François-José Bordonado
Vice President, Investor Relations

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

- Dassault Systèmes’ results are prepared in accordance with IFRS.
- Most of the financial figures on this conference call are presented on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.
- 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 2018 Document de référence.

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

I would now like to introduce Bernard Charles.
Bernard Charles  
Vice Chairman and Chief Executive Officer  

Thank you for joining us today, both in London and on this call.

INTRODUCTORY PERSPECTIVES  

I would like to begin our call a little differently and share my personal perspectives from my conversations with clients. Today, we see industries with tremendous opportunities to change our lives – and at the same time significant challenges – engineering, scientific, business and financial – to successfully bring these opportunities to reality. It is very clear that Sustainable Innovation in customer experiences and business models is a strategic imperative for this 21st Century and all companies are talking about it.

Dassault Systèmes is recognized as a leading player in this transformation – from ideation to design to supply to manufacturing to go-to-market to use and operations – across all industries. I believe that the 3DEXPERIENCE platform is coming at just the right time for that. Whether in sectors where we have had a long history or those where we are now establishing multi-year partnerships with industry leaders, we are there to work closely with these companies, and to be part of these journeys.

SUMMARY OVERVIEW  

You have all seen our figures for Q3 2019, with revenue up 10% and EPS up 20% and a similarly strong performance year-to-date - what is the story behind this?

- The first one is the strong dynamic around recurring revenue which represents 75% of our total software; and the addition of Medidata, all subscription, will further enhance this.
- Second, from an industry perspective:
Software revenue grew 10% in our Core Industries - with Transportation & Mobility up 9% and Aerospace & Defense up 25% for the first nine months.

Diversification Industries increased 9%, with good growth for High Tech and Marine & Offshore as well as an excellent dynamic in Home & Lifestyle with Centric PLM.

- Third, 3DEXPERIENCE software revenue grew 32% in the first nine months of this year. Our 3DEXPERIENCE platform is establishing a very strong position in the Aerospace & Defense industry as a powerful catalyst and enabler of sustainable growth models. And in Transportation & Mobility, despite difficulties in the sector, especially on the volume side, companies are investing in transformation of their portfolio.

- Fourth, we are advancing our purpose with Life Sciences now becoming one of our core industries with the completion of the Medidata acquisition. We received final clearance last night as you now know.

- Finally, we are very well positioned to reach our five-year goal of doubling EPS to €3.50 in 2019, this is the 2014 plan and – is before adding Medidata.

**TRANSPORTATION & MOBILITY**

**Toyota Motor Corporation**

Moving now to an industry review, I would like to begin with Transportation & Mobility where we announced this morning that **Toyota Motor Corporation has adopted the 3DEXPERIENCE platform with what we call the POWER’BY solution.** We have built a long-standing relationship with Toyota over multiple decades and see this extending into the future in a very meaningful manner. With the 3DEXPERIENCE platform, there will be one single truth from design to
manufacturing. Our 3DEXPERIENCE platform will replace internal legacy systems at Toyota, similar to what occurred a number of years ago when Toyota selected CATIA V5. Secondly, this will be a very wide deployment involving more than 40,000 users over a multi-year timeframe, spanning multiple brand applications depending on the user’s role. So, we are very happy to share this news, which probably will influence the entire sector.

In the world of specialized racing cars, Spark Racing Technology, a motorsport manufacturer specialized in the development and engineering of high-performance e-mobility cars and modules, has adopted the 3DEXPERIENCE platform and several of our industry solutions.

AEROSPACE & DEFENSE

Lockheed Martin:
In a separate press release issued this morning, we announced that Lockheed Martin Aeronautics is standardizing on the 3DEXPERIENCE platform and leveraging our multiple industry solutions, for all new advanced development programs. This is a multi-year partnership agreement, encompassing engineering and manufacturing software solutions of course. The objectives include improving affordability and manufacturability. This was a very competitive win and more importantly represents a very significant transformation for the company.

We have a broad presence in Aerospace working with many companies in the ecosystem. Using our DELMIA QUINTIQ solutions, SATS, Asia’s leading food services supplier to airlines, is creating a 3DEXPERIENCE twin of a kitchen, an industrial kitchen, that pairs virtual and physical operations to provide data-driven analytics for better resource planning.
CONSUMER PACKAGED GOODS & RETAIL

Moving to Consumer Packaged Goods & Retail, L’OCCITANE, a leading health and beauty company, has selected our 3DEXPERIENCE platform leveraging our DELMIA Apriso applications to improve its manufacturing production planning.

HOME & LIFESTYLE

In Home & Lifestyle, Centric PLM is leading the way, working with more than 1,000 well-known brands around the world. It is helping companies increase income and sales, improve inventory management and reduce logistic costs translating into:

- More new products
- Increase efficiency
- Faster time to market
- Improved sustainability thanks to less waste

We have now past our one-year anniversary since the acquisition. Centric PLM’s leadership in Home & Lifestyle is evident with strong growth in bookings, new clients acquisition, and revenue growth.

CONSTRUCTION, CITIES AND TERRITORIES

Moving to the world of Construction, Cities and Territories, let me share two customer examples. CDRC, China Railway Construction Company, is China’s leading railway company. It has adopted our 3DEXPERIENCE platform and multiple industry solutions to improve its collaboration among stakeholders and increase its design efficiency - leading to more productive construction projects - by testing in the full virtual world before building in the real world.
In the U.S., CO Architects selected our 3DEXPERIENCE platform because it helps increase architects’ creativity by creating a tighter collaboration between the architect and builder. Working better together reduces waste and inefficiencies from design to construction. Their name ‘CO’ – signifies their belief in tight collaboration. Could not be a better reference.

**LIFE SCIENCES**

Now I would like to move to the world of Health.

**Italy’s largest independent partner research organization for drug discovery and preclinical development, IRBM,** has selected the 3DEXPERIENCE platform and One Lab Design to Cure Industry Solution Experience. IRBM has built a world-class drug discovery partner to the pharmaceutical companies since its original establishment as the Italian site of Merck Research Laboratories in 2000.

In **South Korea, GC Pharma,** specializing in the development and commercialization of pharmaceutical products for use in the fields of oncology and infectious disease has adopted our One Lab Design to Cure industry solution on the 3DEXPERIENCE platform to take full advantage of their resources and optimize them from initial research development to manufacturing.

**MEDIDATA ACQUISITION TO CLOSE IN SHORT ORDER**

We are preparing to close the acquisition of Medidata very shortly and look forward to seeing many of you at our Life Sciences Day in New York on November 13th. We will share our perspectives in great detail, but let me briefly highlight some key points here today.
- Health is now core - we have a simple dream: to bring the right treatment, to the right patient, at the right time – IN THE AGE OF PRECISION MEDICINE AND NEW PATIENT EXPERIENCES.

- Combined together, we bring a new, unified, end-to-end approach to research and discovery, development, clinical testing, manufacturing and commercialization of new therapies and health technologies. The 3DEXPERIENCE platform becomes the only platform to combine modeling, simulation, data science, AI, and collaboration in the virtual world to achieve sustainable innovation in Life Sciences.

- From a customer perspective the opportunity is significant – with a potential reach to 4,500 pharmaceutical and biotech companies and over 50,000 medical devices companies.

- Finally, with Medidata, we are adding a software portfolio which is 100% SaaS and subscription, growing double-digits. It will be a specific brand in our information intelligence domain and great talents joining Dassault Systèmes which we are delighted to welcome.

Pascal, you have the floor now.
Pascal Daloz  
Executive Vice President, CFO and Corporate Strategy Officer

Hello and thanks for joining us today. Let’s start with an overview of our financial performance.

**Q3 AND YTD 2019 Performance at a Glance**

Beginning first with Q3: Revenue, up 10%, operating margin expanding 140 basis points, and EPS up sharply - the takeaway is that it was a solid quarter. Zooming in, we delivered a strong performance across subscription, recurring software, services led by **3DEXPERIENCE** deployments, and operating margin, culminating in EPS growth of 20%.

The key disappointment was that we were not able to fully compensate for deal slippage at the end of the quarter, having in mind Q3 is our seasonally smallest quarter for licenses.

With respect to our 9 months’ performance, all figures – revenue, software, operating margin and earnings per share delivered very good results. And on an organic basis, the growth was broad-based, with revenue, software, and recurring software all up high single digits.

We saw strong progress with **3DEXPERIENCE** software revenue up 19% in Q3 and 32% year-to-date. And from a licenses revenue perspective, a similar dynamic with **3DEXPERIENCE** licenses software up 21% in Q3; and up 40% for the first nine months, representing 43% of the related licenses mix.
Finally, cash flow from operations was also very strong, up 34%, crossing the one billion-euro milestone for the nine-month period.

**SOFTWARE REVENUE BY REGION**

So let’s zoom to our regional software performance:

- The highest growth was in the Americas, with software revenue up 19% on strong licenses and recurring revenue results. Americas also grew double-digits on an organic software basis.
- In Europe, three of our geos performed well - Northern and Southern Europe and France - offset in part by the macro weakness in Germany, bringing Europe’s software growth to 5% for Q3.
- In Asia, our two largest markets, Japan and China, showed good financial results, both with software revenue up 10%. Overall, Asia grew 4% in Q3, reflecting weaker results in Korea and India.

On a year-to-date basis, software revenue grew 17% in the Americas, 9% in Europe and 7% in Asia.

**SOFTWARE REVENUE BY BRAND**

Let’s move to software revenue by brands:

- Following a strong first half for **CATIA**, where licenses revenue was up double-digits, we encountered softness in the automotive supply chain in Q3. In contrast, **3DEXPERIENCE** adoption is progressing with OEMs transformation driven by product range electrification. This is also evidenced by No Magic’s good performance, as part of our cyber systems strategic initiatives for CATIA. Overall, CATIA’s software revenue grew 5% in Q3, while **year-to-date CATIA’s software revenue has increased 8%**. **CATIA 3DEXPERIENCE** software revenue is up sharply for the nine months.
• Similarly, following a strong first half, **ENOVIA**’s software growth slowed to 3% in Q3, principally reflecting several large slipped deals. Overall, for the first nine months, ENOVIA’s software revenue increased 10%.

• **SOLIDWORKS** software revenue increased 7% in the quarter, above the 5% for the nine months. It continued to show strong growth in Asia, up double-digits, and some improvement in Europe and in the Americas. Its recurring software revenue performance continues to demonstrate very stable renewal rates and we are benefiting from the high level of licenses growth in 2018 as clients renew their support revenue.
  
  o Looking at the market opportunity for SOLIDWORKS today we work with about 22% of the target companies in its space, with more available in both the 2D world as well as 3D world.
  
  o On top of this, with one million cumulative commercial seats sold, we have a significant opportunity to expand our footprint with SOLIDWORKS customers thanks to both the **3DEXPERIENCE** platform and the **3DEXPERIENCE.WORKS** solutions portfolio.

• **Other Software** grew 17% for Q3 and 19% year-to-date. And on an organic basis, Other Software grew double-digits led by DELMIA and SIMULIA. Our manufacturing solutions continue to gain traction.

• We are pleased to share that **Ericsson** is expanding its use of the **3DEXPERIENCE** platform, and second, more specifically, broadening its usage of our solutions to Manufacturing Engineering, leveraging our DELMIA as well as ENOVIA applications. 5G represents a significant new opportunity for companies. Challenges include time-to-market on the one hand
and highly complex, configurable products on the other. Therefore, it is critical to be able to manage the process from design to manufacturing, including ensuring that for lower volume, higher configuration products companies need to be able to seamlessly manage plant reconfigurations.

TOTAL REVENUE AND SOFTWARE REVENUE
Zooming quickly on our revenue results in more detail, we are benefiting from an improved recurring revenue dynamic, driving both our software as well as total revenue growth. In each of the three quarters to date in 2019 recurring software has grown at a higher rate than licenses. As recurring software represents 75% of our total software, this is a very good dynamic.

Second, it is also driving growth of our total revenue and software revenue on an organic basis towards the high single digits, with organic revenue higher by 8% in Q3 and 9% year-to-date.

SOFTWARE REVENUE: Recurring Software and Licenses & Other Software
Zooming in more detail on our software revenue results: On an organic basis, License & Other Software decreased 1% in Q3 on slipped deals and weakness in the automotive supply chain and for the nine-month period, Licenses revenue increased 5%.

Recurring software revenue increased 10% in Q3 and 9% year-to-date on an organic basis, with double-digit growth for subscription and very solid support growth across all customer channels.

SERVICES REVENUE
On an organic basis, Services revenue increased 16% in Q3 and 14% year-to-date, led by 3DEXPERIENCE deployments. On a nine-month basis, the services gross margin was 9%.

**OPERATING PROFITABILITY AND MARGIN**

We continued to deliver strong operational results, with our operating margin for the nine-month period at 31.3%, up 140 basis points. We had an organic improvement of 200 basis points, compared to acquisition dilution of 100 basis points. Currency added 40 basis points.

**EARNINGS PER SHARE**

EPS came in at the high end of our guidance, at 78 cents, increasing 20% in Q3 and 19% year-to-date. The strong growth in earnings per share came from our operations – revenue, operating margin expansion – excluding currency EPS was up mid-double-digits for both the three- and nine-months periods.

**CASH FLOW & BALANCE SHEET**

Our net operating cash flow cross the 1 billion-euro milestone through the first nine months of 2019, increasing 34% (up 28% excluding IFRS 16 Leases implementation effect). The principal contributors were growth in net income & non-cash items, accounts receivable management, and lower tax down-payments in 2019 where we now benefit from a US tax change on foreign driven intangible assets enacted in 2018.

Unearned revenue, now called contract liabilities, increased 7% at constant currency and perimeter impact.

**MEDIDATA SOLUTIONS – FINANCING OF CASH ACQUISITION**
In September we completed our first Eurobond financing, in the amount of 3.65 billion euros, to fund a large portion of the financing of the Medidata acquisition. The offering was well received, so we also refinanced a 650 million-euro bank loan set to mature in 2022. The Eurobond financing has four maturities from three years to ten, translating to an average term of seven years, with an effective borrowing rate of 16 basis points.

Looking at our borrowings, our net estimated financial expenses are about 9 million euros for Q4 and 41 million euros for 2020.

**FINANCIAL OBJECTIVES**

Now, let’s move to our guidance.

I would like to first highlight key full year 2019 figures for DS on a stand-alone basis:

1. We are reaffirming our total revenue growth objective of 10 to 11% at constant currency. Our revenue objective takes into account the strong dynamic we have with recurring software, representing the large majority of our software revenue. At the same time our revenue outlook also reflects the potential for continued volatility in licenses activity in Q4. We then updated for currency for Q3 actual, and Q4 updated outlook, leading to a total revenue range of 3.912 to 3.952 billion euros.

2. We are also confirming our earlier EPS objective and updating for currency, both Q3 and Q4, bringing our non-IFRS EPS objective range up five cents to 3.50 to 3.55 euros, representing growth of 12 to 14%.

3. With these objectives I think we are well positioned to reach our five-year goal to double EPS to 3.50 euros by 2019.
With the expected closing no later than October 31st, we are adding Medidata to our Q4 and full year guidance assuming a two-month contribution.

- For Q4, we are estimating a non-IFRS revenue contribution of about 103 million euros and about two cents to our non-IFRS earnings per share.
- Just a reminder that we have been carrying interest expense on the related funding debt starting in September.

With respect to the year 2019 on a combined basis:

- We are targeting total revenue growth of 13% to 14% at constant currency, translating to a revenue range of 4.015 to 4.055 billion euros.
- Non-IFRS operating margin of about 32%.
- Non-IFRS earnings per share of 3.52 to 3.57 euros, up 13 to 14%.

Further details on the fourth quarter are in our earnings press release and in our earnings presentation on our website. In terms of currency rates, we are assuming a US dollar to euro rate of 1.15 and Japanese Yen to euro rate of 125.0 before hedging for Q4.

**CONCLUDING COMMENTS**

To conclude, we are advancing our purpose across product, nature and life; our platform strategy, and our science-based DNA is really starting to be visible from the outside. From a financial perspective, recurring software revenue is moving front and center as a key enabler of our strengthening organic growth.

Looking forward, we are focused on continuing to improve our execution. We have a strong financial model and a significant runway of opportunities thanks to our growth drivers.
We hope to see many of you in New York on November 13th for our Life Sciences day.

We would now be happy to take your questions and thanks again for your participation on this call and our earlier webcasted meeting held in London.

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