DASSAULT SYSTEMES (DS)
2009 First Quarter Conference Call
Thursday, April 30, 2009
Final

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Vice President, Investor Relations

Good afternoon and good morning, ladies and gentlemen. Thank you for joining us for a review of our first quarter financial results and business highlights.

On the conference call are Bernard Charles, President and Chief Executive Officer, and Thibault de Tersant, Senior Executive Vice President and Chief Financial Officer.

Our financial results are prepared in accordance with IFRS. In addition, we believe it is helpful to provide you with supplemental non-IFRS financial information. On this call, we will discuss our revenue, operating income, operating margin and EPS on a non-IFRS basis before deferred revenue write-downs, amortization of acquired intangibles, stock-based compensation expenses and other operating income and expense, net. For reconciliations of the differences between this supplemental information and IFRS results please see the reconciliation tables included in our earnings press release which has been posted on our website at 3ds.com.

Some of the comments we will make on this call, either as part of the prepared remarks or in response to questions, will contain forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Information about the principal factors that could cause actual results to differ materially from forward-looking statements can be found in today's earnings press release and in our 2008 *Document de référence*, as filed with the AMF in France on April 2, 2009.

If you have additional follow-up questions after the conference call, please do not hesitate to contact Beatrix Martinez or myself in Paris or Michele Katz in New York.

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

Bernard Charles
President and Chief Executive Officer

Thank you, Francois.

Summary Overview

Our final financial results for the first quarter were in line with our preliminary release.

- Non-IFRS total revenue was 311 million euros. This represented an increase of 1 percent in comparison to the 2008 first quarter. It was, however, below our objective of 325 to 335 million euros. And from a pure activity perspective it represented a decrease of 6 percent in constant currencies.
- Our operating margin and EPS were in line with our objectives thanks to good execution on our cost savings initiatives. Our non-IFRS operating margin came in at 19.4 percent tracking to our objective range of 18 to 21 percent. And our non-IFRS earnings per share were 37 cents compared to our objective range of 36 to 42 cents.

As we discussed during our preliminary conference call, the first quarter brought further deterioration of the economic environment. This change translated into much greater hesitancy in purchasing decisions by our customers and indeed is consistent with what other software companies have been seeing.

At the same time that sales were down, the total number of transactions were up, demonstrating the interest in and need for our software solutions.

Thanks to our decision to take extra precautions with respect to spending in this environment, we were able to reach our profitability goals in the first quarter despite the revenue shortfall.

In response to the deepening of the recession, we have in place a 120 million euros cost savings target for 2009.

Looking ahead, our focus is on strong execution of our plans - to drive operational efficiency not just by reducing costs, but by re-engineering our business processes; to drive operational excellence with respect to our sales and marketing initiatives and to deliver on our R&D roadmap and V6 roll-out as planned.

Now let me turn the call over to Thibault for his financial review.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

IFRS/non-IFRS Differences

Let me first do a brief review of our IFRS and non-IFRS reconciliation figures. In the 2009 first quarter: deferred revenue write-downs were 1.0 million euros; Non-IFRS operating income, operating margin and earnings per share are before amortization expenses for acquired intangibles of 10.7 million euros; stock-based compensation expense of 6.4 million euros; and other expenses, net of 2.1 million euros. Most of the numbers are similar in amount to the 2008 first quarter with one exception. I would remind you that in the year-ago quarter we recorded a gain on sale of 17.2 million euros related to our former headquarters in Suresnes.

Regional Performance

The first quarter saw the spreading of the recession to all parts of the globe. This was clearly evidenced in the decline in quarterly industrial production. Specifically, to share some of these third-party figures, in the first quarter 2009 industrial production was down 19 percent year over year in the U.S., in Germany it was lower by 14 percent and in Japan, which started declining sooner, it was lower by 12 percent. We have a chart in our presentation showing the steep drop-off towards the end of 2008 and into the first quarter of 2009.

Looking at DS results, we did see a pronounced decline compared to the fourth quarter in the Americas and in Asia. What was visible in all regions was the general lack of large transactions, showing the tendency by companies if they move ahead to do so on a smaller budget and with greater tentativeness.

- In the Americas, the slowdown was visible in both large and mid-market accounts, with total revenue down 10 percent in constant currencies.
- Turning to Asia, in the fourth quarter the weakness was limited to Japan. But in the first quarter it spread to Korea as well as elsewhere leading to a decline in revenue of 11 percent in constant currencies for Asia. We had growth in China, although it did moderate somewhat from the fourth quarter. For the full year we expect double-digit growth. India was more sensitive in the first quarter, with lower activity with engineering firms.
- Here in Europe, the environment was similar to the fourth quarter leading to stable total revenue performance year on year.

Software Review

- Total software revenue decreased 5 percent in constant currencies for the first quarter. New license revenue growth was significantly impacted by the worsening of the economic crisis, but was offset to a good extent by recurring software revenue growth. Specifically, new licenses revenue declined 40 percent year over year while recurring software revenue increased 15 percent.

- Looking by market segment, PLM software revenue decreased 6 percent in constant currencies and was noticeable across all brands.
- CATIA software revenue was lower by 11 percent, with results in Americas being the weakest.
- With manufacturing down a lot for companies, this hurt DELMIA, particularly in Asia.

- ENOVIA software revenue decreased 18 percent, with a stronger impact on it due to greater customer hesitation in decision-making on new infrastructure decisions.
- SIMULIA software revenue results benefited from the fact that most of its software is purchased under a rental model and this held up pretty well across the three regions, leading to double-digit software growth in constant currencies. But with respect to new business, it experienced some slowdown in new business activity.
- Turning to Mainstream 3D, software revenue decreased 2 percent in constant currencies reflecting good growth from subscriptions which helped offset weaker new license activity. In the quarter, Mainstream 3D new seats sold totaled 9,473, down 30 percent year over year. Pricing remained stable by region and the average seat price increased 4 percent in constant currencies reflecting an improving mix.

Services and Other Revenue Review

Turning to services and other revenue, total revenue was lower by 7 percent in constant currencies and principally reflected the impact of the spin-off of DSF in the second half of 2008. Consulting revenue was up in the quarter.

The services gross margin was essentially break-even, however, this was due to timing issues, resulting in recording expenses on work performed for contracts that will be recognized later this year.

We are also taking a number of steps to improve the profitability of our consulting business over the mid-term. But I hope this explanation helps put this quarter's services gross margin results into context.

Operating Income and Margin, Cost Savings Above Plan

We were pleased that both our earnings and operating profitability were in line with our objectives despite the top-line shortfall. We benefited from higher expense savings in the following areas:

- First, in marketing and communications;
- Second, in reduction of travel, whether fewer trips or savings while traveling. Our focus is on avoiding non-sales travel where conference calls or video/web conferencing could be used instead. But I want to be clear that we are focused on customer and distribution partner travel requirements in order to serve our customers as well as provide the right level of investment in sales and support of our sales channel partners;
- The third area of savings is coming from less use of subcontractors and other fees;
- Fourth, in MIS and IT where we were also able to reduce costs;
- And fifth, purchasing and other actions helped us deliver a good level of savings.

In total, we were able to save 15 million euros more than what we had anticipated. Marketing and travel savings, alone, accounted for 60 percent of the total. So this gives you some idea of what is possible.

Net Operating Cash Flow

We had a solid level of operating cash flow in the first quarter benefiting, in particular, from working capital improvements.

Balance Sheet

Operating cash flow of 96 million euros as well as favorable currency exchange rate impacts led to a good increase in both cash and our net cash position. At quarter end cash and cash equivalents were over 900 million euros and, net of 200 million of long-term debt, our net cash position was 700 million euros.

One of the uses of our cash from operations is our cash dividend. The Board of Directors is recommending a cash dividend of 46 cents, stable with the 2008 level. In the aggregate, this amounts to 55 million euros.

Turning to DSOs – while we are seeing some extension of payment terms in the current environment, our overall level of DSOs is stable with the prior year. In addition, one way to ensure high quality receivables is to defer revenue in some cases until the cash has been received and that is just what we are doing when there is a significant concern.

Currency

Average currency exchange rates were pretty similar to what we had taken at the time of our objectives.

Cost Savings Program

Now I would like to spend some more time on costs. Here I would like to step back and review our initiatives:

First, going back to last year we introduced a productivity and efficiency plan – in R&D, with our co-location initiatives and leveraging of IT, and then in shared services for back-offices in the Americas, which is currently underway.

In addition, at the start of this year we put in place a 35 million euros cost savings target. This estimate included initiatives encompassing travel, subcontractors and third-party professional fees, and purchasing policy. It also included the estimated benefits from our 2008 restructuring work.

Now we have expanded the scope of this program by 80 to 90 million euros. And, in combination, they represent a 120 million euros savings program.

With the first quarter additional savings, we are now at a run-rate of 60 million euros, with an additional 20 to 30 million euros in savings being targeted. Four areas of savings will be important in this regard:

- First, we expect to have cost savings from items linked to revenue including, lower royalty fees in our cost of software, lower cost of services, variable pay and commissions;
- Second, we are targeting to maintain a stable staffing level now;
- Third, travel will continue to be a strong driver for savings and so we are expanding our restrictions;
- And fourth, we are also expanding our purchasing and other savings initiatives.

In summary, I believe the added savings delivered in the first quarter as well as the details we have discussed today show that our new goal is both feasible and achievable with continued strong execution across DS.

Financial Outlook

Now, I think we are ready to move to our financial objectives.

First, we are taking the first quarter new license revenue performance into account. We are then applying the same type of revision through the rest of the year. This leads to a new license revenue decline assumption of about 25 to 30 percent for the full year compared to 10 percent previously.

Second, we are changing our growth rate assumption for recurring software revenue to about 4 to 5 percent from about 8 percent previously. We expect subscription revenue would reflect a lower rate of growth in the installed base due to the flow-through impact from lower new license activity. In addition, we are assuming some increase in the churn rate on the top of the modest 5 percent assumed in our previous guidance for PLM and so we are increasing it in our planning by a couple of points.

Turning to consulting services, they are typically related to and linked with new software transactions, so to the extent that we have less new license activity this may lead to a weaker pipeline for consulting assignments. Additionally, we have seen some slowing of the start of projects or scope. So, all in all, we think it is prudent to assume that consulting activity will be more subdued given the macroeconomic environment.

In light of the greater uncertainty in the market, we have wider objective ranges than we have had historically, broadening it at the lower end based upon the environment. The upper end reflects our assessment of the potential opportunities with customers. Our goal in sharing this wider range is to help assess what would be the impact on DS operating margin and earnings per share if revenue were to vary more than what we usually anticipate.

Based upon these factors and currency assumptions, leads us to target a non-IFRS revenue growth objective range of about minus 9 to minus 5 percent in constant currencies for 2009. With respect to our operating margin we continue to target to maintain about a 25 percent margin, but are widening the range to reflect the broader revenue range. This leads to a non-IFRS operating margin range of about 24 to 26 percent, and a non-IFRS earnings per share range of 1.78 euros to 2.00 euros.

Including currency exchange rate assumptions leads to a reported revenue range for 2009 of about 1.26 billion to 1.31 billion euros.

Our outlook is based upon the following currency assumptions for the full year 2009: a U.S. dollar to euro exchange rate of $1.38 per euro and a Japanese Yen to euro exchange rate of JPY128 per euro.

We have set a second quarter 2009 non-IFRS total revenue objective of about 295 to 310 million euros and a non-IFRS EPS objective of about 32 to 38 cents. In the press release we have outlined the IFRS items excluded from these objectives.

Before turning the call back to Bernard I would like to make one final point. Missing objectives is not something we do very often. But we have been surprised over the last two quarters by the continued deterioration of the economic environment. Most recently, we had taken precautionary measures on the cost side despite what our pipeline and other indicators were telling us about sales levels and this helped us to avoid a miss to operating margin and earnings per share in the first quarter. So in updating our objectives we have taken a more pragmatic approach to what could happen in the economy and its potential impact on our business. At the same time, looking at the upper end of our objective ranges, we see a number of instances where customers could very well decide to go ahead with plans that had been placed on hold, so in other words, we believe it is not a question of if they will go ahead but a question of when.

Now let me turn the call over to Bernard.

Bernard Charles
President and Chief Executive Officer

Thank you, Thibault.

Market Leadership

During the first quarter we made solid progress in strengthening our market leadership: in Mainstream 3D with SolidWorks extending its footprint and in PLM where our solutions are helping customers increase their operational efficiency. This is happening with customers in our core industries, in new domains and in a number of our target verticals.

Increasing SolidWorks' Footprint

Turning first to SolidWorks, I am extremely pleased to announce that the SolidWorks installed base has reached the one million seat milestone in March of this year. My congratulations go to Jeff Ray, the SolidWorks organization, and our SolidWorks VAR network.

This success has been enabled by the SolidWorks' product competitiveness, its channel and the strong SolidWorks users' community. This was clearly evident at the SolidWorks World in February where the user conference had record attendance with about 4,500 people.

I would also like to highlight that while new licenses were down significantly from last year at this time, SolidWorks continues to sell on value with prices generally stable by region. This is a key point for channel profitability for the SolidWorks' VAR network.

And SolidWorks' overall ASP was up 4 percent in constant currencies on mix improvement coming from Japan.

Two SolidWorks wins I would like to mention are: Ruthmann, providing loader systems for vans and Houdijk Holland, a Netherland's manufacturer of biscuit handling machines, a new customer with a 30 seat order. The Ruthmann win is an interesting example of why SolidWorks' footprint continues to grow – winning against both legacy 2D as well as competitors' 3D tools. SolidWorks was selected by Ruthmann after intense tests demonstrating it was easy to learn and implement in all areas of design and performed well in drawings and configuration of standard design tasks.

Next Generation PLM Portfolio

I would like to give some examples across our PLM brands to illustrate how we can help our customers improve their operational efficiency.

Winning with CATIA for Eco-Design and Increased Efficiency

In powertrain our customers are benefiting from significant productivity gains using CATIA. In addition, with eco-design driving a dramatic evolution in propulsion technology, this is only helping increase CATIA's momentum in gaining share in powertrain as evidenced by our work with BMW and Ford. For both these companies, among others, eco-design is important to help them comply with environment guidelines and regulations.

- In Europe, BMW has selected CATIA in powertrain for the design of all BMW engines. And BMW is also reducing the cost of ownership by standardizing on CATIA.

- In the U.S., Ford has benefited from its decision to select CATIA as the global design and engineering standard. Ford has implemented best-in-class practices for all its powertrain programs in order to reduce cycle time and improve quality.

Winning with SIMULIA to Minimize Risks and Save Costs

Turning to simulation, Weatherford, a large and leading provider of products and services in the oil & gas industry, uses SIMULIA to help it explore how to best extract oil in an environment in which the extraction has become much more difficult to manage. With SIMULIA, Weatherford has been able to reduce the analysis project timetable by 60 percent – down to 4 weeks from 10. And SIMULIA has enabled the company to reduce the project cost by 75 percent – including savings in manufacturing test designs, testing and engineering hours saved.

Winning with ENOVIA for Compliance – A Target Domain for DS

Turning to ENOVIA, one area I would like to highlight is our compliance offerings. Our compliance solutions are providing benefits to the eleven industries that we target, leveraging our unique V6 platform for engineering and business processes.

Customers are investing in our compliance solutions for a number of reasons:

- First, they ensure that products can be sold in worldwide markets while also keeping pace with local regulations;
- Second, they can enhance brand identity with the implementation of an eco-design strategy consistent with regulatory guidelines;
- Third, our compliance solutions can help companies speed time to market by avoiding late-stage design changes.

Great Wall, a leading Chinese automotive company, selected our ENOVIA Materials Compliance to simplify management of regulatory and material compliance in new vehicle development.

Winning with ENOVIA in the Fashion Industry

We are winning key references in the fashion industry, from retail to luxury goods companies. In this industry, cycle times are very short – sometimes as little as 3 weeks, so having the information you need is key to making the right decisions where time is of the essence. We are providing out-of-the box solutions enabling fast implementations.

We are pleased that Guess, a leading global apparel company headquartered in the U.S., is using our ENOVIA V6 Apparel Accelerator for Sourcing & Production to enable early visibility with its Asian sourcing offices.

Moving across the globe to India, let's talk about Trent, part of the Tata group company and operator of Trent Westside one of India fastest growing retailers. Trent has selected the ENOVIA V6 Apparel Accelerator for Design & Development. They have been able to go-live in just about nine weeks.

Summary

In summary, our financial objectives have been developed based upon the severity of the economic climate during the first quarter. Nonetheless, we continue to see a good level of interest in our solutions as evidenced by the increasing number of transactions during the quarter and numerous pilots. And, despite the recession, we continue to have a high level of discussions and interactions with customers with respect to their future needs. We are confident that when there is more clarity regarding the macroeconomic environment, these discussions will materialize into new business.

As a company, we move forward with a very clear strategy: to support our customers and sales channel partners around the world, to continue to advance our strategic R&D initiatives and product roadmap, to realize the cost savings targets we have outlined, and to continue to focus on strong execution across all of Dassault Systemes.

With that Thibault and I will stop to take your questions.

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