DASSAULT SYSTEMES (DS)
2010 Second Quarter Conference Call
Thursday, July 29, 2010
Final

François-José Bordonado
Vice President, Investor Relations

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

Dassault Systemes' 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 référence*.

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

The second quarter was quite solid from a financial perspective, in particular with a record EPS growth of 57 percent. We came in above the high end of our objectives for revenue, operating margin and earnings per share. From a business perspective, we had an active quarter, including entering into key strategic partnerships in new domains with Michelin in automotive and Gap Inc. in specialty retailing, and with more on the way.

The second quarter was also a period of important progress:

- DS is fundamentally a new company thanks to the IBM PLM integration, more than doubling our direct sales capacity. We now are well adapted to what we want to do in sales and distribution to advance our strategic initiatives.
- We now have the ability to serve all eleven industries we are targeting thanks to our entering a new addressable market for DS, search-based applications. The Exalead acquisition brings us a very exciting growth potential in search-based applications.

- And we now have unique capabilities to help our customers to design and simulate smart products .Our acquisition of Geensoft is critical to this.

Successfully Integrating IBM PLM

Turning to IBM PLM, during the second quarter we welcomed essentially all of the IBM organization which was in charge of selling and supporting our products and they are now part of our PLM Business Transformation sales channel, our customer support organization, and, for some of them, our sales administration organization. We did redistribute the sales territory among our direct channel in total in order to more efficiently and effectively cover our large accounts and new accounts. We invested time and resources in training on DS tools and systems. There was a certain amount of operational initiatives that needed to be completed including transferring customers from IBM PLM contracts to Dassault Systemes contracts and in large measure this was completed.

In total it went very smoothly. This is thanks to the work and preparation put in place before we closed the acquisition and to everyone working together. From our customers' perspectives, they are very happy with this evolution.

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, including 6 million euros of deferred revenue write-downs. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data.

IBM PLM acquisition and other acquisitions

Our financial results for the 2010 second quarter and first half reflect three months of activity of IBM PLM following its acquisition on March 31st. We also closed Exalead and Geensoft in June, and will incorporate their activity beginning in the third quarter.

Summary

Turning to our financial results, let me share some high level observations.

- First, our bottom-line performance demonstrates our overall focus as a company on delivering operating leverage. As we outlined in June at our analysts' day, our most important financial objective for the next five years is to more than double EPS. Revenue growth will be a key driver, and we are targeting operating margin expansion to reach our EPS growth objective.

- Second, we were pleased with the evolution of recurring software revenue. In short, renewals rates are back to normal, pre-recession levels. Our strong base of recurring software revenue helped sustain our performance and profitability during the downturn. And now, it is starting to turn positive again, with year over year growth. So for me, the second quarter represents an important inflection point in this regard. We also benefited from one-off catch-up payments for customers ramping back seats that had gone off maintenance.

- Third, Mainstream 3D had a strong quarter from all perspectives - new seat growth up 20 percent, the ASP up 3 percent in constant currencies, a strong contribution from multi-product sales, good performance in all three regions, and larger deal sizes. Taken all together, we think it speaks well of SolidWorks, the number one Mainstream 3D software, and perhaps a positive indicator for the SMB market recovery. We do not want to overstate this second point, so we will wait and see.

- Fourth, overall revenue growth was ahead of our objectives, at guidance currency rates by about 6 million euros on the better evolution of recurring software revenue. New licenses revenue results tracked to expectations. As anticipated when we set our second quarter objectives, we assumed the available time to close transactions would be impacted by the sales integration work, and in particular for longer sales cycle brands such as ENOVIA. Although the IBM PLM integration went well, it naturally affected the time devoted by the sales teams to closing transactions.

Revenue Review

- Total revenue increased 20 percent in constant currencies. Looking at our results by geographic region: Asia had a good dynamic, in particular in Korea and India. Following the fiscal Q4 for Japan, we did not see the same level of activity as last quarter. We continue to see a good dynamic in Latin America. In Europe good results in Germany and CEMA and also in Southern Europe.
- Looking at our new licenses revenue, it increased 17 percent in constant currencies in the second quarter. Looking by channel, the strongest performance in the quarter was in the SMB market with our Professional and PLM Value channels. Last quarter it was in our Business Transformation channel.
- Our recurring software revenue results demonstrate both good execution and the value we bring to customers. Recurring software revenue is now back in a growth mode with a constant currency growth of 27 percent. We had year over year increases in both Mainstream 3D and in PLM. As I mentioned earlier, we also benefited

from some one-off improvements coming from catch-up payments for customers returning to maintenance, so next quarter's recurring software revenue will reflect this fact.

- We think we are getting close to a return to growth for services revenue, but in the meantime we still delivered sequential improvement in the service operating margin thanks to continued focus on costs.

Operating Margin and Earnings Per Share

- Turning now to our operating margin and earnings per share: It was a gratifying quarter. Our operating margin was 27.9 percent, compared to 21.9 percent in last year's second quarter and our target of 23 percent. In comparison to our objective, our focus on costs was a key driver of the out-performance. We also benefited from a G&A reclassification to income taxes due to a French tax law change. The amount of the reclassification was 3.2 million euros for the first half, all of which was done in the second quarter. This represents about 80 basis points of improvement to the operating margin in the quarter and on the order of 35 basis points for the year. Finally, net currency evolution had a beneficial impact of 80 basis points. So of the 600 basis points of improvement in our operating margin in Q2, 440 basis points came from operating leverage.

- At the EPS line, the results were similarly good, with non-IFRS EPS growing 57 percent to 58 cents.

Financial and other revenue, net

Turning now to financial revenue, it was a drag this quarter, albeit a little less compared to last year at this time.

Cash Flow

Cash flow from operations in the second quarter was 132 million euros, compared to 81 million in the second quarter of 2009, benefiting from higher net income and positive working capital changes. In addition, as I highlighted last quarter, based upon the unique features of the IBM PLM acquisition, the deferred revenue which was deducted from the purchase price 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 – so this will be a drag on our reporting operating cash flow for several quarters. In the aggregate, this represents about 60 to 65 million euros of deferred revenue which does not show up in our cash flow from operations, with 23 million euros this quarter and the rest mostly in the remaining two quarters of 2010 and somewhat in early 2011. So our cash flow from operations was really quite strong in the quarter taking this into account.

And if you look at our cash position at June 30th, you come to a similar conclusion. The second quarter was effectively cash neutral despite acquisitions of 144 million euros and the cash dividend distribution of 54 million euros.

Financial Outlook

Turning to our financial objectives for 2010, they assume a stronger second half growth rate for revenues which we are reconfirming. Adding in the recently completed acquisitions, then leads to a second half growth rate of about 22 to 25 percent in constant currencies. Taking into account the over-performance from the second quarter leads us to target a 2010 non-IFRS revenue growth of about 16 percent to 18 percent excluding currency effects.

Based upon our second quarter results and outlook, we are increasing our non-IFRS operating margin growth objective to between 26 and 27 percent, compared to 26 percent previously. The margin gains are coming mostly in the first half of 2010, with our operating margin up 470 basis points year-to-date. As you recall our savings plan implemented in 2009 had its largest impact in the second half of the year.

And for EPS we are raising our objective by about six cents, so in comparison to 2009, our non-IFRS EPS objective would represent a 21 to 26 percent increase over 2009.

Turning to the third quarter, you can see this evolution by looking at our objectives:

- We have outlined a Non-IFRS revenue objective of 365 to 375 million euros for the third quarter, which would represent year over year growth of 22 to 25 percent in constant currencies.
- A non-IFRS operating margin of 25 to 26 percent, compared to 25.4 percent in the first half, so maintaining our focus on costs.
- And EPS of 52 to 56 cents, representing growth of 18 to 27 percent.

Let me turn the call back to Bernard now.

Bernard Charles
President and CEO

Thank you, Thibault.

Entering a New Addressable Market, Search-based Applications

In addition to the value and transformation brought from the IBM PLM acquisition, we now have the ability to serve all industries with the acquisition of Exalead, a leader in search-based applications. This acquisition is truly an extension of what we are doing, quite complementary and opens up a new addressable market sized at over 2 billion US dollars, growing at over 12 percent annually. We expect to grow faster.

Search-based applications are important to all eleven industries we are targeting, confirmed by current customers who have been requesting our help with respect to their significant needs in information search requirements and in finding information both within and outside the organization that are critical to them.

You just need to look at Exalead's customer base to see that. Exalead's clients include leading companies in business services such as PricewaterhouseCoopers; in Finance, with a number of leading banks and investment banks; in the scientific field with Sanofi Aventis and others; in industry with GEFCO and Air Liquide for example; and online with Yellow Pages and ViaMichelin. So you can see the importance of search-based applications for our customers or for new ecosystems.

Together, we bring to the table Exalead with a very powerful, web-based, technology platform, married with Dassault Systemes' deep applications knowledge and significant sales reach.

Our third acquisition was of Geensoft and it relates to our ability to offer unique capabilities for customers in the design and simulation of smart products. Its technology enables companies to simulate embedded software systems in a very realistic manner, with high fidelity to what would occur in real life. Just imagine the benefits for smart products across a number of industries - our transportation systems, our energy generation & distribution systems, our defense systems, our communication systems, and even our quality of life and security, depends on the efficiency, reliability and effectiveness of embedded systems and software.

Building a V6 Track-record Across Industries

During the quarter, we announced our newest release for V6, 2011. In the presentation we gave earlier today, which you can find on our website of course, we reviewed a number of the key highlights.

On this call, I would like to mention two which represent our objective to involve all stakeholders in product innovation with powerful and easy-to-use solutions and to do so within a more lifelike experience:

- In Version 6 we are introducing products to bring our high end simulation technology to the non-expert and in V62011 we now offer SIMULIA DesignSight Structure Plus to enable up-front realistic structural simulation of product assemblies. The key unique features of these products are that they are very easy to use while offering the robust solver technology found in our most advanced simulation software.
- For DELMIA part of the nice progress made is in representing in a clear and very understandable manner the complex production processes of companies. One example of this is the introduction of V6 Lifelike Human manikins in the context of production and shop-floor environments.

We are continuing to gain traction with Version 6, with both customers in our installed base and with new companies. The total number of customers on V6 since it was first released is now about 400 enterprises.

Industry Diversification Progress

Looking briefly at our wins this quarter in our PLM business segment, I would like to highlight four:

First, in automotive, Michelin, a current customer, will be migrating to CATIA V6 and they will also expand their relationship with us with the decision to add ENOVIA V6 for enterprise resource modeling and DELMIA V6. Over the next five years, Michelin will have about 10,000 users connected to V6 which will offer them a single version of the truth connecting R&D, manufacturing, and the supply chain just to cite some of the areas involved, with the goal of improving collaboration across organizations and across a worldwide dispersed environment.

Second, turning to the apparel industry, we are pleased to announce that Gap Inc., a leading specialty retailer, has decided to significantly broaden its business with DS. GAP wants to leverage ENOVIA to support its global expansion strategy. In connection with this decision, GAP expects to double the number of ENOVIA users to enable collaboration both internally as well as externally with vendors and suppliers.

Third, in consumer goods, a leading mountaineering and hiking equipment company Mammut in Switzerland, has selected ENOVIA

V6's apparel accelerator for design and development as well as our accelerator for sourcing and production.

And in life sciences, Orion, a leading pharmaceutical and diagnostics company headquartered in Finland, has chosen ENOVIA V6 to improve business processes and increase regulation capabilities.

Good Mainstream 3D Results

Turning to SolidWorks in Mainstream 3D, let me begin by saying that it was a good quarter – from any perspective.

- The business showed solid signs of growth across all products and regions. In total, software revenue increased 14 percent excluding currency effects.
- On the new activity side, SolidWorks' units were up by 20 percent and the ASP increased about 3 percent excluding currency effects. Perhaps signaling a better trend more broadly for the SMB market, we also saw an increase in larger deals, those over 25 seats.
- And on the subscription side, the news was similarly good, signaling the value customers see in SolidWorks.

There was also a good dynamic with wins across a number of industries. To highlight just a few of the 9,770 new SolidWorks' seats licensed, let me mention: Trigano, a manufacturer of leisure vehicles; Weir, a US manufacturer in the energy industry, which selected SolidWorks as well as its EPDM, simulation and 3DVIA Composer; and in India with Rail Coach Factory.

Summary

So putting it all together, the 2010 second quarter and first half was truly a transformative period for Dassault Systemes. We ended the quarter much stronger and are well positioned for the second half of 2010 and, more broadly, for the years ahead, with our 5-year objective to more than double earnings per share. The major part of the IBM PLM integration is done. And we now have a significant opportunity in front of us, with offerings for every sector of the economy.

Thibault and I would be happy to take your questions.

# # #