DASSAULT SYSTEMES (DS)
2009 Third Quarter Conference Call
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Final

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Thank you for joining us on today's call with Bernard Charles, our CEO, and Thibault de Tersant, our CFO.

Dassault Systemes' financial results are prepared in accordance with IFRS. In addition, we have provided supplemental non-IFRS financial information. For an understanding of the differences between the two please see 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 our third quarter press release and in our 2008 *Document de référence*.

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

Bernard Charles
President and Chief Executive Officer

Thank you for joining us on today's call. I would like to begin with a review of the third quarter, and then Thibault will cover the financial highlights. As you know, earlier this week, Dassault Systemes and IBM jointly announced the new steps in our almost 30 year partnership, with DS planning to acquire the IBM PLM division and becoming a global alliance partner to IBM. So I would like to spend a few minutes on this topic at the end of the call.

Third Quarter Summary Overview

Looking at the business environment, it was generally unchanged from the first half of the year. As you have seen from new licenses revenue results, customers continue to be hesitant in making new investments. While we cannot control the environment, we have been working very hard to contain the impact of the global recession on our financial performance.

Our efforts are very visible in this quarter's results with revenue in line with our objectives while earnings and operating margin results were above our objectives on stringent cost management.

So far this year we have achieved about 100 million euros of cost savings and we are on track to overachieve our 2009 target of 120 million euros. This figure represents about 12 percent of our baseline costs. I would like to emphasize that we are maintaining our capacity in terms of research and development as well as sales and customer support. So I think our approach will be helpful to us for the future and successfully balances short-term performance and longer term growth opportunities.

Third Quarter Business Highlights

Turning to our businesses, in Mainstream 3D SolidWorks continues to advance its leadership.

- While directly comparable information is no longer publicly available, we estimate that SolidWorks' seat volumes remain much higher than the ones of our main competitor.
- And from a product perspective, this September SolidWorks 2010 was introduced. Global launch events were held with the manufacturing community and the response has been overwhelmingly positive. Our pre-release users are reporting increased performance, reliability, and enhancements that drastically increase daily productivity.

Two wins in particular I would like to highlight are Electomag and Volpak. Electomag is a lighting products company in Mexico which was replacing its 2D software. And Volpak is an example of a company where they decided to replace their existing 3D system. On the educational side, Texas A & M has selected 6,000 seats of SolidWorks Education for use among its engineering students.

We are advancing on our Version 6 PLM solutions, building a track-record of new V6 customers. We have added approximately 150 new ENOVIA V6 customers since V6 was first released last November 2008. And we are proceeding with a growing number of V6 pilot projects.

Thanks to the fact that Version 6 is a production-proven collaboration platform, we have over 20,000 users in production with V6. We are gaining traction thanks to our focus on addressing compelling business processes that customers across a number of industries share, including compliance, program management and sourcing, among others.

We are also seeing a progressive CATIA V6 ramp-up driven by full PLM customers like Renault as well as other new CATIA V6 customers, some of whom we cannot share with you at this time.

Looking at some of the new wins let me mention Stork GLT (Groningen Long Term) selecting ENOVIA V6 for optimization of lifecycle costs. Stork GLT is an interesting consortium consisting of Jacobs, Stork

Industry Services, Siemens Industrial Turbomachinery, Siemens and Yokogawa. They are working on a two billion euro project for the renovation of the Groningen gas field, the largest gas field renovation in Europe.

In China, the R&D branch company of Guangzhou Automotive Group Co., focused on developing GAC-owned brand passenger vehicles, has selected CATIA & ENOVIA V6 as the concurrent design engineering platform for car development with design partners and suppliers.

Our simulation lifecycle management solution, which is enabled by our V6 infrastructure, is also making headway. Recently, Dana, a major US automotive supplier, selected SIMULIA SLM V6 to manage simulation knowledge and improve decision-making.

At this point, let me turn the call to Thibault.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

IFRS/non-IFRS Differences

Let me first make a brief comment on our IFRS and non-IFRS reconciliation figures. For the third quarter they are generally similar to the year-ago period; but when looking at our nine-month figures just a reminder that we recorded a gain on sale of 17.2 million euros related to our former headquarters in the 2008 period. All of this is detailed in our press release.

Summary Financial Highlights

Turning to the third quarter, let me highlight just a few key points:

- We delivered operating margin and EPS above objectives. And our operating margin was ahead of the year-ago period despite lower revenues, demonstrating our cost management focus.
- Revenue was 292 million euros, compared to our objective of 285 to 300 million euros, benefiting in part from currency being more favorable than our assumptions.
- From an activity perspective, we are seeing a good level of transactions, but transaction sizes continue to be small.
- Non-IFRS operating margin was 25.5 percent, compared to our objective range of 21 to 24 percent. We have seen a progressive

sequential improvement in our operating margin since the start of the year, from 19.4 percent to then 21.9 and now 25.5 percent.

- Non-IFRS earnings per share came in at 44 cents compared to our objective range of 36 to 42 cents. So we achieved sequential growth in both earnings and margin despite the normal seasonal sequential decrease in revenue.
- Looking at our cashflow and financial position, we generated operating cash flows of 57 million euros in the quarter. And we increased our net financial position by 42 million euros at quarter end, with cash and short-term investments totaling 975 million, and a net cash position of 775 million euros, taking into consideration 200 million euros of long-term debt.

Regional Performance

Overall, revenue was lower by 12 percent in constant currencies, similar to the 11 percent decrease in the second quarter. Looking at sales activity by region, again no real change by geography compared to the second quarter. Excluding currency effects, the Americas declined by 17 percent, Asia by 16 percent and Europe by 7 percent.

- In the Americas we are building a track-record of V6 customers in Aerospace and new industries. However, the entry point for new transactions remains small.

- In Europe, performance here is continuing to hold up better than the other regions.
- And in Asia, we are seeing growth in several areas including China, and Southeast Asia, but Japan's results still weigh heavily on the performance of this region.

Software Review

Turning to our software revenue results in greater detail I would comment that both new licenses revenue and recurring software revenue generally tracked to the discussions we had with you last quarter. New business is still down substantially year on year, but the decline has generally leveled off. In the third quarter new license revenue decreased 37 percent in constant currencies, very similar to the first two quarters of the year.

And we are seeing a progressive slowdown of recurring software revenue growth due to the lag effect from lower new license revenue and terminations in the first half of this year. This is consistent with what we indicated last quarter. Importantly, renewal rates remain in line with our expectations. Recurring software revenue increased 1 percent in constant currencies and represented 77 percent of total software revenue in the third quarter.

Looking at software results by our major brands and excluding currency benefits:

- CATIA showed resilience in relative terms, with revenues lower by 7 percent;
- ENOVIA was down 34 percent, as some of our larger customers now prepare to move to Version 6, so we are seeing some of the transition impact we had anticipated. Overall, there is a good dynamic of new ENOVIA Version 6 customers although initial deal sizes are small reflecting early stages of deployments.
- Mainstream 3D revenue decreased by 14 percent in constant currencies. New seats declined by 25 percent, compared to 35 percent in the second quarter and 30 percent in the first quarter. Looking at the numbers, new seats totaled 8,661, compared to 8,500 in the second quarter. The average seat price was lower by 6 percent in constant currencies, but this was only reflecting the higher weight of Asia in the geographic mix.

Services and Other Revenue Review

The services gross margin appears to be stabilizing, thanks to improvements in managing this business. It was 10.9 percent in the third quarter, compared to 10.6 percent in the second quarter and up significantly from the first quarter break-even services gross margin.

Importantly, the services gross margin was unchanged from the year-ago quarter despite lower revenues.

Service revenue was 36.1 million compared to 41.8 million euros in the year-ago period, representing a decrease of 17 percent in constant currencies. Consulting revenue is impacted by the lower level of new software business.

Expenses

Turning to expenses, we saw a year-over-year decrease of 11 percent. Excluding currency effects we posted a 13 percent decrease, with G&A lower by 18 percent, marketing and cost of services by 14 percent and R&D and cost of software by 10 percent.

Financial and other revenue, net

Financial and other revenue continues to be a drag on earnings in comparison to the prior year period, reflecting both lower interest rates on invested cash as well as a modest currency translation loss compared to a currency translation profit in the year-ago period. For the third quarter, financial and other revenue was essentially breakeven compared to revenue of 9.9 million euros in the 2008 third quarter.

Balance Sheet

Looking at our balance sheet, DSO levels have held steady, so we are managing well potential bad debt risk on receivables.

Financial Outlook

Turning to our financial objectives now for 2009:

We think it is realistic to target a full year revenue range of 1.24 to 1.27 billion euros, just 10 million lower compared to our prior range of 1.25 to 1.28 billion. This change reflects the continued weakness in the economic environment as well as some conservatism as we prepare for the closing of the IBM PLM acquisition. Normally with one quarter left to the year, we narrow our revenue range. This year we are leaving a 30 million range as it is tough to factor with precision the likely level of lower sales productivity.

This adjustment is on our new licenses software revenue, where we are now assuming a decrease of between 26 to 32 percent from 25 to 29 percent previously, and this is for the full year. We are leaving our 2009 full year recurring software revenue evolution unchanged and we continue to assume about 4 to 5 percent growth over 2008.

Thanks to the effectiveness of our cost savings program we are reconfirming our profitability objectives. Specifically, we are reconfirming our full year 2009 non-IFRS earnings per share objective range of 1.76 to 1.91 euros, unchanged from before. And with one quarter to go, we are narrowing our non-IFRS operating margin objective to about 25 percent, the midpoint of our prior range of 24 to 26 percent.

And finally, we are also leaving our currency exchange rate assumptions unchanged from the prior quarter at US$1.50 per €1.00 and JPY140 per €1.00.

In the press release we have outlined the IFRS items excluded from these objectives.

Let me turn the call back to Bernard now.

Bernard Charles
President and CEO

Thank you, Thibault.

We are now beginning the fifth generation of our partnership with IBM.

Our 5th Generation Alliance with IBM

We first began working with IBM in 1981 with the establishment of a joint marketing agreement. The next generation of our agreement was to have a multi-platform strategy – and guess what, our partnership continued to thrive. More recently, beginning in 2007, we reached another evolution with what we called Reach & Extend, where we created our PLM Value Channel and evolved our sales coverage with IBM. Today we begin our fifth generation, with the proposed acquisition of the IBM PLM division and the establishment of a new global alliance with IBM.

If you look at the five stages, they reflect our mutual desire to evolve and better serve the needs of our clients.

DS Go-to-Market

Looking in depth at our sales channels, we have developed a strong indirect channel for the Mainstream 3D, with our Professional channel which is the best in its market. In the PLM market, we completed a well-structured transition from IBM to ourselves, and in the process have created an effective channel for reaching small and mid-sized companies in this market. And now we turn our attention to our large PLM clients, with the goal of delivering a new level of engagement. In conjunction with that, our intent is to integrate IBM PLM and our direct sales together within our PLM Enterprise Business Transformation channel.

Well-timed Agreement as We Launched V6 PLM

So now we are moving forward with a very important transformation of our go-to-market channel activities for large customers. The timing is no accident as it coincides with the ramp-up of our Version 6 PLM. And it also responds to the growing demand from our customers to be closer to them: to deliver unique V6 values for sustainable innovation. So it is clear that now is the right time to take the next step in the transformation of our go-to-market strategy.

This new engagement model is focused on providing a complete PLM value proposition to our large PLM clients with a unified go-to-market model, encompassing the entire DS portfolio, to a large set of industries. It answers our customers' request to have a closer working relationship with them. This new engagement model is being designed to offer them much simpler sales experience along with significant expertise across targeted industries and brands.

New Global Alliance with IBM

Based upon the needs of our large clients to deploy PLM for innovation and collaboration in a much broader way, both inside their companies as well as with partners, we are expanding our partnership with IBM to bring more value to our clients.

We are strengthening our cooperation with IBM in key areas including: in service with IBM Global Services to deliver project management, consulting and integration services for Version 6 PLM clients; in financing with IBM Global Financing and through our relationship with the IBM Software Group, to offer new enterprise infrastructure.

New Level of Engagement with Customers

By focusing on our core strengths, both Dassault Systemes and IBM can better serve our clients and help them maximize the value of their PLM environment and business processes.

Agreement to Acquire IBM PLM

Through our partnership with IBM, started in 1981, a business unit was created in charge of selling DS products. Over time it has evolved and since 2006 has been a part of the IBM Software Group.

IBM PLM is a world-class sales and support business with about 700 employees. It is global, operating in 32 countries across Americas, Asia and Europe. We will be able to significantly expand and strengthen our sales coverage in a number of markets.

Importantly the organization brings very knowledgeable resources, well acquainted with DS PLM software products, as well as significant expertise in sales. The business is managed by Albert Bunshaft, Vice President, Product Lifecycle Management - IBM Software Group. Al will join Dassault Systemes at the completion of the acquisition, so he and Bruno Latchague, head of our Business Transformation channel, have been and will be working very closely together.

Looking at its financials, IBM PLM has an attractive model with a high level of recurring software revenue and solid operating profitability.

Acquisition Terms and Financial Impact

Turning to the acquisition terms, the purchase price is approximately 600 million dollars, all cash. The closing is expected in the second quarter of 2010, subject to the completion of closing conditions.

Our plans are to use our cash to fund the acquisition. As of September 30th, our cash and short-term investments totaled just under 1 billion euros.

We expect to hire additional personnel principally in finance, legal, sales administration and HR to have the right level of infrastructure to support the operations in all the involved countries as these services were provided to the IBM PLM division by IBM's general and administrative infrastructure. Taking into account this additional hiring, we expect the acquisition to be accretive to both earnings and margin on a non-IFRS basis.

Well Received Agreement

We are very excited about the opportunities presented by this acquisition as well as the fifth generation of our partnership with IBM. The agreement has been very well received by customers, employees and industry analysts. We think it is well constructed – our focus now is on execution.

Summary

So as we look ahead our attention is on the business opportunities in the fourth quarter. The environment is still tough, but the opportunities are there.

Second, we are working closely with IBM PLM to plan a smooth transition and integration of this unit into our Business Transformation sales channel. At the same time our legal, finance and HR teams are working with IBM to ensure a timely completion of the IBM PLM acquisition. All in all, a win-win move for the benefit of our clients.

More so than ever, this quarter illustrates our ongoing commitment to reconcile short-term execution and longer-term growth strategies.

With that Thibault and I will now take your questions.

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