Third Quarter 2024 Earnings Conference Call 24th October 2024

BEATRIX MARTINEZ, Vice President, Investor Relations

Thank you for joining our Third Quarter 2024 earnings conference call with Pascal Daloz, Chief Executive Officer, and Rouven Bergmann, Chief Financial Officer.

- 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 2023 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 Pascal Daloz.

PASCAL DALOZ, CHIEF EXECUTIVE OFFICER

Thank you, Beatrix. Good morning to everyone joining us on the call, and good afternoon to those in Europe.

This morning, we issued our earnings press release, for our Third Quarter 2024 results.

24Q3 IN A NUTSHELL

Our Q3 results were in line, showing 4% revenue growth driven by an 8% increase in subscriptions. Year-to-date, subscriptions grew by 9%. EPS increased 8%, reflecting solid overall performance.

I'd like to highlight three key elements of the quarter:

1. We have seen several end-markets gaining momentum. In Life Sciences, MEDIDATA is back to sequential growth. At the same time, we had excellent performance in Consumer industries driven by Centric PLM. SOLIDWORKS accelerated growth in revenue and seats. Importantly, Aerospace & Defense demonstrated resilience, delivering a solid performance this quarter.

2. Since late summer, automotive customers in Europe and the US have been impacted by a contraction in volumes. This accelerates the need for transformative decisions, while it can elongate decision-making in the short term. In contrast, in Asia, specifically China, momentum remains extremely strong.

3. More than ever, we are well-positioned to continue gaining market share with a robust pipeline in the industrial sector. We are confident that our **3D**EXPERIENCE data-centric platform will serve as a catalyst for customer transformation. In the age of AI, virtualizing industrial processes from design to manufacturing will be a prerequisite for OEMs and suppliers to compete successfully in this next decade.

In light of these factors, we reconfirm our full-year EPS target range of €1.27 to €1.30, unchanged, and we anticipate revenue growth acceleration in Q4, nevertheless adjusted due to the slowdown in automotive; Rouven will give further details. This acceleration is driven by the strength of the **3D**EXPERIENCE pipeline.

GAME CHANGER

Let's now dive into our key observations across the three main sectors of the economy.:

- In the **Manufacturing Industries**, automotive makers have downgraded their 2024 forecasts since late summer, now predicting a 1% to 2% decline in car production instead of the previously anticipated growth. This downgrade primarily impacts us in Europe, to a lesser extent in the US, while we continue to see strong growth in China.

  Simultaneously, several other end-markets are showing momentum. Aerospace & Defense delivered a good performance this quarter, driven by robust defense contracts and supplier contributions.

  On the diversification front, we achieved exceptional performance in Home & Lifestyle with Centric PLM, consistently winning new clients and securing several large, strategic deals.

  In High Tech, we delivered robust growth, notably in China. SOLIDWORKS accelerated its revenue growth to mid-single digits, with seat growth in the high single digits while the transition to subscription and cloud continues, now representing about one third of our bookings.

  This diversity of the markets we address brings resilience to our business model.

  Our competitiveness remains robust. In Q3, we secured almost hundred significant competitive deals across key markets, including China, Korea, France, Germany, and North America, covering industries such as Aerospace & Defense, High Tech, Industrial Equipment, and also, Transportation & Mobility. A key point is, over a third of these deals involved competitive displacements, demonstrating that clients recognize the value of our solutions.

- **Life Sciences:** In Life Sciences, Q3 demonstrated broad-based improvement for MEDIDATA, driven by several factors. The first one is market recovery and a second consecutive quarter of growth in global clinical trial starts. We experienced positive engagement with our customers across our Enterprise and Midmarket clients, as well as with our CRO partners, leading to several expanded relationships.

  We previously discussed the new innovation cycle, which is contributing to the improvement, and the launch of MEDIDATA Clinical Data Studio at the end of June. This product has already achieved significant success, helping us win back clients and serving as a competitive differentiator that enhances our value proposition beyond EDC.

  This quarter, we also introduced Rave Lite, designed for early and late-phase studies. Our goal is to standardize this fragmented market, which includes many small players, by leveraging Rave across all stages.

  In terms of market share, we continue to strengthen our position and extend our reach from Clinical Trials to Manufacturing and PLM.

  In conclusion, I believe the new innovation cycle is starting to pay off and we are on track for MEDIDATA recovery.

- **Infrastructure**: while a few dominant players exist, we continue to gain references in the energy sector that demonstrate our ability to disrupt the market with our data-centric **3D**EXPERIENCE platform and support customers with their build and run processes.

Key Wins

I'd now like to spotlight key wins this quarter and how they transform and accelerate our clients' competitive edge:

MANUFACTURING INDUSTRIES – BYD expands with 3DEXPERIENCE platform

I'm glad to announce our expanded partnership with **BYD**, the world's leading EV producer.

This expansion focuses on **3D**EXPERIENCE and Mod Sim for batteries and New Energy Vehicles (NEV), helping BYD to remain the top OEM globally while cutting costs across their entire process. They also aim to enhance aerodynamic performance to meet the rising efficiency demands in today's market.

This win was highly competitive - against nearly all Simulation players - and BYD recognized Dassault Systèmes as the best-in-class solution for high-performance battery design and simulation. This collaboration will bring over 500 advanced new users within BYD.

LIFE SCIENCES – Merck

We are expanding our partnership with **Merck**, focusing on patient centricity. While competitors claim this customer as a reference, we are growing through innovative solutions and our collaboration with Merck shows their trust in us to enhance patient experiences in clinical trials.

We are broadening our partnership to support key studies in various therapeutic areas, including a Phase III infectious disease study that now involves more patients over a longer duration. We are also adding support for a new oncology study.

This partnership brings an additional 1,400 patients across over 400 sites, adding to the tens of thousands already participating in the decentralized clinical trials we support.

Overall, this expansion highlights our growth potential through innovation and patient focus, further diversifying our offerings beyond Rave.

INFRASTRUCTURE & CITIES – Snam

Snam is a leading natural gas transport operator in Europe, managing a 38,000 km pipeline network. SNAM chose our **3D**EXPERIENCE platform to digitally transform the management and optimization of its gas network, successfully replacing their outdated Bentley solution.

This winback is very similar to the one we presented for Red Eléctrica a few quarters ago.

The key point is that Snam will rely on Dassault Systèmes' solutions to create virtual twins of existing and future assets, enabling them to manage and optimize their asset operations collaboratively, improve structural safety, and reduce emissions.

As a result, Snam's extensive ecosystem of assets and operators will ensure a predictable supply of energy throughout Italy but also internationally.

Our differentiation lies in our ability to combine virtual and real-world data, seamlessly integrating information collected by sensors, allowing SNAM to gather, analyze, and act on real-time information.

These wins demonstrate our relevance in the sector and highlight our growing reputation for modernizing energy infrastructure while enhancing operational efficiency and energy sovereignty.

My final comment will be related to AI momentum within our portfolio.

ELEVATING DATA TO GENERATIVE EXPERIENCES

We have the largest and most diversified installed base in the market. This means we have access to the largest corpus of data—industry data, business data, and science data. We use this as a strategic asset to maximize the potential of AI. We've been combining AI with ModSim to transform data into knowledge and expertise, ultimately creating generative experiences.This approach applies to everything we do across all the industries and domains we serve.

Today, we leverage a 40-year legacy of industry knowledge and know-how. It is a way for us to elevate the way people work.

In 2024, with AI, our customers can:

- Put expert knowledge and know-how in the hands of non-experts,
- Connect design, engineering, and manufacturing,
- Activate the lifecycle of products,
- Master systems of systems,
- Achieve personalization at scale.

No competitor can offer this level of transformative power.

CONCLUSION

Before handing over to Rouven, I want to highlight three key points.

First, our **3D**EXPERIENCE platform is a powerful differentiator—unified, cloud-native, and data-centric; it empowers OEMs and suppliers to excel in a rapidly evolving environment while leveraging AI.

Second, our differentiation resonates with customers, as demonstrated by our significant competitive wins and winbacks, reflecting the genuine value of what we offer.

Third, our **3D**EXPERIENCE robust pipeline supports our confidence in growth acceleration in Q4.

And now Rouven, the floor is yours.

ROUVEN BERGMANN, CHIEF FINANCIAL OFFICER

24Q3 PERFORMANCE AT A GLANCE

Thank you, Pascal, and hello to all of you joining our presentation this afternoon pr ùorning for those in the US.

In Q3, our results were overall in line with objectives. While total revenue growth at 4% and Software revenue growth at 3% came in at the lower end of the range, profitability was good with operating margin of 29.6% at the mid-point and EPS of 29 cents at the high end of our guidance.

As you heard from Pascal, in Q3 we faced headwinds with our automotive customers in Europe and the US due to volume contractions. We see this as a short-term challenge impacting the timing of decisions. This was a factor in several pursuits this quarter. However, we are confident that the **3D**EXPERIENCE Platform addresses the needs of this industry as evidenced by our mid-term pipeline.

To complete the Q3 picture, Subscription revenue was at 8% year-on-year and Upfront License Revenue was down by 7%. Two additional comments: First, as you know, Q3 is the anniversary of the mega deal which added a significant headwind to growth this quarter of 5pts on Software revenue and license revenue. Second, subscription growth remains strong when excluding the temporarily lower contribution from MEDIDATA, at 19% for the quarter and 20% YTD. This momentum reflects continued healthy demand for **3D**EXPERIENCE Platform and Cloud. Important to highlight, the MEDIDATA performance was in line with our expectations – which I will discuss in more details shortly.

Looking at the first 9 months, total revenue was €4.5 billion, up 4% driven by subscription revenue growth of 9%. Operating margin of 30.2% and EPS growth of 8% are highlighting the resilient financial model despite a back- end loaded year.

24Q3 ACTUALS VS OBJECTIVES

Now, let me briefly review the deviations to the Mid-Point of our objectives for Q3:

Total revenue came in at €1.464 billion in the third quarter, at the low end of our objectives excluding a negative currency impact, - €2 million. This performance reflects the headwinds evidenced with our automotive customers.

Operating margin was 29.6%, in the middle of our guidance range. Lower revenue was offset by effective cost containment. Opex growth in Q3 was 6%.

EPS was €0.29, with a tax rate largely in line with guidance and Financial Income at peak. Starting in Q4, we expect the contribution from Financial Income to be more muted due to rate cuts and bond repayment in Q3.

We continue to take a disciplined approach to managing our business in the current environment in order to preserve our EPS objectives, while we continue to invest in innovation to support our long-term growth potential.

Turning to our **GROWTH DRIVERS**, I will focus on the YTD trend going forward as there can be quarter to quarter fluctuations impacted by the timing of large deals.

The key message is that despite the current headwind, the growth momentum with **3D**EXPERIENCE and Cloud remain resilient. Subscription revenue growth in **3D**EXPERIENCE was up 57% YTD (41% for the quarter) driving the share of **3D**EXPERIENCE platform to now 37% of software revenue, up 3 pts versus YTD 3Q23. This highlights the strength and the potential for revenue acceleration in the mid-term;

Our top 5 new **3D**EXPERIENCE subscription deals in the quarter generated ¼ of the growth.

Cloud revenue grew 7% year to date. Excluding MEDIDATA, Cloud growth increased 52% for the first 9 months driven by strong momentum in the adoption of **3D**EXPERIENCE Cloud. We had several customers expanding their adoption of the **3D**EXPERIENCE Platform on the Cloud this quarter, such as EDF, BOCONCEPT, Conforama France, Dallara Automobil, Horse Powertrain, to name a few.

Now let's review our performance for Q3 and the first 9 months by **REGION** and then PRODUCT LINEs.

Across Europe and the Americas, the weak Automotive sector impacted 3Q performance.

In the AMERICAS, Software revenues was up 6% in the quarter, led by Mainstream Innovation, with an exceptional performance in Home & Lifestyle and increasing momentum of SOLIDWORKS.

Europe was down -4% in 3Q, largely due to very high comps. At the market segment level, the performance across the region was mixed highlighted by good results in the West and the Central parts of Europe, while North, due to high comps, and Mediterranean regions were soft.

Performance in Asia remained on track with 9% growth in the quarter and year-to-date. Unlike Europe and the Americas, Transportation & Mobility was strong in China. Also, High-Tech had a good quarter in the region. China, up double digits in the quarter and year-to-date, as investment in the technology sector continued at healthy levels. Japan, Korea and India were up mid-single digits in the quarter.

Switching to **PRODUCT LINE**.

The impact of delayed decision-making headwinds on growth is most visible in Industrial Innovation which is up 4% for the first 9 month, -1% for the quarter. The re-acceleration of growth is associated with deals in our pipeline that will drive this segment.

One of the highlights of the quarter was the strong progression of SIMULIA up high single digits. BYD expanded the use of our SIMULIA solutions for Multiphysics simulation including all domains. To complement we also signed deals with Sauber, HKMC and Honda Motors in China.

Despite the lower total Software Revenue growth in Indutrial Innovation, the momentum in Subscription continues strongly at 20% growth.

In Life Sciences, we saw in Q3 the anticipated acceleration with sequential growth improvement for MEDIDATA. This uptick was driven mainly by continuous rebound in our study-based bookings growth over the last 4 consecutive quarters. Also, we saw broad-based momentum across Enterprise, Midmarket clients. Just to name a few customers that expanded relationships: Otsuka, Merck, Daiichi-Sankyo, Revolution Medicine, Immunovant, IPSEN, BeiGene, Abbott and Solventum.

We are signing more deals, however on the flip side, we saw fewer large deals in the quarter – similar to Q2. As mentioned during our Q2 call, we expect this trend to normalize as the share of large transactions will grow with upcoming renewals over the next quarters.

From a market perspective, it is now the second consecutive quarter with sequential growth in global clinical trial starts. While the increases over the last 6 months remained rather small in absolute terms, the trend is positive. In terms of market share, we continue to gain share across all phases by 1pt. on a 12-months-trailing basis. This is driven by resilient momentum in pivotal Phase III and an uptick in late phase IV studies. Phase I and II market share remains marginally unchanged. And, as you probably saw in our press release from last week, we are doubling down on the Early and Late Phase market

/ Ph I and Ph IV. This is a very fragmented space and we believe we can consolidate it with our new offer RAVE Lite.

The highlight this quarter was clearly Mainstream Innovation with 15% growth in 3Q. SOLIDWORKS had a good start in the second half of 2024, up mid-single digits in revenue and volumes. Centric PLM delivered an outstanding quarter featured by competitive displacements and strong renewals with healthy expansions across the platform.

Now, let me share further observations on the strong performance of **CENTRIC PLM:**

The Centric PLM Team has made significant progress over the last 4 quarters scaling the operation at a global level. This is evident in the growth trajectory and value capture reflected in large deal sizes. The deals this quarter are spanning across Retail, Apparel, Sports and Cosmetics and include significant platform expansions. In Q3, key competitive wins were PVH in the US, ASOS in the UK and Kmart, a leading retailer in Australia.

Turning now to **CASH FLOW AND BALANCE SHEET** items:

Cash and cash equivalents totaled €3.658 billion, compared to €3.568 billion at the end of 2023, an increase of €89 million.

At the end of September, our net cash position totaled €1.066 billion, versus net cash of €578 million, at December 31, 2023.

Now, let’s look at key levers impacting our cash position at the end of the third quarter:We generated €1.353 billion Operating Cash Flow year-to-date versus €1.272 billion last year or growth of 6%.

For the first 9 months, Cash conversion from Non-IFRS Operating Income was 100% vs. 95% at the same time last year.

For further details please see our Operating Cash Flow reconciliation in our presentation published this morning.

Main drivers are the increase in Net Income adjusted for non-cash items and lower tax payments partially offset by lower compensation accruals and timing effect of payments for accounts payables.

Operating Cash Flow uses were as follows year to date: First for Financing purposes, we repaid €700 million of bonds used to finance the MEDIDATA acquisition which came due in September, offset by €300 million of new commercial paper issuance. We repurchased Treasury Stock net of proceeds from the exercise of stock options of €329 million, and paid €303 million in dividends. Second, in terms of Investing activities, we invested €142 million in property, plant and equipment of which €89 million is related to IT CAPEX supporting our growth, and the rest of €53 million mainly to expand and modernize our office space and presence in France, US and India. We reiterate our commitment to invest and foster our culture of collaboration and innovation across our locations and work spaces.

Now, let’s take a closer look at our **FY OUTLOOK**

Over the first nine months we experienced a certain volatility in key end-markets such as Aerospace and now Automotive impacting the time to advance our large deal pipeline. This is clearly visible in Industrial Innovation. On the flip side, we are seeing the Life Sciences market stabilizing. Also, SOLIDWORKS accelerated growth in Q3. Centric PLM continues to outperform expanding deal sizes across an increasing scope of verticals.

With this in mind, I have 3 key messages before outlining our Q4 and FY objectives:

1) We are committed to delivering the EPS growth, unchanged versus the previous guidance of €1.27 to €1.30. This reflects strong operating efficiency and commitment to our mid-term objectives.

2) Our pipeline of large **3D**EXPERIENCE opportunities remains strong over the next quarters and we are confident in growth acceleration in Q4.

3) Provided that the timing of decision-making can be less predictable in the current environment, we want to be cautious and adjust total revenue growth for the year to 5-7% growth, down from 6-8% previously.

- Consequently, total revenue is now in the range of €6.155 billion to €6.275 billion versus previously €6,260 billion to €6.335 billion. As you can see, we are increasing the range to €120 million to reflect a larger variance of outcomes in Q4 while still expecting solid acceleration at the mid-point to 8% growth in Q4.

- For Software Revenue we expect 5-7% growth for 2024, with Upfront License Revenue in the range of (-1%) to 6% and recurring revenue up 6% to 7%.

- Subscription Revenue is anticipated to be in the 10% to 12% range and Services Revenue will be in the range of 4% to 6%.

- From a bottom-line perspective, we now expect the Operating Margin in the range of 31.8% to 32.2% versus 32% to 32.4% previously.

This guidance excludes any impact for the exceptional tax applied by the French State, which we cannot quantify at this stage, however it will be excluded from the non-IFRS reporting as it is an exceptional and temporal item.

Now, I would like to share some additional points to help shape your models reflecting Q4.

As mentioned, we are increasing our range to €120 million. For Q4 revenue this translates to 5% at the low and 12% at the high end or in absolute terms to €1.696 billion to €1.816 billion. The new high end of the range was the mid-point of the previous guidance. Our pipeline reflects the potential for revenue acceleration.

We adjusted the low end in 2 steps: First, to reflect the potential of (large) deals being pushed out to 2025 and second, the pipeline in automotive converting to revenue at the same rate as in Q3.

The increased range is most visible in Upfront License Revenue between 0 to 20% growth. We expect subscription revenue in the range of 12 to 19% reflecting a strong acceleration driven by **3D**EXPERIENCE deals. In this outlook, we expect MEDIDATA to continue to improve sequentially.

Operating Margin is expected in the range of 35.9% to 36.9% and EPS of €0.38 to €0.41, up between 5-13% ex-FX year over year with usual strong seasonality of Q4.

In conclusion, I want to reiterate our commitment to investing in support of our long-term growth objectives while expanding our margins and delivering EPS growth. We continue to see strong customer demand and engagement across our **3D**EXPERIENCE Portfolio, Centric PLM and MEDIDATA. While we experience the current volatility in some of our end-markets, our pipeline highlights the potential for growth acceleration.

Now, Pascal and I look forward to your questions.

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