

Bulletin:

Dassault Systemes SE's Second-Quarter Results Confirm The Resilience Of Its Business Model

July 27, 2020

PARIS (S&P Global Ratings) July 27, 2020--S&P Global Ratings today said that scientific and industrial software company Dassault Systemes SE's (A-/Stable/--) resilient second-quarter earnings show the robustness of the company's business model and its capacity to weather fallout from the coronavirus pandemic with limited effects.

Total second-quarter revenue increased 10%, mainly thanks to the inclusion of Medidata Solutions, following its acquisition in October 2019. Organic revenue declined by about 8%, mainly because of a drop in new licenses and consulting services, but this was partly offset by 4% growth in recurring software revenue (subscription and support revenue). Dassault's 3DEXPERIENCE platform remained robust as it represented 23% of software revenue in the first half, against 27% a year ago. We anticipate that a stronger fourth quarter this year will drive recurring revenue growth of about 26% in 2020, fully compensating for an expected 20% decline in license and other software revenue, due to the macroeconomic effect of the pandemic.

Our resilient forecast is based on Dassault's robust revenue model, in which about 74% of total first-half revenue is recurring; the majority of support contract renewals are achieved in the first half of the year. These revenues are largely independent of its customers' production volumes, essentially focused on product design and simulation, and production planning, with solutions that can apply to all industries, protecting its business from temporary downturns. Dassault is highly diversified, after its expansion in life sciences with Medidata Solutions, which is now the platform of reference in clinical trials. For example, more than 60% of clinical trials worldwide for the COVID-19 vaccine are based on the Medidata platform; with life sciences recurring revenue expanding by more than 20% in the first half of the year.

These factors compensate, in our view, for a selective slowdown in manufacturing industries, particularly in commercial aviation, transportation, and mobility, with subsequent declining license sales and a slowdown of new customers buying new licenses, which we expect to linger until 2021.

We thus expect S&P Global Ratings-adjusted debt to EBITDA will remain in line with our previous forecasts, reducing well below 1.5x by 2022, from 1.7x-1.8x in 2021, 2.2x in 2020, and 2.7x in 2019. This will be supported by robust revenue growth of about 12% per year over 2020-2021, from 12.6% in 2019, combined with a slightly increasing S&P Global Ratings-adjusted EBITDA margin to about 33.5% over the period, from about 33% in 2019.

Overall, we expect that the crisis setbacks should accelerate the ongoing digital transformation of businesses and could hasten a new cycle of growth, following questions raised over the

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sovereignty of supply chains and manufacturing facilities and the need to better adapt to concentration risks.

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