DASSAULT SYSTEMES (DS)
2010 Third Quarter Conference Call
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Final

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Thank you for joining us on today's call with Bernard Charles, our CEO, and Thibault de Tersant, our CFO.

Dassault Systèmes' financial results are prepared in accordance with IFRS. In addition, we have provided supplemental non-IFRS financial information. For an understanding of the differences between the two please see the reconciliation tables included in our earnings press release.

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 2009 *Document de reference* and 2010 Half Year Report.

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

Bernard Charles
President and Chief Executive Officer

Hello and thank you for joining us on this call.

Overview

As our results show, Dassault Systèmes had a great 2010 third quarter thanks to all our brands. We delivered strong growth in revenue, operating margin and earnings per share.

It was really a powerhouse quarter with new licenses revenue up 54 percent in constant currencies. And we also had a very good dynamic in our recurring software revenue.

These results speak to the strength of our portfolio and solutions for the industries we address. We saw a good dynamic in our broad PLM portfolio and in our Mainstream 3D business.

We are seeing a good dynamic with our Version 6 software having added 490 customers so far since its introduction. We continue to develop important reference accounts across industries.

While Version 6 is relatively new, the technology is robust and stable at this early stage as evidenced by the large implementations that are now coming into place including LG and BAE Systems as I will discuss later in the call.

Its openness is also very evident with 4,000 users of LG on ENOVIA V6, collaborating in a multi-CAD environment where not one seat of DS design software is present.

Some of our wins this quarter illustrate clearly the value of our integrated PLM portfolio, which is leading to deeper and broader relationships with our large customers. Having a unified sales force is key to work effectively and put together the right combination of our brands and solutions for the individual customer.

Our operating margin and earnings performances this quarter and year-to-date illustrate the leverage in our business and demonstrate our commitment to expand our operating margin.

As Thibault will discuss later in greater detail, we are upgrading our 2010 financial objectives to reflect the third quarter over-performance and we are reconfirming our fourth quarter outlook. Let me share the headlines:

- 2010 Revenue growth target of 18 to 19 percent in constant currencies in comparison to 2009 and EPS growth of 26 to 32 percent. We are also anticipating growing our operating margin between 200 and 300 basis points this year compared to 2009.

Finally, this performance is even more satisfying when you take into account the fact that the global economy is still in a slow recovery and to some extent a fragile recovery. In addition, let me remind you that Dassault Systèmes is just one quarter into our newly combined direct sales force following the completion of the IBM PLM acquisition. So, all in all, the third quarter demonstrates superb execution across all of Dassault Systèmes and strong performances from our indirect sales partners.

Let me turn the call to Thibault now for his financial review.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

IFRS/non-IFRS Differences

As a reminder my comments today are based upon our non-IFRS financial results. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data.

Exalead and Geensoft acquisitions

Our financial results for the September quarter include the acquisitions of Exalead and Geensoft since July 1st. And for the nine-month period, they also reflect the significant increase in our direct internal sales force since April lst, following the IBM PLM unit's integration.

Summary

- Turning to our key figures, revenue was 409 million euros. Adjusting for the better evolution of currency, we came in about 25 million euros above our objective range from a pure activity perspective. In comparison to the year-ago quarter, our revenue grew 32 percent in constant currencies. Our operating margin of 28.0 percent came in 250 basis points higher. And EPS was 65 cents, representing a growth rate of 48 percent.

- All regions contributed to the strong financial results.

- By industry verticals, we saw good growth in our new target markets, among them high tech, apparel and energy, and a good dynamic in our core markets including automotive, aerospace and industrial equipment.

- Based upon these results we are reconfirming our fourth quarter outlook and leaving it unchanged as it already reflects the acceleration of revenue growth that we had anticipated for the second half of 2010. And raising our full year objectives for the third quarter over-performance.

- Now, let's move to the details

Revenue Review

Looking at our top-line, revenue grew 32 percent in constant currencies, with software revenue up 37 percent.

Looking at new licenses revenue, we recorded growth of 54 percent in constant currencies, really coming from all brands. Further, in addition to a normal amount of million dollar deals, we saw a large number of midsized transactions, which to me illustrates good depth. We also saw strength from all three channels this quarter, so a good level of activity with large customers and with customers in the SMB market.

In addition to new licenses revenue, our recurring software revenue trend continues to show that we are back in a growth mode, with the inflection point reached in the June quarter. Recurring software revenue increased 32 percent in constant currencies. Renewal rates came back to pre-recession levels last quarter and that continues to be the case so we are seeing further traction and growth here. Our rental business with customers is growing – SIMULIA is a key driver, and we are also seeing some interest in leasing seats in the SMB market rather than purchasing.

One area of disappointment was in our services business. While we still feel the effects from a lower level of new software activity last year of course we have nonetheless managed to improve our services margin last quarter. This quarter revenue results came in lower than we had anticipated, in part due to the fact that we are ramping up some assignments, with people in place and working, but not yet able to recognize the revenue as it is tied to stages of completion.

Brand Review

- Turning briefly to our brands, excluding currency effects, ENOVIA software revenue was up by 64 percent, CATIA by 40 percent and SolidWorks by 22 percent. And finally, Other PLM, encompassing our brands for simulation, digital manufacturing, life-life experiences and search-based applications, posted software revenue growth of 31 percent in constant currencies.

Regional Review

Looking at results by region, Asia showed the strongest year over year increase, in part due to the year-ago comparison. Asia was the best performing region from the perspective of growth in new licenses revenue. We saw very good growth in India and Korea, followed by China. Turning to Japan we had a strong level of performance in the quarter. It has been a bit bouncy this year, a good first quarter corresponding to the fiscal year-end, not so good Q2 and then back with strong growth in Q3. We are clearly seeing a higher level of activity in the automotive and high tech sectors.

In Europe, results were generally good in a number of countries and regions. Central Europe, Germany, and Northern Europe all did quite well.

Turning to the Americas, we had good results overall. In the US we continue to see a generally cautious approach to new purchases, while program-driven investments are progressing. Within this environment, nonetheless, we moved ahead with new strategic references. We see significant opportunity in diversification and will be working to better position ourselves to capture this over time. In Latin America, the business climate is very vibrant. We had a very good level of activity in Brazil, in particular, as well as in Mexico.

Operating Margin and Earnings Per Share

Our operating margin was 28 percent in the quarter. Of the 250 basis points increase in comparison to last year, about 40 basis points reflects an expense reclassification from G&A to income tax. This reclassification was made as you might recall last quarter. While currencies are normally headwinds for us, the third quarter had a positive impact of 60 basis points in comparison to the year-ago period.

At the earnings line, the 54 percent increase in operating income drove the earnings results of 65 cents per share.

Financial and other revenue, net

Similar to last quarter, financial revenue was a negative contributor to earnings.

Cash Flow and Balance Sheet

Our cash flow from operations was 51 million euros in the third quarter. Before adjusting for working capital changes we generated about 100 million in cash. The negative change in working capital simply reflects seasonal variations in unearned revenue as well as lower accounts payable, which is certainly not a bad thing.

Year-to-date, cash flow from operations was 317 million euros, up 35 percent from 234 million euros in the 2009 period.

Let me just remind you that the deferred revenue which was deducted from the purchase price for the IBM PLM unit is viewed as being 'prepaid royalty payments' from an accounting perspective even though it would have been recorded had we not done the IBM PLM acquisition.

Turning to unearned revenue at June 30th it was 436 million euros and decreased to 365 million euros at September 30. This change reflects several factors: 1) a portion is normal seasonality as we receive the cash for subscription renewals earlier in the year and then recognize the revenue over the course of the subscription period of course; 2) a portion relates to the IBM PLM acquisition.

Looking at our receivables, from a payment perspective, we had a nice improvement in our DSOs which came in at 71 days, the lowest in quite a number of quarters.

Financial Outlook

Moving now to our financial objectives for 2010, let's begin with the fourth quarter. As I mentioned at the outset of my remarks, we are reconfirming our expectation of an acceleration of second half revenue growth compared to the first half. So we are reconfirming also our fourth quarter outlook and leaving it unchanged since it already incorporates this expectation. Our financial objectives for the fourth quarter are as follows:

- Revenue of 412 to 427 million euros, representing year over year growth of 20 to 24 percent in constant currencies.
- Operating margin of about 29 to 32 percent.
- EPS of 68 to 78 cents.

Turning to 2010, taking the full amount of the over-performance from the third quarter of 25 million euros leads to an increase in our revenue, operating margin and EPS objectives as follows:

- 2010 non-IFRS revenue growth of about 18 percent to 19 percent excluding currency effects with software growing several points higher.

- We are increasing our operating margin objective range by 100 basis points to between 27 and 28 percent from 26 to 27 percent. Year-to-date our operating margin is 26.3 percent. Our fourth quarter margin is always the highest of the year and that is of course the case for 2010.
- For EPS we are raising our range by ten cents to 2.35 and 2.45 euros. This would represent a year over year growth rate of between 26 to 32 percent.

Before turning the call back to Bernard, I wanted to highlight to you that in today's press release we announced an Extraordinary Meeting of Shareholders to be convened in December simply to update our bylaws. These changes, which will be announced shortly, are being done in the normal course of business. While the meeting is called extraordinary, the bylaws' amendment changes are not.

Bernard, please go ahead.

Bernard Charles
President and CEO

Thank you, Thibault.

Now I would like to spend a few more minutes speaking about our business and the multiple factors behind our growth. We have a depth to our business which is unique among our industry and differentiates us from all of our competitors.

First, let's begin with our strong portfolio, which is driving the growth in new users thanks to our best-in-class brands. We have a massive opportunity to grow our user base within our existing customers and extend our reach to new users around the globe and in different industries.

Growth Drivers in Action
Gaining New Users with Strong Portfolio and Best-in-class Brands

CATIA

CATIA is the number 1 brand in the world for virtual design. We have remained unwavering in our view of the importance of design excellence which is reflected in our years of focus and advancement of CATIA. With our consistent investment in R&D and the development of specialized applications to help companies manage their most critical design issues, I believe we continue to widen the gap with the competition. Our portfolio of specialized applications is bringing value to customers. As a result they now represent an important portion of new software revenue activity for CATIA, at one-third of our CATIA new licenses revenue.

And our customer satisfaction is reflected in a maintenance renewal rate above 95 percent for CATIA.

During the third quarter some of the re-orders included Embraer in Latin America, SAAB and Volvo in Europe and Mitsubishi, Nikon and Hyundai in Asia.

ENOVIA

ENOVIA had a stand-out quarter, with a 157 percent increase in new licenses revenue. By region, Asia was the strongest area of growth for ENOVIA, followed by Europe and the Americas. Since the first Version 6 release we now have 490 ENOVIA V6 customers.

Moving from new business to active deployments, ENOVIA V6 is being successfully deployed in large production environments. Let me mention two larger scope engagements including LG, where there are 4,000 users in production and BAE Systems where almost 5,000 users are in production. BAE, a large defense company, is using ENOVIA V6 in its

Electronics Solutions Business Unit where there are 9,000 people in total, so more than half of the unit is on ENOVIA V6. These two examples showcase and evidence the maturity we have already reached with our Version 6 global collaborative platform.

ENOVIA V6 adoption is an important component driving broader PLM decisions. This was the case with Bell Helicopter selecting a full V6 and Tesla also as I will detail shortly.

DELMIA

We are seeing a return to growth for our digital manufacturing and production business. While the path to growth may be lumpy, we think DELMIA has a nice runway in front of it over the next several years.

Agusta-Westland, a leading anglo-italian helicopter company owned by Finmeccanica, has selected ENOVIA V6 and DELMIA V6 to harmonize the activities of their various production facilities and as a future system for integrated product development.

SIMULIA

SIMULIA continues to perform well, both through the economic downturn last year and now as the environment is starting to recover. It had double-digit growth in the quarter with demand across a number of industries. In the US, Ford has been expanding its usage of SIMULIA solutions to support Ford's digital vehicle engineering initiative with the goals of enhanced collaboration among engineers, designers and analysts and significant time savings in product development cycle time and improved design validation efficiency.

3DVIA

At our field trip, we spoke about the Nestlé Chocapic Marketing Campaigns Powered by 3DVIA. The 2009 Chocapic marketing campaign in France visibly drove up market share. Now a new October 2010 advertising campaign is being launched coinciding with the release of Arthur 3, the War of the Two Worlds. The campaign is a 3D racing game - with no joystick, keyboard or mouse - you just use your head and 3D glasses.

Portfolio: Best-in class, <u>OPEN</u>, Integrated

Now, let's turn to the openness of our portfolio. Openness is critically important for our customers because they have very heterogeneous environments and so we in turn are particularly sensitive to openness.

In high tech, LG, one of the leading high-tech companies in the world, has selected ENOVIA to have one global instance of product data in a multi-CAD environment. LG will be able to increase productivity, reduce its IT costs, improve security and enhance its intellectual property protection.

This project entailed a go live ramp within the Mobile Communications division for 4,000 users in just five days.

ENOVIA is working with 4,000 LG users that do not have one single CATIA license, but instead have Autodesk, UG Siemens and PTC design software. So clearly ENOVIA is open and works effectively within a multi-CAD environment.

Portfolio: Best-in class, Open, INTEGRATED

More and more companies are looking to simplify their technology relationships by moving to fewer, more strategic suppliers. What is unique about DS is, of course, the breadth of our industry solutions. If you look around at the landscape in which we operate most of our competitors truly focus in one or two areas. But the needs of companies in many cases are much broader, so we are convinced that our technology and product strategy aligns with where companies across many industries want to go.

New users at Bell Helicopter: Adopting Full V6

Let me share two new references illustrating the importance of integration to our customers. We won a very significant decision with Bell Helicopter in the United States choosing ENOVIA V6. This is an important, strategic win in aerospace. In addition to ENOVIA, the decision encompasses all our major brands. Specifically, they have decided to add SIMULIA, DELMIA V6 and 3DVIA, in addition to upgrading to CATIA V6. Their objectives are to reduce the complexity and cost of new helicopter programs and in so doing, improve their market responsiveness.

New users at Tesla: Adopting Full V6

In the automotive industry, Tesla, a leading electric car company headquartered in California, is partnering with Daimler and Toyota to develop powertrain components. Tesla has selected ENOVIA V6 and DELMIA V6 and will be upgrading to CATIA V6 in addition.

Diversifying in New Industries with Version 6

We continue to make progress in new industries.

In construction, Skanska, a leading construction company headquartered in Sweden, is upgrading to ENOVIA V6. Skanska is expanding its use of ENOVIA to provide transparency on project procurements and to reduce materials as well as project costs

In footwear: Flexi, the largest footwear company in Mexico, has selected ENOVIA V6 to support growth to external markets.

And in apparel: Galeria Kaufhof, a leading fashion retail company has selected ENOVIA V6. This fashion retailer, with about 25,000 employees, 138 stores in Germany and Belgium and 24 brands of its own has chosen ENOVIA V6 to manage collections and collaboration with its suppliers. The company is purchasing ENOVIA's Apparel Accelerator for Design and Development and for Sourcing and Production.

Let me stop here and share some of the feedback we have been getting from customers since we acquired Exalead last quarter. There is significant interest by companies in better leveraging the information they have to help them in their businesses. And this is not unique to any specific industry but really to all of them. So Exalead represents an important new driver of diversification, particularly into business services for DS. To illustrate this, we won a contract with Natixis Private Equity in the third quarter, which now uses Exalead Cloudview to better understand their available information.

Winning New 3D Customers with SolidWorks

Turning to SolidWorks, it is our primary growth driver for winning new 3D customers migrating from 2D. Let me also mention that SolidWorks also does a very good job of displacing competitive 3D design tools, with two-thirds of their business 2D to 3D migration and the remaining one-third 3D competitive displacements.

We saw another quarter of strengthening results, with Mainstream 3D software revenue up 22 percent in constant currencies, compared to 14 percent in Q2 and just 1 percent in the first quarter. New seats licensed also grew very nicely, up 22 percent in the third quarter. The progress was equally good for SolidWorks on the recurring software revenue side benefiting from renewal rates continuing to improve and from the growth coming from higher new license activity.

SolidWorks' progress really illustrates its deep understanding of the market it serves, its strong indirect channel and its product strategy. On the latter front, it continues to deliver product enhancements, most notably in its newest release, SolidWorks 2011. Key areas of focus of the release included: helping engineers design faster and more efficiently, enhanced support for manufacturing and improved collaboration and visualization. The roll-out went very well.

SolidWorks' strategy to develop a broad solution set is resonating with customers. In addition to its design software, SolidWorks offers PDM Enterprise, simulation software for the designer as well as specialists, and product documentation.

Several wins I would like to mention include Kingtex in China, Huter in Austria and Oystar, a packaging machinery company in the United States. In one instance, SolidWorks displaced the incumbent's design and PDM tools, while also winning over several other competitors' PDM software. Through a pilot analysis the company saw that it would gain a 25 percent increase in productivity over its existing CAD/PDM system. One of the other wins was achieved despite a competitor's very low pricing, in this case offering at half of the price we did. SolidWorks won due to its technology, strong network of users and its multi-product offering.

Unified Direct Sales Force to Better Serve Customers

Let's turn now to our direct sales force, the PLM Business Transformation organization or PLM BT. Following the June quarter where the sales teams first joined us after the completion of the IBM PLM acquisition on March 31st of this year, the combined organization is now in place, up and running. We saw a significant improvement in our closing rates during the third quarter.

DS had good results in Asia and the PLM BT group was key to this very solid performance, winning in new industries, helping drive diversification and delivering good results in our core industries. In addition to Asia, we can confirm an excellent dynamic in Europe.

I mentioned earlier in this call, multi-brand Version 6 sales. Our unified direct sales force is helping to foster these multi-brand sales in a very effective way, focusing the sales efforts and building a stronger relationship with customers. In combination with our indirect sales organization, PLM BT is also a driver of our geographic diversification.

We have a strong commitment to our sales teams, and are retaining our sales capacities to leverage further as we move forward.

Summary

In summary, this quarter presented a clear picture of our growth drivers in action.

- We are gaining new users with a strong portfolio of best-in-class brands, open and integrated.
- We are diversifying in new industries.

- We are winning customers new to 3D with our SolidWorks brand.
- And our unified direct sales force is enhancing our market reach and our customer satisfaction.

Thibault and I would now be happy to take your questions.

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