DASSAULT SYSTEMES
2016 Second Quarter and First Half Conference Call
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Final

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Thank you for joining Thibault de Tersant, Senior EVP and CFO, and Pascal Daloz, EVP Brands and Corporate Development, to discuss our 2016 second quarter and first half financial performance. This conference call follows our webcasted presentation earlier today in Paris. For your information:

- Dassault Systèmes' financial results are prepared in accordance with IFRS. We have provided supplemental, non-IFRS financial information and reconciliation tables in our earnings press release.
- Some of the 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 2015 *Document de reference.*
- Revenue growth figures are in constant currencies, unless otherwise noted.

I would now like to introduce Thibault de Tersant.

Thibault de Tersant
Senior Executive Vice President & CFO

Thank you for joining us here and good morning and good afternoon. I would like to welcome Pascal Daloz and thank him for participating on the call today in place of Bernard Charles who is on a business trip he could not move. So let's begin.

SUMMARY OVERVIEW

Looking at our financial results for the second quarter they were very well aligned with our guidance, coming in at the high end. We were pleased with the performance from an EPS perspective growing 12% excluding currency effects. We demonstrated our ongoing focus on underlying operating margin improvement. We also had strong recurring software revenue growth. But while new licenses revenue growth was solid at 6% excluding currency effects and in line with guidance, it is not where we want to be.

However, I don't have far to look to see the type of new licenses revenue growth we can generate – I see it ahead in the second half of 2016.

In that regard there was progress in a number of areas in the second quarter that illustrate where we are going.

Let’s begin with 3DEXPERIENCE where our momentum is clearly evident. We are continuing to put up key strategic wins with our 3DEXPERIENCE platform and industry solution experiences across a number of industries including Transportation & Mobility, Aerospace & Defense, Industrial Equipment, High Tech, Energy, Process & Utilities, Marine & Offshore and more. And from a client perspective we are working with global leaders and also start-ups and small companies who are benefiting from 3DEXPERIENCE.

Second, our Diversification Industries delivered strong results in the second quarter and first half. It is clear that we are building momentum in the different industries. We will share with you today our progress in Energy, Process and Utilities and overall diversification results.

Third, ENOVIA has been a key contributor to the growth of 3DEXPERIENCE sales and our industry diversification. ENOVIA’s portfolio is addressing both product development and business processes. It is clear that it has a strong momentum in the marketplace against competitors – with a 75% win ratio on deals which are over half a million euros.

Fourth, we are seeing strengthening in the Professional channel with SOLIDWORKS delivering strong recurring software revenue and improved new licenses revenue growth.

Looking to the future, we also strengthened our offer for clients with two acquisitions. As part of our global industrial operations we completed the acquisition of Ortems for manufacturing scheduling - a very critical area for companies. And, this morning we announced the extension of our multi-physics capabilities with the signing of a definitive agreement to acquire CST, the technology leader in electro-magnetic simulation.

Finally, we are reconfirming our 2016 financial objectives. From an activity perspective the year is unfolding as we anticipated with a First Half led by recurring software revenue and the second half evidencing a very strong acceleration in new licenses revenue, with 3DEXPERIENCE, industry diversification and improving performance of SOLIDWORKS as I have highlighted. We anticipate new licenses revenue to increase double-digits in constant currencies in the second half of this year.

Second Quarter Financial Summary

Turning now to our second quarter, we delivered total revenue growth at the high end of our constant currency range. We saw a rebound in software revenue growth on improving new licenses revenue growth and strong recurring software results. In total software revenue significantly strengthened up 7% in the second quarter.

Operating performance was also in line with our objectives. Our second quarter operating margin of 30.4% expanded 100 basis points compared to the year-ago quarter.

Finally, EPS is on a nice trajectory of double-digits growth excluding currency impacts, up 12% in the second quarter.

Regional Performance

Turning now to a regional review, two of our three regions delivered double-digits new licenses revenue growth – the Americas and Europe.

In the Americas, we benefited from large deal activity and growth at SOLIDWORKS. In Europe several geos were key to the strong new licenses revenue growth including Northern and Southern Europe as well as France and again direct sales did very well.

In Asia, while we did have a strong base of comparison we see the macro-environment in South Korea and importantly the link with China affecting business investments as we outlined last quarter. In AP South renewed weakness in mining and related industries is hurting results and in India, I think the results reflect a combination of macro as well as the need to improve our execution and an ongoing volatility in India from one quarter to another. In total software revenues increased 4% in Asia.

Let me now turn the call now to Pascal Daloz to begin with a brand review as he leads this area at Dassault Systemes.

Pascal Daloz
Executive Vice President, Brands & Corporate Development

Hello to all. It is my pleasure to join the call today and it was great to meet with some of you during our Capital Markets Day in Paris last month and earlier today in Paris.

Software Revenue by Brands

Turning now to a product line review, a number of our brands had double-digit software revenue growth in the second quarter, including ENOVIA, SOLIDWORKS, SIMULIA, DELMIA and EXALEAD.

Beginning with CATIA, its software revenue increased 1% in the second quarter. Recurring software was very much in line with plan and new licenses activity reflected the timing of investments by clients in transportation and mobility.

ENOVIA has now posted four quarters of double-digit new licenses revenue growth. Combined with recurring revenue performance, total ENOVIA software revenue increased 13% in the second quarter.

SOLIDWORKS software revenue increased 13% in constant currencies, attributable to strong growth in recurring software revenue on the improvement we had in maintenance renewals last year and growth in new licenses revenue. In addition to growth with existing clients, SOLIDWORKS is seeing increased competitive wins from other 3D players, where companies are moving over to our products.

Other Software increase 10% in constant currencies on strong growth for SIMULIA, DELMIA, QUINTIQ and EXALEAD. BIOVIA was in line with our expectations. GEOVIA was lower on difficult mining industry conditions.

3DEXPERIENCE First Half Performance

Moving to our 3DEXPERIENCE platform and industry solutions experiences, we are seeing good traction and momentum. But I like data and the data tells the story. Our 3DEXPERIENCE new licenses revenue is up 68% in constant currencies in the first half of 2016. And its contribution to the new licenses revenue mix is increasing to 33% for the First Half of this year up from 20% in the 2015 First Half. (The denominator is our former PLM brands.)

In aerospace, BAE Systems is an example of a recent customer adoption of our 3DEXPERIENCE platform to transform how aircraft are designed and developed through improved collaboration leading to better decisions and more timely, decision-making by getting the right information to the right people and using the model-based engineering solution.

Safran Transmission Systems, a key supplier to the aerospace industry, has deployed 3DEXPERIENCE and has indicated that they are achieving productivity gains on the order of 30% using our ‘Co-Design to Target’ industry solution with the 3DEXPERIENCE platform as their central source of information and dashboard monitoring.

ENOVIA for Collaborative Innovation

One of the key drivers of 3DEXPERIENCE growth has been ENOVIA. Its traction has been increasing over the last four quarters as I mentioned, leading to new licenses revenue growth of 34% in the second quarter and a similar level for the First Half, up 32% - both figures in constant currencies. ENOVIA has been progressively strengthening its market position with numerous key decisions and many competitive win-backs.

To help you understand what ENOVIA covers there are six primary domains: strategic customer relationships, supplier relationships, product planning, global product development, IP classification & security, as well as Quality & Compliance. Based upon our strategy, our goals are to expand the product development and business users in our core industries as well as in our diversification industries – think of merchandising, formula management, packaging – reaching different business managers who are key to the successful product development and customer experience.

ENOVIA: Winning in the Marketplace

Two customer examples include Samsung Electronics in the semiconductor space, adopting our 'Silicon Thinking' industry solution experience to drive an improved development environment, efficient cost management and decreased time-to-market through improved collaboration and data management.

Chevron Oronite, developing additives that go into fuel and lubricants, is using our 'Perfect Product' industry solution embedding ENOVIA's formula management software. Key business goals are to improve the overall development process, thereby increasing productivity through reduce time, reduced costs and increasing product innovation.

Industries Vertical Diversification

As Thibault highlighted diversification is a dynamic growth driver for Dassault Systemes. Diversification Industries represented 31% of First Half 2016 software revenue led by growth in Energy, Process & Utilities, High Tech and Marine & Offshore.

Energy, Process & Utilities

Last quarter Bernard reviewed the Marine & Offshore dynamics with you, let me spend some time today on Energy, Process & Utilities. We have a good dynamic in Power, where we are working with companies ranging from renewable energy, to hydroelectric dams and to nuclear plants where we are helping customers bring new innovation and increased safety. Among our customer is NIAEP in Russia where we are covering the full nuclear plant lifecycle.

In the nuclear energy industry commissioning is a critical part of new nuclear plants coming on much faster and it is equally important at the end in de-commissioning of the nuclear plants.

As we are doing in other industries, we are partnering with key experts, such as Assystem which was announced at the recent World Nuclear Exhibition.

And we are diversifying in Process with Metals & Minerals as well as with Oil & Gas.

The momentum is visible in our financial results where EP&U software revenue was up 15% in constant currencies in the second quarter.

Expanding Global Industrial Operations Portfolio to Manufacturing Scheduling with Ortems

Let me move quickly to review two acquisitions. In June we acquired Ortems, a terrific company focused on a very important area of manufacturing execution management – production planning and scheduling. Ortems is helping world leaders adapt on the fly to the changes occurring each and every day. This acquisition strengthens what we do in MES with Apriso as Ortems is used to manage the scheduling. For instance, Airbus is using Apriso and Ortems together. Of course, Ortems well complements what we are doing with Quintiq.

Expanding Multi-Physics Simulation

Moving to simulation, this morning we announced plans to acquire CST, Computer Simulation Technology, a privately-held company headquartered in Germany. We have known them for a long time, and, in fact, we formalized a partnership in May of 2015. Since then we have been working closely together on joint marketing and joint sales calls in addition to mapping out product strategies.

CST is essential for accelerating development of electronics and electrical systems, from early concept stages through final validation. It provides a full electromagnetic simulation portfolio, including low frequency (for electric motors, for example) through high frequency (for electronics, antennas). Importantly, it is both the technology and market leader in high frequency electromagnetic simulation – in plain English this means autonomous cars, smartphones, smart homes and wearable electronics. Their technology also covers all length scales, from subatomic particles to full commercial aircraft. Clearly, CST complements very well our multi-scale and multi-physics technology. And combined with the 3DEXPERIENCE platform, it provides a complete virtual product experience for the co-design of next generation devices.

Some quick facts on CST's financial and the transaction: its revenues were about 47 million euros, with about 65% of its software revenue recurring. We expect it to be immediately accretive to non-IFRS earnings. The purchase price in cash will be approximately 220 million euros.

Subject to closing conditions we anticipate completing the acquisition in September. We look forward to warmly welcoming them at that time and to continuing our partnership activities in the interim.

In summary, together with our 3DEXPERIENCE platform and industry solution experiences we well cover SMART AND CONNECTED EXPERIENCES – spanning Smart Design, Smart Mobility, Smart Cities and Homes and Smart Energy. As IoT and smart objects become more pervasive in all sectors of the economy and require new levels of safety and certification processes we are well-placed to be an integral partner to companies across a number of key industries in both our core and diversification verticals. Altogether the acquisition fits very well with our mission of the harmonization of product, nature and life where in a world of more and more connected objects all around us, we can help our clients ensure that health and wellness are protected.

With that summary, let me pass the call back to Thibault.

Thibault de Tersant
Senior EVP and CFO

Thank you, Pascal.

Financial Review

Let me quickly go through some key points of our financial review since I covered some major points upfront.

- First, the key take-away for software is the return to new licenses revenue growth which increased 6% in the second quarter. While this was in line with our plans, I believe we can do much better and this is our plan for the second half of the year with very good growth of new licenses revenue.
- Second, recurring software – it is performing very well and represented 71% of total software in Q2 and 72% for the First Half. We saw an excellent performance all around the world and in most industries in terms of maintenance subscription performance.
- Third, our focus in core services is on expanding our partnerships with system integrators in order to grow our potential services capacity. In some of our new businesses services is a key portion of the business and here we had mixed results, particularly with 3DEXCITE. Services represented 11% of our total revenue, decreasing 3% in the second quarter, but are higher by 2% in the First Half. While we are increasing our overall operating performance, doing so in services requires being

able to improve our resource allocation management working with system integrators, having sufficient capacity in emerging countries and managing resources and expertise among all of our brands.

Operating Margin and EPS

Turning now to our operating performance, it was very good in the second quarter with our operating margin increasing 100 basis points. Currency had a net negative impact of about 20 basis points on our second quarter operating margin.

Just a reminder that for the full year our underlying operating margin growth target is about 50 basis points excluding currency impacts, as we planned our investments to be back-end weighted and this aligned with revenue growth.

In the second quarter non-IFRS earnings per share increased 12% excluding negative currency headwinds of 4 percentage points thanks to our revenue and operating performance.

Operating Cash Flow

Our earnings results and balance sheet management translated into very solid growth in cash flow during the first half of this year increasing 8% to 449 million euros.

Unearned revenue totaled €933 million, an increase of 12% excluding currency impacts.

Confirming 2016 Financial Objectives

Turning now to our outlook, as we outlined in this morning's earnings press release, we are reconfirming our 2016 financial objectives. To be clear we are reiterating the level of activity we saw in February when we set our guidance for 2016. While it is true that during the second quarter our reported revenue benefited by about 10 million from currency compared to the guidance, this will be used up, so to speak, by higher currency assumptions headwinds in the second half of the year in our updated guidance.

Let's go through it:

- First, we are reconfirming our non-IFRS revenue growth objective of 6% to 7% in constant currencies. On a reported basis, we are bringing up the low end to €2.990 billion and retaining the high end of €3.015 billion. So the mid-point of this range moves up by 3 million euros to €3.003 billion, based on the addition of Ortems. For your information, currency has an estimated negative impact on reported revenues above two percentage points.

- Importantly, while the Japanese yen has moved in a favorable direction, we of course hedge a portion of our revenues, so of the estimated 13% of our revenues denominated in the Japanese yen, approximately 6 of the 13 are not hedged. For your further information, the 7% of our yen-denominated revenues that are hedged is, are hedged at an average rate of about 130.6 for 2016 compared to an average rate of 134.6 per euro in 2015. On the other hand, the British pound has weakened significantly with our non-hedged portion representing about 4% of our revenues. We have provided a very detailed bridge on the different currencies and total foreign exchange impact in our second quarter presentation which is on our website.
- Second, we are reconfirming our operating margin of about 31% for 2016.
- Third, we are retaining our earnings per diluted share growth target of about 7% or 2.40 euros per share. With currency it is difficult to be precise but what we do know is that if rates remain at our assumptions we have EPS currency headwinds of about 4 percentage points on our growth rate.
- Fourth, this guidance range embeds double-digits new licenses revenue growth for the second half in line with our expectations and confirming what we have said since the start of the year.

Looking to the third quarter our guidance is as follows: a non-IFRS total revenue growth objective of 6% to 8% or about €715-725 million, a non-IFRS operating margin of about 30% to 30.5% and non-IFRS EPS of about €0.54 to €0.57. Excluding two tax related benefits in the third quarter of 2015, our EPS growth rate excluding negative currency headwinds is between 8% and 14% of growth.

We estimate a consolidated effective tax rate about two percentage points lower than last year for 2016.

Finally, we will include CST in our 2016 financial objectives after the completion of the acquisition.

Summary

To conclude, we are looking forward to delivering a strong second half, leading to a good year of growth and progress.

We are also investing in our technology, in our sales and in our brands which will animate our future results as we move into 2017 and beyond.

We continue to focus on improving our execution and business processes. For sure the strong second half will require very good collaboration and back-office support to ensure that transactions are completed on a timely basis.

Finally, it is gratifying to see the traction, power and success of our 3DEXPERIENCE platform and industry solution experiences. Our goal remains to accelerate this success and replication, with clients of all sizes.

With that, Pascal and I are happy to answer any questions you have and we would like to thank everyone for the questions earlier today on our webcast.