

DASSAULT SYSTEMES
2014 Fourth Quarter Conference Call
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Final

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Thank you for joining Bernard Charlès, CEO, and Thibault de Tersant, CFO, to discuss our 2014 financial performance and outlook for 2015. This conference call follows our presentation this morning with analysts and investors which was webcasted live from Paris.

Several brief reminders:

- 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 our Risk Factors in today's press release and in our 2013 *Document de référence*.
- Revenue growth figures are in constant currencies, unless otherwise noted.

I would now like to introduce Bernard Charlès.

Bernard Charlès
President and Chief Executive Officer

Thank you.

Contributing to Meaningful Innovations

Before beginning our review of the year, I would like to share with you something very personal – not just for me but also for many of our 13,000 colleagues at Dassault Systèmes.

Every day we talk about innovation, it is at the heart of our purpose, sustainable innovation, and it is what motivates us.

This year there were several very notable examples of how our work is contributing to meaningful innovations by others: last quarter I spoke about Frank Gehry designing the Louis Vuitton Foundation building with CATIA and the breakthroughs he was able to achieve.

Today I am pleased to highlight our Living Heart project, an initiative started by SIMULIA and now encompassing an agreement with the US Food and Drug Administration, to help revolutionize cardiovascular science with realistic simulation. I encourage you to visit our website and learn more about it, including viewing the video from this morning's presentation.

Delivering On All 2014 Objectives

Moving now to 2014, it was a significant year of progress for Dassault Systèmes. From all perspectives – our purpose, our offer, our growth drivers and our

organization – we set and met our objectives. At the same time, we delivered financial results well aligned with our goals.

Most importantly, our objective was to enrich the value we bring to customers with our 3DEXPERIENCE platform and industry solution experiences leading the way. Looking at the actions we took across the Company, each and every one of them was very well aligned with this customer objective.

With a very clear understanding of the value we want to bring to the industries, businesses and users we address, we have strengthened our financial performance and we welcomed 21,000 new clients in 2014.

Looking forward, we have a dynamic set of growth drivers – well positioning us to achieve our next five-year plan – of doubling non-IFRS earnings per share by 2019.

Q4 and FY 2014 Financial Performance

Turning to our financial results for both the fourth quarter and the full year, our performance was solid. The fourth quarter continued the progress we have made since the start of the year leading to the achievement of our two key operational goals as Thibault will discuss.

We saw good results from our three sales channels leading to revenue coming in well in line with our objectives. Our performance for both the fourth quarter and the full year reflects sharply higher new licenses revenue growth. The improving new business licenses trend this year on an organic basis came from increasing demand

across most of our major brands. Our largest brand, CATIA, was a major driver with new licenses up 20% in constant currencies in 2014. ENOVIA also saw sharply higher new business activity, increasing 25% in constant currencies. We saw good support by SOLIDWORKS and SIMULIA.

On a regional basis, the Americas growth was due to the improving dynamic we are seeing in North America, particularly taking shape in our direct sales channel where we had made a number of improvements. Europe, despite the macro softening, delivered solid results led by our largest region Germany, with sharply higher new business activity during the fourth quarter leading to a great year. In Asia, there is a good breadth to our results with Japan, China and Korea all doing well and despite some quarterly volatility, the strongest growth on an organic basis during 2014 came from Asia.

BIOVIA

Our largest acquisition during 2014 was Accelrys which is now the foundation of our BIOVIA brand. In addition to a leading presence in life science, BIOVIA has a strong list of customers in aerospace, in the chemical industries as well as High Tech and Consumer Packaged Goods thanks to its work in the materials sciences.

Let me just mention that this is a perfect example of why our industry diversification is really bi-directional in nature and beneficial to our current customer base. Innovation is coming in part from the intersection of multiple industries – this is clear with BIOVIA where you see the importance of materials sciences to aerospace, for example, but also automotive and high tech – certainly clear to many of you who may have attended CES last month.

BIOVIA's full year revenue results were well aligned with our acquisition objectives. A recent example of its activity was with Pacira Pharmaceuticals, where they adopted BIOVIA solutions to help improve their process production operations, internally to improve yield as well as with their contract manufacturers in order to accelerate manufacturing scale-up through better technology knowledge transfer.

Furthering Vertical Industry Diversification

We are also progressing in terms of vertical industry diversification. With respect to new industries, they represented 27% of our software end-user revenue in 2014, increasing two percentage points. We are well positioned with respect to our goal of more than 30% over the mid-term.

With BIOVIA we are increasing our presence in life science and more broadly, science-based industries. And with our industry teams' leadership, sales channels and industry solution experiences, we had a favorable dynamic also in Consumer Packaged Goods-Retail, Energy, High Tech and Construction during 2014.

- In semiconductors we have a strong position as our solutions are well adapted to the market needs. Here in Europe STMicroelectronics recently selected our Silicon Thinking Industry Solution Experience in connection with their large System-on-Chips manufacturing for next-generation, high volume electronic products, such as mobile and consumer applications.
- And Permasteelisa Group, focused on architectural envelopes and interior systems, selected ENOVIA on the 3DEXPERIENCE platform, to create synergies among its different business units and to achieve process standardization and increase efficiency through a single, global, shared platform.

At the same time, we had an excellent dynamic in Transportation and Mobility, with end-user software revenue growth up double-digits in constant currencies, benefiting from an excellent dynamic across CATIA, ENOVIA and SIMULIA as well as reflecting the addition of 3DEXCITE, with a leading position in Transportation and Mobility.

3DEXPERIENCE PLATFORM/V6 Architecture

With respect to our 3DEXPERIENCE platform and underlying Version 6 architecture it was an active year with about 60 significant go-lives with direct customers. In total, V6 new licenses revenue increased 30%, and they represented 25% of related new licenses revenue for the full year.

We are seeing larger transactions, and they are including more disciplines. A recent transaction with Dura Automotive is a perfect example where they decided to adopt our entire portfolio to create a single business platform across all their business units.

Our strategy of enriching our Version 5 offerings with our Version 6 technology is enabling our customers to take advantage of some of its benefits, while giving flexibility to them to progress at their own pace.

Advancing Our Purpose and Expanding Our Addressable Market

Now I would like to turn to a strategy update and cover several key topics with you.

To reach our ambitious mission and strategy objectives, over the last three years we have completely reshaped our applications portfolio and adapted all facets of our organization. Research and development's significant efforts were quite visible in the first quarter of 2014 where we delivered our 3DEXPERIENCE platform and introduced an expanded portfolio of industry solution experiences, including our first, Cloud+Mobile solutions. And this effort followed a massive simplification of our product portfolio.

2014 was a significant year too of progress in terms of advancing on our purpose and expanding our addressable market. Product-sphere, Bio-sphere, Geo-sphere – these are not simply words to us.

We are advancing on our purpose with our new brand BIOVIA, focused on biology, chemical and materials sciences. With the introduction of a new part of GEOVIA, which is called 3DEXPERIENCity, it is possible now to represent the behaviors and experiences of the different systems to run a city, such as water, electric grid, transportation and people.

And we are advancing on building a comprehensive offering for businesses and people from upstream experience thinking to sales and marketing. This year we added Design of molecules with the creation of BIOVIA, Global Business Operations Planning with the acquisition of QUINTIQ and Digital marketing with the creation of 3DEXCITE. The 3DEXPERIENCE platform is a critical enabler of our strategy gathering all together all our applications for the best product and industry solution experience.

Client engagements show the comprehensive nature and range of our offer. Lamborghini has adopted 3DEXCITE to offer an online configurator for potential customers including gaming features where the designed car is ready for an online drive. Carlsberg, the fourth largest brewer in the world, has selected Quintiq to help manage sales and operations planning, master production scheduling and detailed scheduling for 41 breweries in China. And Mead Johnson Nutrition is using a BIOVIA solution for compliance for pediatric nutrition products.

The 3DEXPERIENCE platform is also a critical enabler to our Cloud+Mobile strategy. We launched our first Cloud offerings during 2014. It is clear that the value of connecting people, quickly, easily to work and collaborate altogether is a game-changer in areas such as project management, productivity, closer connectivity between design and manufacturing, among many other benefits in terms of simplicity and costs. For 2015 we are looking to move forward with our indirect channels, on a progressive basis.

Furthering Sales Channels Transformation

From a go-to-market perspective, we have been adapting our sales channels to our industry solutions experience strategy and delivery. For direct sales that has meant increased responsibility at the local geo level, improvements in our sales processes, increased industry expertise and elevated customer engagement knowledge-building. Looking at our results it is clear that the transformation underway in direct sales is gaining traction.

More broadly, our sales channel initiatives include strengthening of the role of our Geographies. We want our customers to benefit from our being a global company,

and at the same time benefit from us having a strong local presence. To achieve this balance we are looking to push more flexibility on decision-making to the geos as they are guiding the plan for growth at the local level.

We are working with system integrators – improving our network and ensuring that we have the right partners with the right expertise in the right geos – to support our customers and extract the full value of our industry solution experiences working together leading to accelerated deployments for the benefit of our clients.

With respect to our indirect channels, specifically the Value Solutions channel, it is about increasing the level of industry expertise as part of their capacity additions we are making so we will be looking to add about 50 new VARS to support our diversification in different parts of the world.

With that summary, let me pass the call to Thibault now.

Thibault de Tersant
Senior EVP and CFO

Good afternoon and good morning to all.

IFRS/non-IFRS Differences and Constant Currency Revenue Growth Comparisons

My comments today are based upon our non-IFRS financial results. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data. In addition, revenue growth rates are stated in constant currencies.

Overview

Before going into the details let me share a few key figures.

- We met our 2014 revenue growth objective of 15 to 16% in constant currencies, coming in at 16%. I think this speaks well to our planning and management in total.
- And we achieved our 2014 EPS growth objective of 8 to 10% excluding currency effects, coming in at 10%.

On top of these objectives, at the outset of the year we also added two key operational objectives to our plate.

- Number 1, to deliver organic two-digit growth in new licenses revenue on a constant currency basis for 2014, and
- Number 2, to deliver organic operating margin expansion of 150 basis points excluding currency effects;

And we did. Moreover, we did so during an extraordinary year of internal transformation and addressable market expansion.

And finally, we initiated our 2015 financial objectives. We see a year of organic, double-digits new licenses revenue growth, a stable non-IFRS operating margin and double-digits non-IFRS earnings per share growth.

Software Revenue

Turning now to our software revenue, it grew 17% in the fourth quarter and 13% for the year. The total results include the acquisitions we have made. On an organic basis software revenue increased 7% in the fourth quarter and 6% for the full year.

Driving our results was a strong improvement in new licenses revenue on an organic basis. In the fourth quarter new licenses revenue increased 12% in constant currencies and for the full year the increase was 10%. We are benefiting from broad-based improvement, first from a regional perspective with both the Americas and Europe demonstrating strong organic results in the fourth quarter and all three regions for the full year. And secondly, we are benefiting from similar broad strength across a number of industries, including our largest, Transportation and Mobility.

Moreover, all along the year we have seen an improvement in sales performance in our direct sales channel and this remained the case in the fourth quarter, with sharply higher growth.

Turning to our recurring software revenue, it represented 71% of total software revenue and was comprised of our maintenance and also rental licensing activity.

Recurring software revenue increased 13% in the fourth quarter in total, coming in several points of growth ahead of our plans on very satisfactory performance from acquisitions and renewals.

Maintenance is the largest portion of recurring revenue. We continued to see a strong level of attach rates and strong renewal rate trends across our product lines. Maintenance is a lagging indicator, so with our new licenses revenue returning to accelerated growth maintenance will in large measure follow it.

Rental activity reflected strong growth for SIMULIA and other parts of our portfolio, offset in part by planned usage adjustments at some large clients as we have discussed.

For the full year recurring software revenue increased 11% of which 5% was organic.

SOLIDWORKS

Turning now to SOLIDWORKS, it represented 19% of total revenues in 2014. SOLIDWORKS software revenue increased 14% in the fourth quarter and 10% in 2014.

There are several facets to this growth including SOLIDWORKS unit sales growth, multi-product sales, maintenance growth and finally, adding the mix benefit, the average selling price increased during the year.

Services and Other Revenue and Gross Margin

Turning now to services and other revenue, let me remind you that the large increase this year reflects the addition of our acquisitions. In total the acquisitions have been accretive to our gross services margin.

From an organic point of view our progress in improving our services gross margin results has encompassed several measures including improving how we develop and scope the deliverables for a project and improving our operations in terms of utilization rates and other measures of productivity and efficiency.

In combination, we have made significant progress, moving our services gross margin to 15.8% in 2014 from 11.9% in 2013. And if you go back to 2012 it represents 10 points of growth in two years.

Operating Margin

Turning now to our operating results, our 2014 non-IFRS operating margin came in just under 30%, – 29.8% to be precise.

Looking at our results compared to 2013 where our non-IFRS operating margin was 31.5%, approximately 80 basis points of the decrease came from currency, which we more than offset with our 150 basis points organic increase. And this improvement also helped mitigate some of the estimated 240 basis points impact from acquisition dilution.

The organic improvement in the operating margin came from several areas, notably cost of services, as well as major expense categories including R&D and Sales.

EPS

Coming back to earnings per share, there is a solid earnings dynamic which has been hidden by currency most of the year and by the way for many former years. That was not the case in the fourth quarter where non-IFRS earnings per share increased 15%. This figure is precisely the same on a reported basis and excluding currency effects. For the full year non-IFRS EPS increased 4% as reported and would have been 10% excluding currency effects.

Our share count was relatively flat so it was not a contributor to EPS growth in 2014. We did, however, have a larger share repurchase activity during the year to offset shares exercised and distributed as dividends.

Net Financial Position

Turning now to our balance sheet, our net financial position was €825 million euros at year-end with cash and cash equivalents of €1.17 billion and long-term debt of €350 million.

During the year our principal uses of cash was first and foremost, for acquisitions in the amount of €955 million; we increased share repurchases to €172 million and we also received €58 million for shares exercised so it was a more active year clearly from the repurchase of shares side; dividends paid in cash amounted to €36 million for those electing cash and our capital expenditures totaled €45 million.

Operating Cash Flow Evolution

The final component to our net financial position was our cash flow from operations. In 2014 it totaled €500 million, compared to €507 million for 2013. In short, operating cash flow increased about 5% excluding the impact of acquisitions. In the presentation we have provided details to the evolution of the operating cash flow.

Let me just mention that unearned revenue increased 6% on an organic basis and excluding currency effects, compared to one year ago. So, unearned revenue stood at €637 million at year-end.

One brief last comment on DSOs, during the fourth quarter they increased 9 days, with 8 of the days reflecting the integration of acquisitions, so no underlying change in trends.

Initiating 2015 Financial Objectives

Let's turn now to our 2015 financial objectives. Here there are several points I would like to underline:

- Our outlook is based upon our growth drivers and strengthened organization. It is not assuming any material change in the macro backdrop one way or the other. The fourth quarter backdrop and some of the trends in our business seemed appropriate to be used in formulating our objectives.
- We anticipate a continued positive evolution for our new licenses activity, leading to the expectation of a two-digit, constant currency increase in new licenses revenue on an organic basis in 2015.
- And we see a stable non-IFRS operating margin for the full year with an estimated organic improvement of 100 basis points excluding currency

offsetting the estimated 100 basis points of acquisition dilution. The early part of the year will see operating margin decreasing but as the year progresses this will reverse itself leading to the stable full year results at the operating margin level in comparison to 2014.

- With these building blocks we see non-IFRS earnings per share increasing in the range of 12 to 15% for 2015.

We have provided our first quarter objectives also. I would like to point out that our growth outlook for non-IFRS EPS in the first quarter is consistent with our full year expectation of double-digits. You may recall that we received a one-time R&D tax credit in the 2014 First Quarter. So, from an operating margin perspective it represented about a 130 basis points impact as we pointed out at the time. So, if we exclude this one-time benefit, our non-IFRS EPS objective for the first quarter would represent year over year growth of about 11% and more consistent with our full year 12 to 15% growth.

From a currency perspective we are using \$1.20 US dollar per euro and 140 Japanese yen per euro assumptions for both the first quarter and full year.

To recap, for 2015 we are targeting to grow revenues by 11 to 12% in constant currencies, and this translates to a revenue range of 2.70 to 2.72 billion euros based upon our currency assumptions. And we are targeting a non-IFRS EPS range of 2.04 to 2.09 euros, representing growth of 12 to 15%.

Let me now turn the call back to Bernard.

Bernard Charles
President and CEO

Summary

While we have reported to you on 2014, here at Dassault Systèmes we are already well into 2015. So, what are we looking to do?

First, we have outlined for you our financial goals with a year of solid revenue opportunities, a focus on continuing to improve our processes and double-digit earnings per share growth.

Second, while we have grown in revenues and personnel, we see partnering as a key part of our DNA and a very good way to leverage our efforts. So we will look to make meaningful progress during 2015.

Third, we believe it is critically important to be close to our clients all around the world and that is why we created the 12 geos under our three reporting regions. We have been empowering these geos so that they have the local management, people and resources to support the industries they serve, the customers they work with and the companies that will become their future clients.

Finally, the last three years in total have been about creating a new Dassault Systèmes to well orient to our next decade-long vision with 3DEXPERIENCE, our expanded purpose – sustainable innovations for product, nature and life and our social industry experiences strategy.

We are now positioned to begin to accelerate our execution – to be very clear I am not changing the guidance Thibault just shared. What I am talking about is a multi-year process. With the many assets we now have in place, Dassault Systèmes is ready to move to the next stage ahead.

Now Thibault and I would be happy to take any questions and we thank everyone for their participation earlier today and on this call.