François-José Bordonado
Vice President, Investor Relations

Thank you for joining us on our second quarter earnings conference call, with Bernard Charles, Vice Chairman and CEO, and Pascal Daloz, Chief Operating Officer and Chief Financial Officer.

- Dassault Systèmes’ results are prepared in accordance with IFRS.
- Most of the financial figures discussed on this conference call are on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.
- Some of our 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 2019 Document d'enregistrement universel (our Regulatory Annual Report).

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

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

Thank you. We hope all of you are well and for those of you within the North hemisphere will be able to enjoy some vacation time with friends and family this summer.

**SECOND QUARTER AND FIRST HALF HIGHLIGHTS**

To begin, let me share some key points on the quarter and first half.

- We delivered a second quarter financial performance well aligned with our guidance and consistent with the framework we outlined in April. Total revenue was up 10% in Q2 and 14% for the First Half.

- Our results underscore the resiliency of our financial model, with a high base of recurring software revenue, and strong operating profitability.
  - Recurring software grew 30% in Q2 as well as in H1, benefiting from a good performance for Medidata and solid renewals on an organic basis. As the cloud continues to grow over time and as our clients choose subscription, recurring software revenue will continue to increase as a percentage of our software mix – at 83% in the First Half.
  - All three key metrics: Recurring Software, Operating Margin and Earnings per share came in at the high end of our guidance range.

- We are benefiting from a well-structured savings plan, helping mitigate approximately half of the economic impact of the global pandemic, while enabling investments for the future. In Research & Development, we continue to strengthen our industry and domain leadership and to support closely our customers. R&D staffing increased 5.5% on an organic basis. We are also continuing to make investments – this morning we announced the acquisition
of Proxem, a beautiful start-up to expand our 3DEXPERIENCE collaborative data science capabilities.

- Looking at the year, the Financial Framework we shared with you last quarter had the objective of maintaining a 2020 earnings per share stable with 2019, thanks to three critical factors: recurring software resiliency, a continued strong level of operating profitability and our savings plan. Today, we are confirming and updating our EPS objective for 2020, with growth at about 1% to 3%.

**OUR PURPOSE**

Each quarter we keep coming back to our Purpose, the Virtual World improves and extends the Real World. Creating virtual twins and experiencing virtual twins enables you to explore and imagine sustainable innovations. With our new equity revealed earlier this year, Experiences are human, when you move from social to Human, it becomes very clear that innovations are made by people, for people and if all of us think in this fashion we can really change the world. The Pandemic is reminding us in a very harsh manner – we are all connected, we need to think about each other, our environment, our health, our world – we are all human.

**THE ONLY PROGRESS IS HUMAN: 10 “ACTS”**

This theme we launched in February, opening up this new horizon for Dassault Systèmes – extending 3DEXPERIENCE from Things to Life.

Linked together we also launched “The Only Progress is Human,” a global initiative to increase awareness of today’s societal and environmental challenges, and **to inspire people to use the virtual world to imagine sustainable innovations for a better future.** During a two-year period, we are engaging with the public through 10 “Acts”
to focus on some of the most pressing long-term issues humanity faces with respect to health, cities, energy, water and other areas.

**BUSINESS CONTINUITY WITH THE 3DEXPERIENCE PLATFORM**

At the same time, business continuity is important. The global health emergency has underscored the power of the 3DEXPERIENCE platform to run our business from anywhere and to engage digitally with our customers as well as our partners. The platform on the cloud is providing digital continuity for us – including sales partners - AND for our clients.

While a number of our sites have seen a return of the workforce following phased in processes, our number one priority remains Safety First for people.

**TRENDS BY KEY STRATEGIC SECTORS**

Turning to our three strategic sectors, the pandemic has revealed deep vulnerabilities in Manufacturing Industries, Life Sciences & Healthcare, and Infrastructure & Cities.

In discussions with our clients, they believe that the health crisis will have a lasting impact on how they do business and on the changing needs of their end-customers or consumers. We are committed to help them make this crisis an opportunity. A number of topics emerged in our discussions with them and materialized in some of our wins.

Let me share some illustrations:

- ✓ In Life Sciences, Moderna and Medidata are collaborating on Moderna’s mRNA-1273 trials, including its upcoming phase 3 trial - the largest COVID-
19 trial of its kind to date, involving 30,000 patients. The trial leverages our common perspectives to push forward a patient-centric concept, incorporating directly data from patients and not receiving it from sites, such as hospitals. The Medidata and Moderna teams are moving forward with the speed and urgency necessitated by the global pandemic, using the world’s most innovative and scalable cloud platform for clinical development.

✓ Working with our BIOVIA brand, GALAPAGOS, a clinical stage biotechnology company, has adopted our One Lab industry solution to improve collaboration as well as efficiency, and to reduce regulatory compliance risk with a comprehensive digital trail.

✓ Moving to the world of 5G, Ericsson is proceeding with a progressive, company-wide rollout of the 3DEXPERIENCE platform. Key values are strong collaboration across their Research & Development organization and manufacturing workflows thanks to the 3DEXPERIENCE platform managing all the requirements driving the product definition. This marks the next step in a long-term partnership, which targets the quick and efficient delivery of innovative 5G solutions, with ultra-connectivity enabling connected objects, and driving change worldwide in healthcare, energy, transportation, cities and home life and infrastructure at large.

✓ In E-MOBILITY, Nikola, a US-based pioneer in electric heavy-duty SUVs and Trucks, has adopted the 3DEXPERIENCE platform and several industry solutions to roll out an R&D platform to support rapid global expansion and to design and launch new models faster. We are also pleased to see the success of Tesla, a long-lasting 3DEXPERIENCE client.

✓ GDC Technics, an A&D supplier in Europe, sees significant business benefits – in time, in costs and in efficiency from improved collaboration – with the 3DEXPERIENCE platform and industry solutions.
✓ 3DEXperience will become the **new backbone** for engineering, manufacturing, and services for strategic programs at Airbus Defence and Space. They are deploying the 3DEXPERIENCE platform specifically for their MALE RPAS (a drone) program, ensuring end-to-end continuity from design to shop floor and operations. Key business values include improving affordability, time-to-market and maintainability of next generation products.

✓ More broadly, we are seeing increased investments in Defense programs and in Space among a number of companies across the world.

✓ Governments are providing stimulus to the aerospace industry in this unprecedented period. In June, the French government passed a measure with 17 billion euros in investments and loans to Air France, Airbus and other smaller companies in their supply chain.

✓ Moving to Infrastructure & Cities, this morning we had a joint announcement with Bouygues Construction, reinforcing our partnership with the objectives of recreating a new construction industry. In this second phase, we will focus together on developing a residential product line with the 3DEXPERIENCE platform on the Cloud for modular construction.

**COLLABORATIVE DATA INTELLIGENCE WITH THE 3DEXPERIENCE PLATFORM**

A few quick comments on collaborative data intelligence. We continue to invest in expanding our collaborative data intelligence. We are pleased to welcome Proxem, a specialist in AI-powered semantic processing software and services that transform text data into actionable content and insights. With Proxem, we will deliver New Collaborative Data Science Experiences on the 3DEXPERIENCE platform to enable industry to leverage data patrimony. The combination of AI with modeling and
simulation will drive new learning methods and the capitalization of knowledge and know-how.

With that, let me now turn the call over to Pascal.
Hello to everyone. We hope you and your families are well.

**PERFORMANCE AT A GLANCE FOR Q2 AND H1**

I would like to begin my comments with a quick overview of our financial performance:

- Total revenue was 1.07 billion euros, increasing 10% in constant currencies in Q2. Revenues came in at the mid-point of our guidance with software at the high end and services below. For H1 total revenue increased 14%.
- Operationally we are well managing our cost reduction efforts. During the second quarter, operating expenses decreased 5% on an organic basis.
- Our operating margin came in at the high end of our guidance range, at 26.7% in Q2. For the first half, we are at 28.0%.
- EPS was 80 cents, compared to our guidance range of 72 to 77 cents, with a two-cent benefit from currency, so we are also at the high end of guidance.

**Zooming in on our revenue by type:**

- Software revenue was well aligned with our planning, both recurring software, and licenses revenue. In total, software revenue increased 12% in Q2 and 15% in H1. On an organic basis, it was lower by 7% in the second quarter and 4% for H1 due to the impact of the many lockdowns on new business activity.
- Subscription & support - Our recurring software revenue represented 82% of total software in the second quarter. Recurring software revenue grew 30% in total on a good performance for renewals across virtually all of our geos and
double-digit growth for Medidata. On an organic basis, recurring software revenue increased 4% in Q2 and 5% for H1.

- Licenses & Other software came in at the low end of our planning range, decreasing 32%. We do expect this to be the weakest quarter of the year, with a slow ramp, albeit much better in total for H2 compared to Q2.
- With respect to Services, the Covid-19 pandemic has created a significant headwind, with revenue decreasing 5% in Q2. On an organic basis, we saw a decline of 22% in Q2.

**SOFTWARE REVENUE BY REGION: Q2 and H1**

Moving to a regional software review let me share perspectives on the impact of the pandemic in Q2 compared to Q1.

- Beginning first with Asia, software revenue slowed from 7% in Q1 to 3% in Q2. On an organic basis, Q1 was lower by 1% and 4% in Q2. Licenses revenue decreased in a similar manner compared to Q1 (about 20% vs Q2 at 21%). Asia Pacific South performed well, and both China and Japan were much more resilient this quarter. It was a tough quarter for India, as one would expect. Support revenue growth was very solid in Asia except for India.
- Zooming in on China, our direct sales had the best performance continuing to show pick-up in activity following what we saw at the end of Q1. Wins in the second quarter included High-Tech, Marine & Offshore, and Transportation & Mobility. Among our clients is NIO, a high-end SMART electrical vehicle OEM. NIO has adopted the 3DEXPERIENCE platform in connection with rolling out an R&D platform to support rapid global expansion and to design and launch new models faster.
• In Europe, the health crisis had a big impact in Q2 in terms of slowing customer decisions. In combination with a high Q22019 comparison, Europe software revenue decreased 4% in Q2 from growth of 2% in Q1. Our traction in Life Science continues with Migal, a Research and Development center based in Israel, selecting our Designed to Cure Industry Solution with BIOVIA in connection with research they are doing to fast-track development of a COVID-19 vaccine.

• In the Americas, overall software grew 43% in Q2 and 44% in H1. Life Sciences and Aerospace & Defense were key contributors. North America had the most deals in the top 20, spread across a number of industries. A good example could be DOT Foods, the largest food service redistribution company in the United States, is expanding its use of DELMIA Quintiq to increase warehouse efficiency. This is another example displaying the wide diversity of industries and companies where DELMIA Quintiq’s technology brings significant value.

SOFTWARE REVENUE BY PRODUCT LINES
Moving to a view of our software revenue by product lines:

• Industrial Innovation software revenue decreased 9% in Q2 and 5% in the First Half. Support revenue was very solid, but this growth was more than offset by a sharp decline in license revenues. In addition, you may recall that both CATIA and ENOVIA had very good Q2s last year, so this adds to the swing.

• In Life Sciences, Medidata’s total revenue was up double-digits in Q2 and for H1 as well on a comparable basis. During Q2, Medidata achieved record new bookings – up over 20%, accelerating backlog growth, driven on one hand by Patient Cloud and on the other Data Analytics. They also had substantial operating margin improvement. Importantly, Medidata is well positioned to
achieve its growth objective for the full year. While the global health pandemic has been a headwind to single study clinical trials, the strong new bookings is a tailwind for the full year.

- Mainstream Innovation showed good resiliency, with strong growth in recurring software. In Q2, we also saw growth for Centric PLM and for DELMIAWORKS. Software revenues for Mainstream Innovation decreased 2% in Q2 and were stable for H1.

**OPERATING MARGIN**

Zooming in on our profitability, our non-IFRS operating margin of 26.7% came in just ahead of the high end of our objective range of 25.0% to 26.5%. The two principal factors were: first, a stronger performance in our core business, bringing about 120 basis points; secondly, Medidata coming in ahead of plan adding about 20 basis points; and 10 basis points from currency compared to our guidance rates. The offset to this was our recent acquisitions of CENTRIC PLM and IQMS, coming in 50 basis points below plan combined.

Let me remind you of our savings plan, targeting about 170 million euros and offsetting about half of the revenue reduction we had estimated in Q1 from Covid-19 compared to our initial 2020 guidance in February. About half of the targeted savings relates to selective hiring – as we are doing in R&D in particular with staffing increasing 5.5% on an organic basis, and on the other half to discretionary expense. At the end of H1, we are well in line with our target with more than half of the savings achieved.

**CASH FLOW AND BALANCE SHEET**
Our operating cash flow for H1 reached 894 million euros, a strong level overall (and just 4% below H1 2019). We benefited from Medidata’s improved cash generation and better cash collections on the one side. Offsetting these factors in part was some extended payment terms to help our clients as well as to assist our resellers.

Contract liabilities totaled 1.16 billion euros and were up about 3% in constant currencies and perimeter. DSOs remained stable on a constant perimeter basis.

**NET FINANCIAL POSITION – CASH BACK TO PRE-MEDIDATA LEVELS**

Zooming for a minute on our cash position, it increased 23% in H1 - we are now back to pre-Medidata levels with cash and cash equivalents of 2.41 billion euros.

Combined with debt of 4.61 billion euros, our net financial position improved 460 million euros to a negative 2.21 billion euros at June 30.

**2020 FINANCIAL FRAMEWORK AND OBJECTIVES**

Moving now to our financial objectives, as we outlined last quarter our key objective is our commitment to achieve a stable non-IFRS earnings per share for 2020 in comparison to 2019 in the midst of the global pandemic.

- Based upon our results for H1 and assessment for the second half, we confirm our objective, now targeting non-IFRS EPS of 3.70 to 3.75 euros. The estimated effective tax rate remains unchanged at about 25.2% and our exchange rate assumptions for the USD and Japanese yen remain unchanged for Q3 and Q4 in spite of €/$ volatility we have seen the last few days.
On the revenue side, we are following closely the financial framework we laid out last quarter and summarized in today’s earnings press release.

1. We are maintaining our revenue growth range at +12% to +13% in constant currencies. We are increasing the reported revenue range at the mid-point by 15 million euros to 4.54 billion euros, with some puts and takes:
   a. +20 million for currency
   b. +20 million for software
   c. -30 million for services

2. For software, we are increasing the range to +14 to +15% growth, from +13 to +14% with recurring revenue expectations unchanged for the full year. On a sequential quarterly basis, we would expect a progressive lowering of the organic support revenue growth as we saw in 2009. Based upon our updated perspectives, we are improving our outlook for licenses software revenue evolution. Looking at our updated pipeline for the year, we do see a willingness on the part of clients to resume investments – we are not generally seeing large deals – with the pipeline made of smaller deals. The sales process in terms of maturity seems well advanced giving us greater conviction for Q3 and for Q4 also.

3. For services, we removed about 20 million euros from our H2 outlook. This implies that a little less than 10% of our service staff is on the bench due to the postponement of activities by clients beyond 2020. We have observed a willingness on the part of clients to resume investments and we have decided to keep these resources. We now estimate a services revenue trajectory ranging from a decrease of 2% to growth of 1% for 2020, compared to growth of 5 to 7% estimated earlier this year.
4. Operating margin: We are refining our non-IFRS operating margin target to about 29.3% to 29.4% for FY 2020 (from about 29.5% previously);
5. For EPS: We are adding 3 points at the high end and tightening the range to five cents from seven cents, bringing us to 3.70 to 3.75 euros.

WRAP-UP

To summarize, while our business is not immune to the COVID-19 crisis, I think our financial results demonstrated the resiliency of our business model. Moreover, our strong level of profitability and financial strength enable us to continue to invest in our strategic priorities to create value for our customers and to position us for growth re-acceleration exiting this global health crisis.

Bernard and I would now like to take and answer your questions.

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