DASSAULT SYSTEMES
2020 Fourth Quarter and Full Year Earnings Conference Call
Thursday, February 4, 2021
Final

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Vice President, Investor Relations

Thank you for joining us on our fourth quarter earnings conference call, with Bernard Charles, Vice Chairman and CEO, and Pascal Daloz, Chief Operating Officer and CFO.

- Dassault Systèmes' results are prepared in accordance with IFRS.
- Most of the financial figures discussed on this conference call are on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.
- Some of our comments on this call contain forward-looking statements that could differ materially from actual results. Please refer to today's press release and the Risk Factors section of our 2019 Document d'enregistrement universel (our *Regulatory Annual Report)*.

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

I would now like to introduce Bernard Charles.

Bernard Charles
Vice Chairman and Chief Executive Officer

Thank you for joining, and good morning or good afternoon to all of you. We hope everyone is keeping well.

2020 IN REVIEW

Summarizing our progress during 2020, it was about **DELIVERING** on our financial and corporate social responsibility objectives. Revenue increased 12% to €4.5 billion, almost 5.5 billion US dollars, so we break the 5 billion line. We maintained a solid operating profitability at 30.2% despite the pandemic and acquisition dilution, and grew EPS. When the health crisis hit and most of the world went into the first lockdowns, we committed to retaining our employees and we did. In addition, we increased our research and development headcount by 10% during 2020.

Despite the economic disruption to many industries, we reported software growth in 2020 for Aerospace & Defense, High Tech, Home & Lifestyle, Energy & Materials and Construction, Cities & Territories. The Life Sciences industry grew significantly, becoming our second largest industry, adding Medidata and our other brands.

This past year also demonstrated three key points:

- The mission critical nature of Dassault Systèmes to industries within the three major sectors of the economy we address.
- Our market leadership across our three product lines: leading in Industrial Innovation, in Life Sciences & Healthcare and in Mainstream Innovation; and the third point,
- The sustainability of our organization and confidence in the future with our next-generation executive team transitioned into place in a seamless manner.

Finally, looking to the years ahead, we will leverage our purpose focused on sustainable innovation, our large potential addressable market of over $100 billion, and our **3D**EXPERIENCE platform where the Experience is the Relationship we have as consumers, citizens and patients.

2020 Virtual Twin Experiences of Human

I would like to wind back to one year ago – before the word PANDEMIC would become, unfortunately, part of our daily conversations. On February 6, 2020, we introduced our Ambition to extend our focus from things to life. What is the difference between things and life? Life is not made of parts: the human body is one piece of a hyper-connected set. Life doesn't do standardization: it's personalized design, production and usage. And life isn't "used" but lived. Life is an experience. So to improve life, we have to invent new ways of representing reality. We have to invent the virtual twin experience of life.

We constructed the underlying foundation to be game changing in nature by shifting our thinking – moving from connections to RELATIONSHIPS and from making to GROWING across the sectors we serve.

GAME-CHANGER IN THREE SECTORS OF THE ECONOMY

Addressing industries within three sectors of the economy, our objective is to be a game-changer.

In the Life Sciences Industry, we are the leader, mission critical to addressing three key challenges: 1) Creating precision medicine platforms; 2) Deploying digital and AI in developing therapies; and 3) Helping the healthcare industry delivery value-based care. We are extending our portfolio at our customers – both in number of products sold and value delivered thanks to our data-centric approach. Importantly, we are connecting the dots to enable faster innovation and to improve the patient experience. The health crisis demonstrated the ability of pharmaceutical companies to reimagine and shorten the timetable of innovation from 15 years to develop a vaccine to 15 months. Medidata was a critical partner, with its clinical software solutions used in an estimated 60% of COVID-19 clinical trials during 2020.

We have a very clear strategy in Life Sciences looking across all of Dassault Systèmes' assets, our scientific brands, led by Medidata, BIOVIA and SIMULIA, but it does not stop there. We see today, that time to innovation in vaccine development is critical but being able to source materials, maintain batch quality and manufacture at hyper-scale are vitally important also. In addition to our scientific brands, our coverage of pharmaceutical and medical devices companies benefits from our manufacturing assets inside DELMIA as well as SOLIDWORKS, and ENOVIA portfolios. Underscoring our unique end-to-end platform offer for Life Sciences, we signed our first large transaction, combining patient engagement using MyMedidata as well as Medidata EDC, called Rave, with manufacturing operations and supply chain process optimization provided by other brands within Dassault Systèmes.

- In addition, we are pleased to share that Novo Nordisk, focused on effective treatments for chronic diseases such as diabetes, has adopted our **3D**EXPERIENCE platform to design insulin syringes. This example reflects the convergence of medical devices and drugs and shows that treatments are becoming patient-centric in nature. Novo Nordisk has been a SIMULIA user for a long time.

In Manufacturing Industries, Dassault Systèmes is THE software partner for digital transformation thanks to our enterprise platform at each step of the lifecycle -- this is not just a PDM system, it is a business system. We help our customers to be resilient in industries with long life cycles, enabling them to reduce costs, and importantly, to rethink their portfolio and make it more sustainable. Our data centric & online offer leverage direct connections with customers.

- In Transportation & Mobility Renault has selected us to be the software partner for Software République as they call it, an ecosystem to strengthen their sovereignty in key technologies for the new mobilities and to enable their massive shift to connected vehicles.
- In Aerospace, Spirit Aerosystems, the world's largest tier one manufacturer of aero structures, is expanding its adoption of the **3D**EXPERIENCE platform to compete for and win contracts on upcoming programs by reducing: Time to Market, Non-Recurring Costs, and Recurring cost through operation and governance efficiency.
- In Home & Lifestyle, we see the illustration of the power of relationships and our brands. Danish shoe manufacturer and retailer, ECCO, is one of the world's leading shoe brands. We are pleased to announce that ECCO is adopting Centric PLM to move to e-commerce, one of the major trends in this industry. By the way, they were already CATIA users.

In Infrastructure & Cities, we are the challenger of the market and we provide game-changer solutions unavailable from any other competitors by the way. Two examples include:

- Lithium Valley, who is adopting the **3D**EXPERIENCE platform Civil Infrastructure Engineering Solution. This initiative, driven by Western Australia authorities, has the objective to create a manufacturing hub supporting the development and processing of critical minerals and lithium for energy storage – developing batteries with high performance, safety and long-life.

- We have significant traction in China with the Civil Infrastructure Engineering industry solution experience for energy, transportation and health. With increased expectations on infrastructure, engineering firms need to deliver higher performing designs with lower lifecycle costs, and at the same time stakeholder ecosystems and projects are increasing in complexity and scale, so a new approach is needed, which is exactly what we bring to them.

DASSAULT SYSTEMES: A PURPOSE-DRIVEN COMPANY

As corporations and investors accelerate their focus on ESG, I believe it underscores how important it has been that Dassault Systèmes is a purpose-driven company. A critical ingredient is the word 'imagine'. To create a better world, you need to offer solutions that enable you to explore what might be possible, not just enable the methods of yesterday to be performed or even today's methods.

- We needed to be able to imagine, in order to initiate manufacturing of vaccines prior to their emergency regulatory approval.
- We needed to be able to imagine that pharma companies could share their manufacturing capacities so that the approved vaccines could have expanded manufacturing capacities as Sanofi has offered and other pharma companies as well.

ESG

Before passing the call to Pascal, I would like to share some of our perspectives and initiatives on ESG. We are active in every challenge the world is facing. At the beginning of 2020, we revealed our 10 Acts campaign. The most recent Act unveiled

in December last year is “Water for Life” to enable industries to consume smarter and protect the world’s most precious resource.
We are convinced that Dassault Systemes can be a tremendous lever for sustainable innovation to meet contemporary challenges.

- We are reducing our **footprint** with an ambitious CO2 emissions reduction target.
- We are extending our **handprint**, which offers an outsized leverage compared to the footprint, in a ratio of 1 to thousands. Handprint is of essence since it has more impact on society and, if we are a digital transformation enabler, we are critical for energy transition thanks to our ability to manage the end-to-end lifecycle of products. With Accenture, we have co-authored a study, revealing the critical role of Virtual Twins in accelerating sustainability. Estimates are that Virtual Twins can bring 1.3 Trillion dollars of economic value and an estimated 7.5 Gt CO2e emissions reductions between now and 2030.

Looking at Social issues, we have been actively working to ensure our goals on Women in Technology: on the Board of Directors where we have 50% representation of women. At the executive level, where women represent 40% - including R&D, Industry, and Platform executives and among managers, where today we are at 30% and pushing higher.

Pascal, I pass the call to you now.

Pascal Daloz
Chief Operating Officer and CFO

Thank you for joining us today.

PERFORMANCE AT A GLANCE FOR Q4

Let me begin with a quick overview of our financial performance in Q4. Our financial results came in at the high end or above our guidance.

- Total revenue increased 5%, ahead of our 2% to 4% range, at 1.22 billion euros. Software revenue came in slightly ahead on better licenses performance and recurring software was well in line. Importantly, on an organic basis, total revenue was stable year over year in Q4, with software revenue up 3%.
- Our operating margin came in at 36.0%, 50 basis points above the high end of our guidance range, thanks to the revenue upside, with operating expenses tracking to our guidance.
- EPS was 1.22 euros, ahead of our 1.15 to 1.20 guidance including a negative 2-cent currency impact. EPS grew 6% at constant currency in Q4.

REVENUE BY TYPE

Zooming in on our revenue by type in Q4:

- Software revenue increased 8%, slightly ahead of our 6% to 7% expectations. Top **3D**EXPERIENCE transactions were across multiple industries, such as Aerospace & Defense, Energy & Materials and Transportation & Mobility. From a large deal perspective, we saw more geos contributing to the top 20 deals than we did in Q3 when they were mostly in North America and China. Large deal activity benefited both our license and subscription revenue**.**

- Licenses and other software revenue came in better than planned, decreasing 9% vs 12-15% or about 10 million euros higher compared to our guidance. Americas was the best performing region, with licenses and other software growth positive in Q4.
- Our recurring software revenue grew 16% in total and 9% on an organic basis. Our subscription performance benefited by the addition of Medidata, all subscription SAAS software, with double-digit subscription growth on a comparable basis. We are observing some acceleration in the adoption of subscription on an organic basis – up double-digits in Q4. Our support revenue was well in line with our expectations as well. We saw a solid performance for renewals, both regionally and across most of our brand applications. For the full year, recurring revenue represented 80% of total software.
- Services revenue decreased 19% at 114 million euros, somewhat better than the range we had given. We saw an improvement in signings in Q4, helping bring more visibility for 2021. On the margin side, improvement came from the management of subcontractors. But more importantly, all along the year our focus has been on taking actions in services to ensure the Go Lives for 2020 and to advance our services work, benefiting large, multi-year deployments of our software.

SOFTWARE REVENUE BY REGION: Q4

Moving to a regional software review:

- In Asia, software revenue was up 3% in Q4. China was the best performing geo, up 20% in Q4 and 15% for the full year, with good organic results and the addition of Medidata, and Japan was stable. Softness came from Korea and India in particular where the environment was still difficult in Q4. Support revenue growth was very solid across Asia in Q4 and we saw a strong uptick in growth for subscription, in total and organically.

- In Europe, our software revenue was flat in Q4. However, we did see a number of large deals - in Northern Europe, France, Germany and Southern Europe.
- In the Americas, software revenue increased 23% in total, and 13% on an organic basis. From an industry perspective, we had strong growth in Life Sciences with Medidata but also in Aerospace on an organic basis. Additionally, we benefited by breadth of performance across our product lines and brands.

SOFTWARE REVENUE BY PRODUCT LINES

Moving to a view of our software revenue by product lines:

Industrial Innovation

- In Industrial Innovation, software revenue decreased 1% in Q4. Within that **3D**EXPERIENCE had a better performance with a number of deals in Aerospace & Defense and Transportation & Mobility as well as multiple deals coming from Energy & Materials and Industrial Equipment. We also had about 2,700 **3D**EXPERIENCE Go lives, looking at the year in total.
- CATIA grew in Q4 and resisted well in 2020 demonstrating its leadership in key industries, such as Automotive. It is seeing strong traction with its offer in Cyber Systems. SIMULIA continues to demonstrate good momentum in both Structural and EMAG, and that remained the case in Q4.
- As we outlined at the Capital Markets Day in Q4 2020, we have made significant investments in developing our cloud portfolio – which covers almost 100% of what we offer on premise. We see Cloud gaining accelerating traction. A recent example is with the Stevanato Group, a provider of packaging machines used in the

pharmaceutical industry. They have adopted the **3D**EXPERIENCE platform and Digital Continuity industry solution on the cloud. Our industry solution is helping them **speed time to market**, reduce IT and **total cost of ownership through cloud** adoption, but also more important enabling them to **create a virtual twin experience of the entire manufacturing line.**

- For the full year, *Industrial Innovation* IFRS and non-IFRS software revenue totaled €2.3 billion and represented 57% of software revenue.

Life Sciences Product Line:

- In Life Sciences, Medidata's total revenue was up 20% in the quarter on a comparable basis, with a solid operating margin performance and strong cash flow from operations. BIOVIA had double-digit software growth in both the Americas and Asia, offset in part by a tough comp in Europe.
- Looking at Medidata's progress over the last year, Medidata RAVE EDC continued to demonstrate its strong market leadership. In addition, the attach rate of other product solutions is strong, with the number of customers with four or more Medidata products up over 20% during 2020. The run-rate for Patient Cloud is also up sharply, representing Medidata's next $100 million product line.
- In the Americas, Horizon, a pharmaceutical company, extended its multi-year agreement with Medidata using RAVE EDC as well as a number of additional products. Horizon is adding Medidata's Intelligent Trial Solution to give them the flexibility and agility to scale and grow. This agreement is an excellent example of how we expand our portfolio at existing customers both in number of products and value we delivered thanks to our data centric approach.

- BIOVIA saw strong traction with BIOVIA Discoverant, supporting the entire manufacturing process lifecycle from process development through scale-up and tech transfer to final production.
- For 2020, our Life Sciences product line software revenue totaled €797 million, accounting for 20% of software revenue.

Mainstream Innovation:

- Mainstream Innovation software revenue increased 10% in Q4, with SOLIDWORKS growing 7%.
- Centric PLM, the world leader in PLM for Fashion, Retail and Consumer Goods, software results were up sharply in Q4 on a strong catch-up from prior quarters. During 2020, Centric PLM continued to increase its market presence, with customer acquisition up 11%. They are also extending their reach with diversification into Food & Beverage and I should add we see more and more trends toward subscription globally for Centric PLM.
- **Illustrating simulation on the cloud in Mainstream Innovation** is Tiniko, a SOLIDWORKS customer. It is expanding its relationship, adopting the **3D**EXPERIENCE platform and simulation capabilities coming from SIMULIA as part of **3D**EXPERIENCE WORKS on the cloud.
- The early quarters look promising for the **3D**EXPERIENCE platform. We look to see progressive traction with the **3D**EXPERIENCE WORKS cloud-based family of solutions.
- For the full year 2020, Mainstream Innovation software revenue totaled €938 million and represented 23% of software revenue.

CASH FLOW AND BALANCE SHEET

Moving to cash flow, we had solid growth for the year, up 5% to 1.24 billion euros. We used 382 million euros of cash to improve our leverage ratio, now 1.8x, from 2.5x one year ago.

Contract liabilities totaled 1.17 billion euros, up about 14% in constant currencies.

ACQUISITIONS

Just a few words on acquisitions and investments, where we continued to invest in key specific domains in 2020.

With respect to Data Science:

- Last July we acquired Proxem bringing strong AI capabilities to complement our capabilities within Netvibes.
- In November, we acquired NuoDB, a cloud-native distributed SQL database leader, where we previously had an equity stake. NuoDB's technology has been part of our cloud infrastructure and data science strategy for a number of years, but they are becoming very critical and I think they are becoming unique on the market. The key differentiating elements of this technology in the cloud is that it ensures the integrity of the data base (transactional), can scale like a No-SQL data base and can be distributed around the globe (ensuring cyber security/ sovereignty).

We have also taken an equity position in AVSimulation in January of this year. It is a provider of an ultra-realistic virtual world for virtual driving simulation to enable automated driving certification, which is becoming critical considering 2024 regulations constraints.

2021 FINANCIAL OBJECTIVES

Now, let me share our perspectives and financial objectives for 2021. There are four takeaways.

1. First, we are initiating a constant currency, revenue growth objective of 9 to 10% for 2021 – this is essentially all organic. We anticipate recurring software revenue to increase about 8 to 9% and for licenses revenue to growth 13 to 15% and Services by 9 to 12%. We are very progressively transitioning to a subscription model, but not at the expense of growth. Cloud represents today about 20% of our revenue and should be one-third of our revenue - horizon 2025, roughly more than 2 billion euros at that time.
2. Second, we are assuming a **gradual recovery** in business as you have seen from our first quarter financial objectives and key revenue lines expectations.
3. Third, **with respect to Medidata, strong growth and high visibility are the takeaways**. We anticipate total revenue to increase about 14% at constant currency for 2021, entering the year **with a 94% coverage ratio**, which is almost 3 to 4 points better compared to last year.
4. Fourth, we are **targeting an operating margin of about 30.8%**. This includes continued operating margin growth at Medidata. I am sticking to the plan to deliver 200 basis points improvement every year of the plan timeframe.
5. Finally, our EPS range is 4.10 to 4.15 euros, growth of about 8 to 10% with several hundred basis points of currency headwind embedded in our currency exchange rate assumptions.

We estimate a lower tax rate for 2021 – about 23.7% versus 25.1% in 2020 largely reflecting some benefits in our French taxes. For exchange rate assumptions versus the euro, we are using 1.22 for the US dollar and 126 for the yen.

We have outlined in the earnings press release and presentation our guidance for Q1.

SUMMARY

To summarize, we opened this past year beginning our new Horizon, setting the stage for the coming decades. With the pandemic impact, we had to reset our financial outlook for 2020 and postpone by one year our 2023 five-year EPS objective to 6 euros.

Looking forward, we see a year of strong organic revenue growth in 2021 and are confident in our mid-term growth drivers with Industrial Innovation, Mainstream Innovation and Life Sciences, thanks to the talented teams across the globe and to our partners as well. None of us could have imagined 2020 in advance, but despite the increased distances, we became closer as a company. I really want to make a very special thank you to our employees, executives, partners and our customers. I should not forget the trust and support we receive from our friends, analysts and investors.

Bernard and I would now like to take and answer your questions.

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