DASSAULT SYSTEMES
2019 First Quarter Conference Call
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Final

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Thank you for joining us on our earnings conference call, with Bernard Charles, Vice Chairman and CEO, and Pascal Daloz, Executive Vice President, CFO and Corporate Strategy Officer.

- Dassault Systèmes' results are prepared in accordance with IFRS. We adopted IFRS 15 in 2018, so all comparative information is presented under IFRS 15. In addition, we adopted the new IFRS 16 Lease standard as of January 1, 2019.
- Most of the financial figures on this conference call are presented on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.
- Some of our 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 2018 *Document de référence.*

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

I would now like to introduce Bernard Charles.

Bernard Charles
Vice Chairman and Chief Executive Officer

Thank you for joining us.

SUMMARY OVERVIEW

- As you have seen this morning, we delivered a quarter well in line with our financial guidance, with double-digit revenue, software and earnings per share growth. We are reconfirming our full year objectives and upgrading for currency as Pascal will discuss later.

- We are seeing strong momentum with the **3D**EXPERIENCE platform, having reached a key inflection point last year. We have major new wins and are expanding our **3D**EXPERIENCE business with clients, with some examples I will share with you shortly. With the platform, we see a change taking place with clients. Today more companies view us as a strategic partner to help them transform.

- The power of the **3D**EXPERIENCE digital platform as an enabler for today's Industry Renaissance is truly visible. We will discuss opportunities in several different industries as well as our new global software partnership agreement with ABB, who is also adopting our **3D**EXPERIENCE platform.

- With our capabilities and offer, we have a unique opportunity to change the game and become a leader in target industries, including Life Sciences, Energy & Materials, as well as Home & Lifestyle.

OUR PURPOSE IN ACTION: INDUSTRY TRANSFORMATION IN LIFE SCIENCES

Let me begin with the Life Sciences industry, demonstrating our purpose in action. We have now developed a comprehensive offer to address the transformation underway in this vertical. As drugs and therapeutics shift to the world of biological drugs (meaning large molecules), representing an estimated 50% of pharmaceutical R&D pipelines currently, the industry is moving to a world of personalized health, with such products as 'Combination Products' delivering medicine through wearable devices enabling treatment delivery within a home environment.

In that regard, this quarter, we unveiled to pharmaceutical clients a prototype product, IASO, named after the Greek goddess of recovery, as a showcase for the lifecycle of a combination-product in oncology. From upstream thinking and innovation through commercialization, this prototype demonstrates the value that Dassault Systèmes and the **3D**EXPERIENCE platform as well as industry solutions can deliver to stakeholders facing the challenges of bringing these critical combination products to market to **Transform the Patient Experience**. Congratulations to the Life Sciences industry team working with all our brands and leveraging the **3D**EXPERIENCE MARKETPLACE for 3D printing services.

INDUSTRY RENAISSANCE IN INDUSTRIAL EQUIPMENT

Now, let me shift to the Industrial Equipment industry which is going through another major transformation, moving from a product to an experience, from mass customizations to mass personalization, and from disconnected to intelligent systems.

We believe a platform approach enables the real and virtual worlds to inform and reinforce each other. Our **3D**EXPERIENCE twin (virtual or digital twin in daily press) is very well positioned to do so, as we are working in both worlds, and with an offer covering all key domains:

- **Schindler**, who adopted the **3D**EXPERIENCE platform for its escalators business, is now extending this to its elevator business. They are using the **3D**EXPERIENCE platform on the cloud for digital twin creation, experiencing the twin, digital transformation of the company and to connect the dots across their extended enterprise.
- **CLAAS** has adopted a single digital platform for all disciplines, providing rapid access to the company's extensive knowledge and know-how and facilitating high-visibility collaboration to enable intelligent innovation.
- With **ABB,** we announced a wide spanning global partnership. ABB is adopting the **3D**EXPERIENCE platform to model and simulate its solutions before delivering them to its customers.

INDUSTRY RENAISSANCE IN HOME & LIFESTYLE

Home & Lifestyle is another industry where we are positioned to be a game-changer. Today, more than 850 brands are using Centric PLM. It is clearly developing a unique, market leadership position. Centric PLM is helping customers achieve faster time to market, translating into revenue increases of 5 to 10%; lowering inventory costs as well as improving efficiency, translating for instance into logistics cost savings on the order of 10-15%.

DESIGN IN THE AGE OF EXPERIENCE: MILAN

Just a few words on our Design in the Age of EXPERIENCE conference held in Milan a few weeks ago. There is truly a new age for design and a new global community of innovators using 3D and 3D DESIGN – to bring emotion, to bring better adaption to usage, a true so to speak 3DEXPERIENCE for All. I believe we are extremely well positioned to address this global community.

INDUSTRY RENAISSANCE IN ENERGY & MATERIALS

Moving now to Energy & Materials, I would like to focus on mining where we had a major announcement this morning. It is clear that mining companies are seeking transformative change to sustain profitability, and their social license to operate. Some companies have started to deploy tactical innovations including automation, virtual reality, drones, and the internet of things. And there have been improvements realized in verticals such as resource modeling, short term scheduling, and fleet management. However, there is more the industry needs to do to truly transform itself.

BHP AND DASSAULT SYSTÈMES SIGN LONG-TERM STRATEGIC PARTNERSHIP

BHP, a major global resources company and the largest mining company in the world, is leading this effort. We are very happy to announce that we have entered into a long-term strategic partnership with BHP to leverage the application of digital technologies – bringing the best practices from other industries as appropriate - to mining.

- Combining the experience and resources of each company, the ambition is to unlock value by applying technologies proven in other industries to the core mining fundamentals of geoscience and resource engineering.
- The partnership intends to create a new level of understanding of resource and operational potential, underpinned by both company's commitments to safety as well as sustainability.

Q1 2019 PERFORMANCE AT A GLANCE

Before passing the presentation to Pascal, let me recap the highlights of our performance in the first quarter.

- Our revenue results came in at the high end of our objectives.
- Software revenue increased double-digits in 7 of the 11 industries we cover: all three core and several of our Diversification Industries, including High Tech, Life Sciences and Home & Lifestyle.
- On a regional basis, we saw strength in all three regions, led by **3D**EXPERIENCE and large wins in newer brands as well.
- We are benefiting from our geo diversification as we continue to build out our market presence in key geographies. Several notable geos in the quarter were China, Southern Europe and North America.
- **3D**EXPERIENCE software revenue increased 26%. **3D**EXPERIENCE licenses revenue increased 25% and represented 40% of related licenses in the quarter. We had new major wins and important follow-on orders with companies in Transportation & Mobility, Industrial Equipment and Energy & Materials. In addition, our POWER'BY strategy is bringing significant value to our clients to integrate legacy software.

Pascal, you have the floor now.

Pascal Daloz
Executive Vice President, CFO and Corporate Strategy Officer

Hello and thanks to all for joining us.

With the financial overview by Bernard, let me now share further business and financial details.

SUMMARY OF FIRST QUARTER FINANCIAL PERFORMANCE

Looking at our performance there are two key points I would like to underscore. First, our financial results were well aligned with our guidance:

- Both total revenue and software revenue came in at the high end of our constant currency growth range.
- We saw a strong performance for recurring revenue, actually above our target range, with licenses software at the lower end of our target.
- And, in combination with our operating expense performance and currency evolution, EPS increased 21% to 87 cents, ahead of our 78 to 82 cents objective.

My second point, if you look at our revenue components, our results are coming from broad-based growth – with licenses revenue up 9% organically and recurring software revenue up 8% on an organic basis.

SOFTWARE REVENUE BY REGION

Moving to our software revenue growth by region and at constant currency:

Americas software was higher by 18%, reflecting acquisitions, large deals in our direct sales channel and strong recurring revenue performance across all channels.

On both a reported and organic basis, the Americas had the highest growth in the quarter. From a geo perspective, North America had a strong start.

In **Europe** software revenue increased 10% with large deal activity in multiple geos, including Southern, Central and Northern Europe.

In Asia software revenue grew 8%, led by China and Asia Pacific, both up double-digits. We had good growth in Asia in all geos in terms of recurring software.

SOFTWARE REVENUE BY BRAND

Zooming in on brands:

CATIA software increased 6% in the quarter to 271 million euros. Its strongest performance was in North America this past quarter. In general, **CATIA had a strong increase in 3DEXPERIENCE software revenue growth.**

Following on a huge fourth quarter, **ENOVIA delivered a very strong first quarter with software revenue growing 19%,** led by strong growth in **3D**EXPERIENCE software. ENOVIA had a number of large deals in Europe, the Americas and Asia. The top deals included Transportation & Mobility, with excellent traction, as well as High Tech and Industrial Equipment, among others.

SOLIDWORKS software revenue increased 5%. On a regional basis, we saw a very good dynamic in Asia. From a channel perspective, with the launch of the **3D**EXPERIENCE.WORKS, a new business application family on our platform, we expect to spend a good deal of time on planning and training with the Professional Solutions channel given the significant opportunity to bring the power of the platform and the portfolio to the Mainstream market. **All in all, we anticipate a solid year of**

growth for SOLIDWORKS with its software revenue increasing between 5 and 10% in 2019.

Other Software increased 22% in the first quarter. The largest domains are simulation with SIMULIA, followed by manufacturing with DELMIA and PLM for Fashion with Centric PLM.

SIMULIA had a good set of results, including a high single-digit growth on an organic basis and we saw a solid performance for Centric PLM.

Brand Highlight: DELMIA Performance

Just a few comments on DELMIA, we call it the Make It Happen brand, which now includes Quintiq.

DELMIA enables global industrial operations to:

- design and test the manufacturability of products in a simulated, virtual environment;
- optimize the supply chain and factories to meet objectives; and
- to operate the factories, warehouses and distribution to manage and fulfill customer demand.

As part of the Industry Renaissance, global industrial operations are front and center and a core area of investment by companies now. We have been making significant investments in this domain over the last years.

This is visible in DELMIA's results where software revenue increased 25% in constant currencies on an organic basis. To be clear, this is before adding in the revenues from DELMIA.WORKS which we acquired in January.

As I mentioned, we have now added Quintiq to the DELMIA brand portfolio, but track its financials separately. Its software revenue increased very substantially (+78%) in the quarter.

In total we saw good traction in multiple core industries as well as in Marine & Offshore this past quarter for DELMIA.

A client example we have in today's presentation is Eurostar, who selected DELMIA Quintiq applications powered by the **3D**EXPERIENCE platform. With our software, Eurostar will be able to optimize its resources - including its train drivers, managers and control staff, and maintenance planning - to increase frequency while complying with complex rules and legal regulations.

SOFTWARE PERFORMANCE BY INDUSTRIES

Moving to our software performance by industries, we had double-digit growth in seven of our eleven industries, including all three of our core industries, (Aerospace & Defense, Transportation & Mobility and Industrial Equipment).

In our Diversification Verticals, we had double-digit software growth in High Tech, Life Sciences, Marine & Offshore and Home & Lifestyle.

Commencing this year, we have regrouped several of our target diversification industries based upon natural synergies and a refinement of our focus: notably now Home & Lifestyle; Energy & Materials; and Construction, Cities & Territories. So we now show eleven industries groupings versus 12 previously.

TOTAL REVENUE AND SOFTWARE REVENUE

In the first quarter total revenue increased 13%, on a good performance for both software, representing 89% of total revenue, up 12% and services, also up double-digits.

On an organic basis, both total revenue and software revenue grew 8%.

LICENSE AND OTHER SOFTWARE REVENUE

Looking at the components of software revenue, License and other software revenue increased 15%. On an organic basis, the growth was 9% with notable performances in Transportation & Mobility, Industrial Equipment and High Tech.

RECURRING SOFTWARE REVENUE

Recurring software revenue increased 11% on double-digit subscription and support growth and represented 75% of total software revenue.

On an organic basis, recurring software revenue increased 8%, well aligned with our plan for the year to show further, progressive strengthening of our organic recurring revenue.

SERVICES REVENUE

Moving to services performance, growth continues to be led by **3D**EXPERIENCE implementation activities. On an organic basis services revenue increased 9% for this quarter.

OPERATING PROFITABILITY AND MARGIN

Now, let's zoom in on our operating performance. In the first quarter our operating profit increased 22% to 316 million euros. In turn, our operating margin was 32.8%, ahead of our guidance of about 31 to 31.5% – this reflects both a more favorable currency, but also better activity: higher revenues as well as some slower hiring.

In comparison to the year-ago quarter, the 140 basis point improvement (32.8% vs 31.4%) comes largely from organic improvement of 210 basis points, more than offsetting 120 basis points of acquisition dilution. Currency was a positive contributor in the amount of 50 basis points.

As a reminder, for the full year we are targeting to improve our underlying operating margin by about 80 basis points (exclusive of any benefit from IFRS 16 Leases).

EARNINGS PER SHARE

EPS increased 21% as reported and 13% at constant currency, reflecting revenue growth and operating management. The tax rate increased about 90 basis points – at 29.7%, versus 28.8% in the year-ago quarter.

CASH FLOW & BALANCE SHEET

Our net operating cash flow increased 20% to 489 million euros reflecting the strong growth in net income, non-cash items as well as the working capital improvements.

Unearned revenue, now called ‘contract liabilities’, totaled 1.01 billion euros at March 31st. This represents an increase of 10% at constant currency and perimeter impact.

FINANCIAL OBJECTIVES UNDER IFRS 15 and IFRS 16

Now, let’s move briefly to our guidance, beginning with the full year 2019:

1. First, we are confirming our total revenue objective for growth of 10 to 11% at constant currency.
2. Second, we are upgrading our reported figures for the better evolution of currency in Q1 and an update of our exchange rate assumptions for Q2. As a result, we are moving the mid-point of our reported revenue range higher by 35 million euros: 19 million comes from Q1 and an estimated 16 million for Q2.
3. Third, we are also upgrading our EPS by 5 cents at the mid-point.
4. As a result, our total revenue range is now 3.845 to 3.875 billion euros and our EPS range is 3.40 to 3.45 euros.
5. Our operating margin remains the same, targeting 32.0% to 32.5% and reflects an underlying improvement of about 80 basis points exclusive of IFRS 16 and currency.

In total we expect a similar performance to 2018 from a revenue perspective with a higher contribution from recurring software revenue, bringing increased visibility and predictability.

More specifically, we see solid support on an organic basis, thanks to an estimated 100 to 200 basis points increase in organic recurring software revenue growth to about 7% to 8% for 2019, from 6% in 2018. By the way, this represents a 200 to 300 basis point improvement from 5% in 2017.

For Q2, we are targeting a revenue range of about 920 to 940 million euros, an operating margin of about 29.5% and EPS of about 74 to 77 cents. Our revenue range embeds a licenses growth rate range of 11% to 14% and a recurring software revenue growth rate of 9% to 11%.

With respect to recurring revenue, let me just remind you that on a sequential basis, reflecting IFRS 15, recurring revenue in Q2 would be lower than Q1.

Finally, just a further reminder that our Q2 and Full year financial objectives are presented on a non-IFRS basis with revenue growth rates at constant currency. For purposes of our guidance, we are using a 1.15 US dollar rate per 1euro exchange rate in Q2, then a 1.20 rate for Q3 and Q4. For the Japanese yen, a 130 rate per 1euro exchange rate before hedging for all three quarters.

CONCLUDING COMMENTS

Before taking your questions, I wanted to share that our investor relations activities this quarter will include attendance at the JPMorgan Conference in mid-May in Boston, Exane in June in Paris and roadshows, including Frankfurt. I will be attending these events with members of the investor relations team.

To summarize, the first quarter well illustrated the good dynamic of our key growth drivers and position well for the future.

We would now be happy to take your questions and thank you for your participation on this call and our earlier webcasted meeting held in London.