DASSAULT SYSTEMES

Third Quarter 2023 Earnings Conference Call

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Beatrix Martinez

Vice President, Investor Relations

Thank you for joining us on our third quarter 2023 earnings conference call with Bernard Charlès, Chairman & CEO, joining us remotely, and Pascal Daloz, Deputy Chief Executive Officer and Chief Operating Officer, and Rouven Bergmann, Chief Financial Officer, here in London.

- Dassault Systèmes' results are prepared in accordance with IFRS.
- The financial figures discussed on this conference call are on a non-IFRS basis, with revenue growth rates on a constant currency basis, unless otherwise noted.
- Some of the 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 2022 Universal Registration Document.

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

I would now like to hand over to Bernard Charlès.

BERNARD CHARLES, CHAIRMAN & CEO

Thank you, Beatrix. Good morning and good afternoon, everyone. Thank you for joining us today. It is a pleasure to be with you.

THIRD QUARTER 2023 AT A GLANCE

In the third quarter, we outperformed in both revenue and profitability.

- We delivered a strong acceleration in growth in the third quarter, driven by large deal momentum, with software revenue up 12%, above the high end of our target range.
- In particular, subscription revenue grew 18%, accelerating sequentially.
- We also delivered above our profitability objectives with an operating margin of 31% while continuing to invest in our future growth, increasing headcount by 5%.
- Our EPS was consistently strong, up 20% at constant currency.

Consequently, these strong results position us well to confirm our full-year objectives.

What I would like to convey today is that we find ourselves in a pivotal moment. Profound transformations are currently reshaping every sector of the economy. Our strategic positioning and the opportunities it provides not only allow us to anticipate these changes but also empower us to drive them. In doing so, we can assist our clients in remaining at the forefront of innovation and progress.

Rouven will provide more detailed insights into our financial performance, while Pascal will update you on how we're executing our vision and provide a business overview by sectors, domains, and geographies. And now I hand over to Pascal.

PASCAL DALOZ, DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF OPERATING OFFICER

Thank you Bernard, thank you all for joining us on this call.

OUR LEGACY - HERITAGE & AMBITION

Lets start with few comments following the capital markets day. Today, our clients are driven by the ambition to bring about a metamorphosis where they not only embrace the sustainable economy, shifting from linear to circular approaches, to achieve more with fewer resources. They are also focusing on nurturing the experience economy, transitioning from products to experiences, characterized by personalization, contextualization, and automatic updates.

These dual forces of sustainability and experience are essential elements of our heritage and ambition, the next horizon defined for 2040.

VIRTUAL TWIN EXPERIENCE: A HOLISTIC APPROACH

Within this market landscape, virtual twins, as central pillars of a company's knowledge and know-how, prove to be essential, not only during innovation phases but throughout the entire product lifecycle. Over the last 40 years, our primary focus has been on innovation. Now, we are increasingly expanding our focus from innovation to the experience.

Virtual twins come into play to ensure the delivery of the experience itself, thereby facilitating its continuous improvement. They enable the management of the entire product lifecycle, the life of the things, including the experience, and promote the concept of multiple lives for products, thus fostering circularity.

HUMAN-CENTERED GENERATIVE EXPERIENCES (1)

Indeed, virtual twins enable human-centered generative experiences. Each word matters - human-centered means empowering humans based on experiences, generative means automatically creating, based on the data set, and experience refers to the overall interactions and responses. So, these human-centered generative experiences are shifting the value from physical assets to software. Our clients rely on them to establish direct connections with their end customers, delivering personalized, connected, smarter and safer experiences. This is truly the essence of the experience economy.

And as an example of their rapid adoption is the development of software-defined vehicles by automotive manufacturers, and this trend may further accelerate the uptake of virtual twins.

HUMAN-CENTERED GENERATIVE EXPERIENCES

At this stage, you might be wondering, how are we fundamentally different from our competitors?

What sets us apart is our capacity to offer a scientific representation of the world's complexity through our science-based virtual twin experiences. When suitable, we combine our modeling and simulation capabilities with generative artificial intelligence to create human-centered generative experiences.

This is already implemented in the industry. Here are three concrete examples showcasing this innovative approach to empower professionals in the manufacturing industry:

- Firstly we provide engineers with generative experiences to explore new materials for next-generation batteries, creating a Space of Possibilities that opens up new possibilities
- We empower shop floor workers to seamlessly bridge the virtual and physical worlds to enhance their experiences, fostering Synthesis that elevates their capabilities.
- And we also assist business people and engineers in making informed business decisions, helping them navigate the complexities of fluctuating raw material prices.

Now let’s turn to our operational highlights for the third quarter.

GAME CHANGER (IN THREE SECTORS)

During the third quarter we saw a significant number of large commercial agreements, notably in the Manufacturing sector.

And what is motivating the customers to sign these transactions now? It's primarily a response to our customers' pressing need to gain a competitive advantage, maintain profitability, meet regulatory sustainability deadlines, and decouple economic growth from resource consumption.

Now, let's see what is happening in each of the sectors.

Our solutions are gaining momentum in the manufacturing sector for the reasons mentioned, particularly in Transportation & Mobility, Aerospace & Defense, Home & Lifestyle, and Consumer Packaged Goods & Retail.

While entering a less favorable investment cycle in the Life Sciences sector, we firmly believe that the demand for new, efficient, and affordable drugs will necessitate breakthrough innovations.

Regarding Infrastructure, I've mentioned on several occasions that our Virtual Twins are relevant for addressing sector challenges. Our focus now, is on the go-to-market strategy to address the problem of market fragmentation. To tackle this, we plan to establish partnerships, and I'll present one of these.

Let’s zoom in on a few specific examples this quarter.

MANUFACTURING INDUSTRIES - JLR

Starting with Manufacturing Industries.

During the quarter, we reached a significant milestone in our partnership with Jaguar Land Rover. We renewed and extended our collaboration for a 5-year period, aligning with their "Reimagine" strategy, which centers on their transformation into a "digital-first" company. This partnership is built on four key pillars:

- Expanding **3D**EXPERIENCE usage from 8,000 to 20,000 users
- Enabling JLR's value network to operate globally within a unified environment
- Providing a hybrid subscription model (cloud/on-premise) to support their flexible cloud migration
- And finally we are committing to achieving Net Zero carbon emissions by 2039

Clearly, the cloud-native model played a crucial role in their decision and underscores our leadership in the cloud market.

LIFE SCIENCES – ABBVIE

Turning next to Life Sciences, over the years, we have strategically directed our investments to support the growth of therapeutic domains but also the domain of the Decentralised Trials. This brings us differentiation and positions us to anticipate the next transformation in clinical trials through patient centricity and generative AI. One of these domains is Decentralized Clinical Trials, which is a primary driver of our growth with Dassault Sytèmes' MEDIDATA.

Here's a customer example that substantiates my point.

AbbVie, along with Moderna, are strong advocates of Decentralized Clinical Trials at scale, making them reference clients in this field. Their commitment to Decentralized Clinical Trials comes with three key reasons.

Firstly, this approach aims to increase the frequency of data capture in clinical trials, thereby providing a more substantial amount of data and measurements. This data richness is pivotal for informed decision-making and enhancing the understanding of trial outcomes.

Secondly, decentralized trials offer the opportunity to gather greater contextual information and holistic data. This broader perspective helps to better grasp the factors influencing clinical trial outcomes, thus improving data analysis quality.

Thirdly, this approach broadens the diversity of patients participating in clinical trials. It is not limited to patients available in specific hospitals, thereby promoting a more accurate representation of the general population.

INFRASTRUCTURE & CITIES – WSP

Now, let’s move on to Infrastructure & Cities.

Here's the example of the partnership I was mentioning, which enables us to start addressing the highly segmented infrastructure market on a large scale. It involves WSP.

WSP, headquartered in Canada, ranks as the largest engineering firm in infrastructure. They are industry leaders in various sectors such as energy, waste, construction, and transportation infrastructure. WSP is making a significant investment in Virtual Twins to expand its portfolio and introduce new services for efficiently managing infrastructure projects.

With WSP, firstly we’ll advance our infrastructure strategy on two fronts: the first involves equipping major infrastructure projects worldwide and secondly aim to demonstrate the value of virtual twins in developing new services to operate infrastructure projects.

To conclude, we are confident that this kind of partnership will enable us to scale our virtual twins in this sector, promoting greater efficiency and sustainability.

23Q3 PERFORMANCE: GEOS, PRODUCT LINES

Now, let’s move to our third quarter results across our geographies.

Starting with revenue by geography. These are our third quarter, year-over-year growth rates on a constant currency basis:

Software Revenue Performance by Geography (ex FX):

- In **Europe**, we saw acceleration with revenue growth of **21%.** This was broad-based, with increased subscription adoption, and driven by large transformation deals in Transportation & Mobility and Home & Lifestyle among other industries.
- In the **Americas**, revenue growth was **9%**, benefiting from continued momentum from subscriptions. By sector, there were strong performances in Transportation & Mobility, Aerospace & Defense, and Infrastructure, Energy & Materials.
- In **Asia**, there was an improvement with revenue growth of **5%** thanks to double-digit growth in India and solid performance in Japan. While there was softness in Korea, China demonstrated resilience with a 6% increase, despite more challenging macroeconomic conditions in the country.

Turning now to **Product Line Performance** for the third quarter.:

- **Industrial Innovation** software revenue saw an excellent performance and rose by **18%** and now represents **54%** of total software revenue.
    - Our brands benefited from large **3D**EXPERIENCE deal activity in the market share gains, demonstrating the unique positioning of Dassault Systèmes. CATIA, SIMULIA, ENOVIA, DELMIA and NETVIBES showed a double-digit growth during the period.
- In **Life Sciences**, software revenue rose by **3%.**
    - MEDIDATA achieved mid-single-digit growth in cloud subscription revenue, building on a strong comparison base, even stronger this quarter than the last. As previously mentioned, this performance is affected by an industry-wide reduction in study starts following the post-Covid surge.
    - However, we're seeing substantial growth in areas like Decentralized Clinical Trials with MEDIDATA Patient Cloud. This transformative approach is shaping the future of clinical trials and will counterbalance the volume compression. I really invite you to learn more about this industry

transformation at our upcoming event, NEXT, taking place on November 7-8, 2023, in New York city.

- In the **Mainstream Innovation,** SOLIDWORKS increased by **7%**.
  - SOLIDWORKS transition to subscription is accelerating at a high double-digit rate, and the true catalyst behind this shift is the **3D**EXPERIENCE cloud-based solutions adoption. Please note that we are navigating this transition, with SOLIDWORKS year-to-date growth in the mid-to-high single digits. Subscription is representing a third of the new bookings.
  - Additionally, we observed consistent momentum with CENTRIC PLM, driven by the Home & Lifestyle and Consumer Packaged Goods & Retail. This momentum is notably reflected in the past years in an increasing contribution from large deals.
  - We’re well equipped to become a global industry leader in these segments

CENTRIC PLM ON THE ROAD TO A EUR BILLION BRAND

Continuing this topic.

CENTRIC PLM is already used by 12,500 brands, and there's a huge opportunity for growth on the path to becoming a billion-dollar brand.

We're expanding in several ways:

- Market Expansion: We're extending our reach from fashion into new markets like food & beverage, cosmetics, home, and electronics.
- Community Expansion: We're transitioning from our current brand partnerships to future collaborations with retailers and consumers. For instance, we recently signed a significant deal with ALDI.
- Value Expansion: We're shifting from collection management to pricing, as we build a platform for e-commerce. We're actively investing in value enhancement, exemplified by our recent acquisition of a company called Aifora for AI-driven predictive pricing. This is a small yet strategic acquisition, with a revenue run rate

of €3.5 million. The purchase price is €15 million, with an earn-out on top to incentivize to more than 2x this run-rate. The team consists in 40 employees.

We're well-positioned to become a global leader and make a big impact in these consumer-driven industries

CONCLUSION

In conclusion, the strength of our performance in core industries, together with our diversification across sectors and domains position us well to achieve our 2018-2023 objective of doubling EPS within a 5-year period, as initially planned. Our plans are always ambitious, and when we craft them, we are highly motivated to achieve them. While it's premature to claim early successes, our performance this quarter has put us in a good position to reach our goals. Furthermore, these accomplishments lay a solid foundation for our upcoming financial plan.

And, now, let's shift our focus to Q3 performance and the outlook for Q4 with Rouven.

ROUVEN BERGMANN, CHIEF FINANCIAL OFFICER

3Q23 & YTD23 PERFORMANCE AT A GLANCE

Clearly, Q3 highlights the anticipated acceleration in the second half of 2023, with Software revenue up 12% year on year above the high end of our objectives.

This momentum is driven by continued acceleration of subscription revenue growth, up 18% year on year, reflecting an increasing share of large **3D**EXPERIENCE wins, continued good momentum with SOLIDWORKS adopting the subscription model and strong performance from CENTRIC PLM. These subscription growth drivers are broad based and evidenced across GEOs and Industries and give me the confidence that our annual subscription revenue growth will continue to accelerate moving forward – despite the temporary lower contribution of MEDIDATA as explained during our last earnings call. For the first 9 months recurring revenue now accounts for 81% of total Software revenue up 80 bps versus last year.

To complement the strong Software revenue growth, we also saw a rebound in Upfront License revenue, up 20%. All of the above is reflecting the strength in new business growth and the anticipated acceleration versus the first half of the year. Services revenue was up 2% at constant currency in line with our objectives.

Following the strong top line performance, we also advanced towards expanding our profitability as evidenced by an Operating Margin at 31%, up 50 bps year on year and EPS at 28 cents, all above the objectives.

Consequently, with these strong results in Q3 we confirm our full-year objectives.

Before moving on to our long-term growth drivers, let me briefly share a few remarks highlighting the impact of large transactions this quarter. The framework is the following: We are expanding our relationships with existing clients as well as winning new ones which we refer to as Value up and Value Wide. From a revenue growth perspective, you see a healthy contribution to in-quarter growth in Upfront License revenue but more importantly: we are building the run rate and momentum in our subscription growth. To this end, we signed several multi-year subscription deals where the customers have the flexibility to adopt our cloud at day-1 laying the foundation for long term, ratable revenue growth.

GROWTH DRIVERS

Consequently, the increasing share of predictable revenue provides greater visibility and resiliency. Our strategic growth drivers of **3D**EXPERIENCE and CLOUD are at the center of the shift our to subscription model.

3DEXPERIENCE revenue rose 46% in Q3 at constant currencies. This reflects a share of 40% **3D**EXPERIENCE addressable software revenue – the highest contribution ever. In the first 9 months, **3D**EXPERIENCE revenue grew 18%, to represent 34% of software revenue.

Cloud revenue rose 10% in Q3, representing 25% of software revenue.

While MEDIDATA growth contribution was lower this quarter as anticipated due to the strong comparison base, the growth in **3D**EXPERIENCE cloud remains at a very healthy clip.

We are well positioned to continue to capitalize on our leading position in key industries capturing above market growth with **3D**EXPERIENCE and CLOUD.

3Q23 ACTUAL VS OBJECTIVES

Now, let's review how we performed relative to the objectives we set for the third quarter.

To make it simple, we delivered strong results beating all our key objectives.

Total revenue was €24m above the mid and by €13m above the high end, offsetting a negative currency impact of €12m.

Operating margin was 70 basis points above the mid-point at 31%, net of a negative currency impact of 40 bps, and we continued to invest to support our strategic initiatives with a net headcount growth of over 1,100 for the first 9 months, up 5%.

Most importantly, this over-performance in Q3 highlights that the impact of the expense carry-over which muted the margin performance in the first 6 months is behind us and we now back to a normal trend with a YoY improvement of 50 basis points.

The strong operating performance of Q3 translates to 28cts in EPS driving the upside vs the high end of our objectives. In addition, the contribution of higher financial income was neutralized by negative FX impact.

In summary, I've been talking with you about our revenue growth acceleration since the beginning of the year. As evidenced by the Q3 results we are delivering against what we said. I will be addressing the FY outlook in a moment, it is important to highlight that we are trending well within our objective ranges for the first 9 months. This further strengthens our confidence in our FY financial plan for Revenue and Profitability.

CHANGE IN CASH AND DEBT POSITION AS OF SEPTEMBER 30,2023

Now turning to cash flow and balance sheet IFRS items:

Cash and cash equivalents totaled € 3.368 billion, compared to €2.769 billion at the end of 2022, an increase of €599 million.

At the end of the quarter, our net cash position totaled €378 million, an increase of €605 million versus net financial debt of €227 million at December 31, 2022.

Now, let’s look at what is driving our cash position at the end of the third quarter:

We generated 1,272 million Operating Cash Flow YTD, in line with last year. Net Income adjusted for non-cash items and the balance of changes in Working Capital are almost flat year to date versus the first 9 months of last year.

We expect the Operating Cash Flow to resume growth in Q4.

To sum up, Operating Cash Flow was mainly used for the Cash Dividend paid in Q2 of €276 million, the net purchase of treasury shares for totally €240m, CAPEX of €103 million and repayment of lease liabilities of €63 million.

Lastly, the total FX impact is not significant this year, as compared to the first 3 quarters of last year.

FY23 OBJECTIVES: CHANGES FROM JULY TO OCTOBER

Now, let’s turn to our fiscal year 2023 objectives. There are two key messages that I want to share with you,

First, we are confirming our guidance for revenue and operating margin, while increasing the outlook for EPS to €1.20 at the mid-point of our range which used to be the high end previously.

The second point addresses the notion of risk associated with the back end loaded year which some of you expressed. As mentioned before, Q3 highlights the anticipated growth acceleration in the second half, and this puts us in a position of strength to de-risk our Q4 outlook and remove your concerns.

As such we keep the mid-point of our total revenue objective unchanged, while narrowing the range of total revenue to be now at €5,945m to €5,985m.

For the FY margin, we apply the same logic - no change to the midpoint of 32.5%. In fact, we are compensating the FX headwind with the stronger operating performance. This reflects the positive trend of the margin uplift in the second half of the year versus the first 6 months as mentioned before.

4Q23 & FY23 FINANCIAL OBJECTIVES

To summarize our FY 2024 objectives: we maintain growth rates at constant currency for Software Revenue at8-9% and Total Revenue at 8-9%. This implies Upfront License Revenue in the range at 3-4% and recurring revenue to be in the range of 10-11% with subscription growth unchanged in the range of 16-17%. Services Revenue is expected at 8-9%.

The operating margin range remains at 32.3% to 32.6%, with no change to the mid-point.

Before closing, let me provide you with a few additional data points that will help to shape your models for Q4: Given the strong operating performance of Q3, we now project Software Revenue to grow 8-10% in Q4. This implies Recurring Revenue growth in the range of 11-13% with Subscription Revenue increasing in the range of 18-23%. We slightly adjusted Upfront License Revenue to be now in the range of (-1) to +3% as we remain confident for the FY on the range of 3-4%.

These objectives reflect continued momentum in subscription revenue growth from new deals and an increasing contribution from our run rate. Now, one additional comment regarding MEDIDATA: we expect growth to re-accelerate in Q4 to achieve double digit growth for the FY.

In terms of profitability, we expect the operating margin in the range of 35.8-36.6% and diluted EPS of €0.35-€0.37. This reflects a year over year improvement of 190bps and 10-14% growth ex FX respectively.

For additional information, and to review what we've discussed, I'll refer you to today's earnings presentation.

FINANCIAL PERFORMANCE CONCLUSION

In conclusion --- As evidenced by the strong Q3 results we are on track to achieve our Full Year Plan for Revenue and Profitability.

Q3 performance is broad based driven by growth in **3D**EXPERIENCE closely aligned with our growth strategy as discussed during the Capital Markets Day.

Our subscription revenue is driving the momentum of the company while we deliver the productivity gains in the second half as planned.

Finally, the confidence in the FY plan is supported by rebalancing our Q4 growth with a strong Q3 upside.

And now, Bernard, Pascal and I will be happy to take your questions.