DASSAULT SYSTEMES
2013 Third Quarter Preliminary Conference Call
Monday, October 14, 2013
Final

François-José Bordonado
Vice President, Investor Relations

Good afternoon and good morning, ladies and gentlemen. Thank you for joining us for a review of our third quarter preliminary financial results. On the conference call are Bernard Charles, CEO, and Thibault de Tersant, CFO.

Dassault Systèmes' financial results are prepared in accordance with IFRS. On this call, our discussion will be limited to non-IFRS financial information in order to make comparisons to our financial objectives which are presented solely on a non-IFRS basis. These figures are before deferred revenue write-downs, amortization of acquired intangibles, share-based compensation expenses and other operating income and expense, net, and the related tax effects as applicable.

In addition, 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 today's press release and in our 2012 *Document de référence*.

We will begin with formal comments by Bernard and Thibault and then will take your questions. Since the information we are sharing today is preliminary in nature, it is subject to completion of our closing work. We may not be in a position to respond to all your questions at this time, but we will do our best.

Finally, we will return to our pre-earnings quiet period beginning tomorrow morning, October 15th, and will have no further comments until we release our full earnings results on October 24, 2013.

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

Bernard Charlès
President and Chief Executive Officer

Thank you for joining today's call.

We entered last year, 2012, with a cautious view of the macroeconomic environment, and we have continued with this view into 2013. We saw the initial signs of its impact on us starting in the second half of last year with smaller companies, in our Professional Channel, and then with larger companies.

Moving through 2013, the economic, political and currency backdrop has gotten even more complex and so companies are changing both the timing and the way they are making purchases – waiting, buying in smaller amounts, or choosing rental. We have discussed these factors on our prior calls.

While companies are extending their decision-making timeframe, they are at the same time signaling their commitment to our software solutions with high renewals rates, driving a good level of growth of our recurring software revenue.

With a financial model that has always offered rental, customers have the opportunity to choose purchase, rental or a combination thereof. Or even to move back and forth as they desire. So this flexibility has helped us deliver growth in a period that has not been easy to do so.

From an operational perspective we have continued to focus on improving and benchmarking ourselves to best practices.

So despite this tough backdrop, we are delivering revenue growth and we are continuing to grow our customer base and relationships. Looking at our Professional channel about half of its licenses come from the addition of new customers and half from its installed base buying additional seats as well as other products. Similarly, our Value Solutions channel continues to expand and add new customers, evidenced in the mix of new licenses revenue each quarter. And in direct sales important product initiatives are centered on extending our capabilities to serve and to reach more users across the enterprise as well as developing new relationships in our target industries.

While we are focused on the present, we are spending a significant amount of time on preparing our future growth opportunities. We are in the midst of an enormous amount of work – in Research and

Development to deliver what we believe will be a sea-change with our **3D**EXPERIENCE platform. As we build our references here, we see strong interest from our "Lighthouse program" we unveiled in July. I will share more with you here at our earnings date on October 24th.

In parallel, we are also preparing our sales infrastructure. Across all channels we are looking to enhance our industry and product expertise, as well as reinforcing our sales presence in certain regions of the world. And we are growing our indirect channels, so a significant amount of time is being spent to nurture our existing and new partner relationships.

Finally, while the results this quarter were not what we had planned and therefore anticipated in this somewhat uncertain environment, we remain committed to deliver high value to our customers. We understand the transition to **3D**EXPERIENCE can create challenges so we will continue to strengthen and reinforce our teams to ensure we provide a strong level of support to both achieve our financial objectives and to build the future growth plan.

Let me now turn the call over to Thibault.

Thibault de Tersant
Senior EVP and CFO

Summary Introduction

Our philosophy is to provide the market with a guidance we can reach. This hasn't been the case this quarter and we apologize for that. We will try to provide you with all the relevant information and clarify the reasons why we have been surprised.

Comparison of Preliminary Results to Our Objectives

Let me begin by comparing our preliminary financial results to our objectives and focus on the reasons for the shortfall.

Third quarter non-IFRS total revenue came in at €496 million, compared to our objective of €520 million.

- Approximately €16 million relates to the slippage of deals and services contracts: €12 million in new licenses and €4 million in services, impacting principally CATIA and ENOVIA. We expect most of €12 million software deal-related slippages to close in the fourth quarter.

- The second portion is actually good news in that we had a number of deals that closed as anticipated, however, the customers selected our rental model rather than upfront, purchase model. The net reduction to revenue from this higher mix of rental is estimated at about €8 million.

- From a growth rate perspective, third quarter revenue increased 4% in constant currencies rather than our expectation of 8-9%, with the higher rental mix accounting for 1.5 points of the difference.

Reflecting the lower revenue, non-IFRS EPS was 88 cents, compared to our objective of 92 cents. Looking at our third quarter earnings growth rate there is an 8 point swing from negative currency effects, with non-IFRS EPS of 88 cents representing a decrease of 1%, while in constant currencies it represents an increase of 7% year over year.

Other Key Metrics

Within the quarter, we are pleased with several key metrics, among them:

- First, recurring software revenue increased about 8% in constant currencies and represented about 77% of total software revenue in the quarter. Renewal rates remained very strong and were well in line with our expectations.

- Second, our non-IFRS operating margin came in at 31.6%, comparing favorably with our non-IFRS objective of 31%. We continue to work on increasing our operational efficiencies so this helped us. More broadly, by improving how we operate we are able to absorb some of the dilution from new acquisitions that we believe will be integral and important complements to our strategic roadmap.

2013 Financial Outlook

Turning to the fourth quarter, we have re-examined our forecast, both bottoms-up and tops-down to develop what we anticipate will be the low end of our revenue range which is €565 million, representing growth of at least 5% in constant currencies, and renewing with new licenses revenue growth. This leads to a non-IFRS operating margin of about 34% based upon our investment plans and non-IFRS EPS of about 97 cents. We have included the assumption of the higher French corporate taxes currently in discussion in calculating our EPS estimate.

Looking more closely at our revenue construction, the low end incorporates transactions where we see a high likelihood of closure. We have then assumed that a higher proportion of this new business might be concluded as rental transactions rather than as upfront purchases, and assumed transaction delays pushing a portion of the pipe to 2014. We then evaluated our quarter to quarter expectations for recurring software revenue growth, and performed an updated scrub of services revenues. On this very point, fourth quarter recurring revenue last year included €6 million of "exceptional" items – that is coming from prior quarters and compliance. As a result, recurring revenue growth in fourth quarter 2013 will be two points less than the normalized growth of recurring of 7-8%.

With respect to currencies, our assumptions around our largest currencies – euro, dollar and yen – were pretty well aligned with how they actually evolved during the quarter. At the same time, a number of emerging market currencies have weakened significantly and this has impacted our business results in different geographies – including Australia, India, Brazil, United Kingdom and several other countries, so we have taken this into account in developing the initial part of our fourth quarter guidance. We thought this was relevant because there is no difference between the current US dollar and yen rates assumed in the guidance and actual rates.

Finally, while the financial results this quarter were not what we had anticipated, I want to make it perfectly clear that we remain committed to deliver high value to our customers and shareholders.

At this point, Bernard and I will be happy to take your questions.

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