CASH FLOW & BALANCE SHEET**

Our operating cash flow performance has been strong. Through the first nine months of the year, it has increased 11%, reflecting our growth in net income, non-cash elements and a strong growth in operating working capital, translating to a total of 747 million euros – above the 2017 full year figure.

Our unearned revenue totaled 895 million euros at September 30 under IAS 18. This represents an increase of 7%, compared to our organic growth for recurring revenue of 6% year-to-date with both figures at constant currency and perimeter basis.

### **FINANCIAL OBJECTIVES UNDER IAS 18**

Moving to the full year financial objectives, we are reconfirming our total revenue growth of 9% to 10% in constant currencies. On a reported basis, our revenue range moves up 12 million euros at the mid-point of our range to €3.425 to €3.450 billion, incorporating the third quarter currency upside. We are also tightening the range given one quarter remaining to the year. We are leaving unchanged our exchange rate assumptions for the US dollar and Japanese yen.

In turn our operating margin objective moves to about 31.5%, from 31% to 31.5% previously. I believe we are doing a good job of managing investments for the future and delivering a good level of operating margin. In comparison to the 32% non-IFRS operating margin we reported in 2017, our underlying operating margin performance will help us mitigate the full year estimated acquisition dilution in the range of 70 basis points and negative currency impacts estimated at 20 basis points.

Combined, this brings our non-IFRS earnings per share objective range to €2.98 to €3.02, representing growth of about 11% to 13% (from 10 to 12% previously). At constant currency, our EPS growth rate range would be about 5 percentage points higher – at about 16% to 17%.

Underlying our 2018 full year objectives, we are also confirming our licenses revenue growth target of 9 to 11% in constant currencies for 2018 and recurring revenue growth of about 9% in constant currencies.

For Q4 we are targeting total revenue growth of 9% to 11%, with software revenue growth of 8% to 10% and earnings per share growth of 8% to 12%.

Our financial objectives are presented under IAS 18 and on a non-IFRS basis with revenue growth rates at constant currency. All the details are in the Q3 presentation on our website.

## **SUMMARY CONCLUSION**

To conclude, we are expecting a solid Q4, with a total revenue objective of about €1 billion and earnings per share reaching about €1.00. Given the record high quarter we reported for new licenses and other software revenue in the 2017 fourth quarter, we believe these objectives demonstrate very clearly the market opportunity before us.

More broadly, as Bernard and I have discussed, we believe our strategy and offer are well aligned with global industry investment priorities, driving a solid performance for us in 2018 and sustainable growth opportunities for us over the near and medium term.

We would now be happy to take your questions and thank you for your participation on this call and our earlier webcast today.