DASSAULT SYSTEMES (DS)
2009 Second 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.

DS' 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 second quarter press release and in our 2008 *Document de référence*.

If you have additional follow-up questions after the conference call, please contact Beatrix Martinez or myself in Paris or Michele Katz in New York.

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

Bernard Charles
President and Chief Executive Officer

Thank you, Francois.

Summary Overview

Last quarter we outlined for you our four strategic priorities to guide us during this difficult global economic period:

- First, to support our customers and sales channel partners around the world;
- Second, to continue to advance our R&D initiatives and product roadmap;
- Third, to realize the cost savings targets we have outlined, and
- Fourth, to continue to focus on strong execution across all of Dassault Systemes.

I believe our second quarter financial results and key announcements indicate that our performance is well aligned with these priorities.

Looking at the quarter, our revenue results were at the high end of our objectives and consensus estimates. The environment during the second quarter was just as difficult as the first three months of the year. Nonetheless, we are improving our ability to navigate within this business climate.

Companies continue to be hesitant in making purchasing decisions and are opting for smaller transactions. While I am not sure there is more clarity regarding the macroeconomic environment since three months ago, we are seeing some increased transaction sizes, as larger companies move forward with key investments.

We continue to press ahead on our cost savings plan and are making very good progress. Importantly, we are capturing significant savings while maintaining our R&D, sales and customer support capacity.

During the quarter we introduced our second software release for Version 6. While we are in the early stages of adoption of our V6 platform and software applications, we are pleased with the progress to date, demonstrating the need for PLM across so many industries. We are seeing a high level of interest in V6 and in ENOVIA.

Now let me turn the call over to Thibault for his financial review.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

IFRS/non-IFRS Differences

Let me first make a brief comment on our IFRS and non-IFRS reconciliation figures. For the second quarter they are generally similar to the year-ago period; for the first half I would remind you that in 2008 we recorded a gain on sale of 17.2 million euros related to our former headquarters in Suresnes. All of this is detailed in our press release.

Summary Financial Highlights

Turning to the quarter, let me highlight just a few key points:

- First, we came in at the high end of our financial objectives. And, in light of the environment, the absolute numbers were not bad.
- Revenue of 311 million was at the high end of our 295 to 310 million range, reflecting some better than anticipated activity with large accounts.
- Thanks to our focus on cost controls, the higher revenue translated into higher operating margin and earnings per share results. Specifically, our non-IFRS operating margin came in at 21.9 percent, compared to our objective range of 19 to 22 percent. And our non-IFRS earnings per share were 37 cents compared to our objective range of 32 to 38 cents.

To balance this good news, I would say that while some of the larger companies with more financial flexibility are moving ahead with significant contracts, the SMB market continues to be challenging.

The second point I would make is that across our three sales channels, visibility on the timing of transactions is still not clear, with decisions taking longer and transaction sizes being smaller than prior to the recession.

Now let's turn to sales activity by region.

Regional Performance

In general, I would say we did not see further deterioration in new business across geographies compared to the first quarter. In total, revenue was lower by 11 percent in constant currencies.

- In the Americas, revenue decreased 12 percent in constant currencies. We had new business transactions across a diversified set of industries, including aerospace, life science, consumer goods, and high tech.
- In Europe we had improved traction with large accounts, particularly in the automotive and aerospace industries. I would characterize the mid-market as still very much impacted by the environment. In total, revenue in Europe was lower by 8 percent excluding currency effects.
- And in Asia, we saw some improvement in China and some increase in activity in Korea. The big issue continues to be the economy in Japan which is very weak. As it is a major portion of our revenues in Asia, it weighs on the performance of that region leading to a revenue decline of 18 percent in constant currencies in Asia.

Software Review

Turning to software revenue:

- New license revenue activity continued to be down significantly year on year, with a 36 percent decrease in constant currencies. Overall I think it has leveled off for now. On a sequential basis, new licenses revenue increased 10 percent in constant currencies.
- Secondly, recurring software revenue increased 6 percent in constant currencies. As anticipated, the recurring software revenue growth rate slowed from the first quarter, exactly in line with our expectations. In total, recurring software revenue accounted for 74 percent of our total software revenue in the second quarter. And the level of renewals was also in line with our expectations and consistent with what we discussed with you last quarter.
- Applying simple math, of course, with three or more quarters of low new license revenue activity, this fact has a flow-through impact on the rate of growth in the subscription base and therefore we will see some further slowdown in the recurring revenue growth rate before it starts to increase again. This observation is already reflected in our recurring software revenue growth rate assumption for the full year.

Looking at software results by business segment,

- In PLM, software revenue decreased 9 percent in constant currencies year over year. For CATIA, activity with large accounts was slightly better than in the first quarter while new business was still weak in the mid-market. For ENOVIA, new business activity was also somewhat better sequentially. SIMULIA posted double-digit revenue growth in constant currencies.
- In Mainstream 3D, software revenue decreased 10 percent in constant currencies. SolidWorks continues to sell on value, maintaining average pricing slightly higher in comparison to the year-ago quarter. This is

important not just for SolidWorks but for the health of its channel partners. New seats sold totaled 8,500, lower by 35 percent in comparison to the year-ago period. It looks like it is bottoming – remember the impact from the global recession was first noticeable in SolidWorks in the 2008 third quarter – but there are no signs of a turnaround. While we may not like the unit numbers, the second quarter figure of 8,500 new commercial licenses was about 50 percent better than the last reported quarterly figure from a distant third competitor.

Services and Other Revenue Review

Turning to services and other revenue, total revenue declined 24 percent in constant currencies. The largest part is from change in scope, with the DSF spin-off as of July 1, 2008. We also had a decrease in consulting revenue compared to the year-ago quarter as well as lower mid-market services activity. On a sequential basis, our services revenue was higher by 7 percent in constant currencies.

The services gross margin improved significantly on a sequential basis. In the first quarter the services gross margin was essentially break-even and is now 11 percent in the second quarter. We benefited from the sequential increase in revenue as well as our plan to improve the profitability of our consulting business over the mid-term.

Earnings and Margin, Cost Savings Plan, Focus on Efficient Operations

Moving to profitability, there are several important points to highlight.

As I mentioned earlier our operating margin and earnings results came in at the high end of our objectives and importantly all the benefits from higher revenue flowed through to the bottom line.

Our cost savings program is well on track. For the full year we are targeting about 120 million of cost reductions and to date are above 55 million. The largest contributors to the savings are revenue-related, travel and marketing. To remind you the program is broad in scope touching the entire company. We are focused on:

- cost savings linked to revenue including, lower royalty fees in our cost of software, lower cost of services, variable pay and commissions;
- stable staffing - and as our global headcount figures show, at the end of June the figure was almost back to where we were at the end of 2008 so we are showing some good discipline here. We also made the decision to freeze salaries for 2009; and
- travel and marketing as well as purchasing and other areas of savings.

Our corporate efficiency program, begun a year or so ago, is continuing. Co-location initiatives are ongoing as we simplify the physical organization of DS with employees grouped together by geography, including bringing together R&D resources where it makes sense. Our goal in R&D is to better leverage our skills and centers of excellence. In this regard, we have been regrouping our ENOVIA V6 and CATIA R&D in the US at our offices outside of Boston, in Velizy and in India. This past quarter we made this change at our research operations in Israel, which will now focus on our Version 5 initiatives.

Another part of the efficiency program is shared services – and here we made progress going live with our US shared services during May.

Financial and other revenue, net

Currency volatility continues to hurt balance sheet conversions, particularly when it comes at the end of the quarter as we saw with the sudden steep weakening of the Japanese yen and US dollar at the end of June. As a consequence, financial and other revenue was a drag on net income, with a loss of over 4 million in the second quarter.

Net Operating Cash Flow

Cash flow from operations was not bad in the quarter. And, for the first half it was pretty good at 177 million euros, benefiting from an improvement in working capital as well as other non-cash P&L items.

Balance Sheet

Shareholders approved the cash dividend of 46 cents, which was stable with the prior year amount. The current dividend yield is about 1.45 percent, certainly attractive in today's market. Second quarter cash balances reflect the payment of just under 55 million for dividends in June.

We continue to carefully manage DSOs. The total level is relatively stable and consistent with historical trends and seasonal variations.

Financial Outlook

Turning to our financial objectives, based upon everything we have seen in the second quarter and first half leads us to assume no improvement or deterioration in business conditions in the second half compared to the first half.

1. As a result, we are holding the mid-point of our full year constant currency revenue objective range unchanged at (7) percent, and simply narrowing the

range to reflect the shorter time-frame; so we narrow from (9) to (5) percent to (8) to (6) percent. On a reported basis, that means the revenue mid-point was 1.285 billion euros initially and it stays there with the narrower range.

2. We similarly narrowed our full year EPS range, from 1.78 to 2.00 euros initially to 1.82 to 1.96.
3. Currency exchange rates continue to be volatile. After a brief period of strength, the US dollar has weakened again. Consequently we have decided to change our assumption for the remainder of the year to 1.50 dollar per 1 Euro. We are also updating our assumption for the Japanese yen to 140 yen per 1 Euro.
4. Therefore, taking into account these currency assumptions changes, leads to a reported total revenue range of about 1.250 to 1.280 billion euros, after this 20 million currency impact. The EPS range is also adjusted and is now 1.76 to 1.91, reflecting a 6 cents impact from currency.
5. Finally, our cost and efficiency programs are on track. As a result, we are leaving our full year operating margin objective unchanged at 24 to 26 percent on a non-IFRS basis.

For the third quarter we have set a non-IFRS total revenue objective of about 285 to 300 million euros, reflecting the current business environment and normal seasonality. Thanks to our cost savings program we are targeting to maintain or slightly improve our earnings results in comparison to the second quarter, notwithstanding the lower revenue expectation. In the press release we have outlined the IFRS items excluded from these objectives.

Now let me turn the call back to Bernard.

Bernard Charles
President and Chief Executive Officer

Thank you, Thibault.

Introduction

When I look at Dassault Systemes, I see the importance of the whole. What is valuable is not just one area of the company, one win. It is about all of our brands, channels, consulting and R&D working hard and dedicated to deliver on our commitments to our customers, our partners and to the future. Every customer contributes to DS' position as the leader of the PLM market, a position we have held for over ten years.

And what is so exciting is innovation and the role of PLM as an enabler for collaborative innovation. Innovation is happening every day and so products, whether airplanes, heart stents, vacuum cleaners, drugs, ships, automobiles or jeans and the companies that develop them are finding PLM an integral partner to their success as a company.

Advancing on our Next Generation of PLM
Launch of Version 6, Release 2010

One year ago we introduced Version 6 with its next generation architecture and launched our first V6 software release in November of 2008. In June, we introduced V6R2010, our second release.

We are at the beginning of a long period where we expect our V6 architecture and software portfolio to be in use. As we are just at the start of the adoption ramp we are pleased by the number of wins we are seeing – more than 130 companies to date, representing a wide array of industries as we will discuss. I would like to first begin with the automotive industry.

Developing New Markets for Growth in our Core Industries
Renault Group Selects Dassault Systemes V6 Solutions

This quarter we obtained a milestone decision at the Renault Group selecting our V6 software as their product development solution.

Renault has selected the full V6 PLM as its global online collaboration platform, thereby standardizing on DS solutions and moving to ENOVIA as the single collaborative PLM solution, replacing multiple legacy PDM systems. It is a multi-year commitment, with both companies working in close partnership. The scope of the agreement is for both software and services.

For Renault they wanted to achieve certain objectives: enable their global engineering teams to be located close to the markets where Renault wants to develop; enable them to connect with their strategic partners including Nissan in Japan and Avtovaz in Russia, so the solution selected had to be open; adapt tools and processes to this global organization; and implement one unified reference for product data that would be available to everyone, everywhere, in real time.

After more than one year of evaluation and testing, DS was selected based upon several important criteria:

- proven scalability to connect a large number of users, across all geographies, in fact 4 times more users than presently;
- openness to work with partners and to connect to third-party applications;
- out-of-the-box configurations to reduce cost of ownership; and

- an easy-to-use intuitive V6 interface to improve productivity of all users.

Target Industries selecting ENOVIA for Business Transformation

Let me talk about the role of ENOVIA as an enabler for business transformation in different industries. More than one-third of the 100 largest ENOVIA transactions since the start of this year were in our target industries.

Our leadership in apparel is proving itself, clearly evidenced by our progress. Companies of all sizes in the apparel industry are selecting ENOVIA for product development and sourcing. From 4 accounts in 2005 we now have 34. And our offering is focused on product development as well as sourcing. Let me share the most recent examples of companies in the apparel industry selecting DS.

- In the mid-market Boston Apparel chose ENOVIA V6 for Design & Development as well as Sourcing & Production;
- Eldo Apparel, headquartered in Italy and the operating company for FreeSoul, a top-10 European denim fashion label, selected ENOVIA V6 for Design & Development;
- And Monoprix, one of the major retailers in France, selected ENOVIA V6 to react quickly to fashion trends and improve collaboration with suppliers;
- Evidence of the appeal of our offering is our win rate against one of our competitors specializing in this area where we have beat them 11 out of the last 13 competitive deals.

We are also advancing in the life sciences industry, winning new accounts. Our solutions are ready-to-use. Several medical device companies selected ENOVIA to ensure compliance with governmental regulations. We had a recent win with

Zimmer, with headquarters in the United States. Zimmer is a world leader in orthopedic products.

And last quarter we covered in depth how compliance requirements are driving sales of ENOVIA in a number of industries.

In summary, we are making excellent headway in target industries, clear greenfield opportunities for ENOVIA. Our industry specific accelerators offer quick implementation and are well designed to the specific needs and processes of the respective industries we are addressing. And our success in core industries is being fueled by the PLM 2.0 online with the V6 architecture.

All Brands Contributing to Industry Diversification

In addition to the time we spent today on ENOVIA and its role as a driver of industry diversification, in fact, all our brands are contributing to this goal. SolidWorks is very well diversified by industry verticals. Looking at a summary of the wins in the quarter, I see shipbuilding, aerospace and defense, consumer goods, energy, and industrial equipment. That is also the case for SIMULIA, with product simulation a critically important activity across all industries. And finally, we are finding more and more the opportunity to cross-sell many of our brands as we establish relationships with our customers.

R&D Focus: Bio-intelligence

Now, where else could PLM be of tremendous value? A very interesting area of our research is in bio-intelligence. Here we are developing solutions to answer customers' needs with the respect to "Virtual Laboratories" to improve the efficiency of biological research.

Our work in this area has been recognized by the French government, who recently announced that Dassault Systemes was selected to lead a bio-intelligence project with participants from both academia and the pharmaceutical industry. The goal of the project is to try to lessen the failure rate of new drugs at the clinical testing phase through the use of simulation and modeling tools and federation of data tools as well as knowledge management.

3DVIA

Now, let me share an interesting update about 3DVIA. Next year, the World Expo will be held in China. DS has been selected to build the virtual park where visitors will be able to visit the Expo on-line virtually. This project involves an enormous amount of data to model and represent and creates new needs for navigation capabilities and ease of use.

And finally, during our webcast earlier today we showed a quick video on 3DVIA and there is more to come as we will be participating at SIGGRAPH next week.

Summary

In summary, the results for the second quarter demonstrate that we had made a very realistic assessment of business conditions and have developed a pragmatic approach to managing through this deep global recession. From an earnings and margin perspective, our results and full year outlook illustrate that the dual goals of achieving meaningful cost reductions while maintaining R&D and sales capacity are not inconsistent. And we believe our actions are a responsible approach to all parties, including our customers, partners, employees and shareholders.

With that Thibault and I will stop to take your questions.

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