DASSAULT SYSTEMES
2013 Second Quarter Conference Call
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Final

François-José Bordonado
Vice President, Investor Relations

Thank you for joining Bernard Charles, CEO, and Thibault de Tersant, CFO, for our 2013 second quarter conference call. We held our webcasted presentation in Paris earlier today and have placed the presentation on our website.

Two brief reminders before we begin. Dassault Systèmes' financial results are prepared in accordance with IFRS. We have provided supplemental non-IFRS financial information which is explained in 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 2012 *Document de référence*.

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

Bernard Charlès
President and Chief Executive Officer

Thank you for joining us here and on the webcast held earlier today.

Summary Financial and Business Highlights

Looking at our performance for the second quarter and first half of 2013 I think it is clear that we are managing well this period of market softness which began in the second half of 2012.

At the same time our attention is focused on moving quickly to position ourselves on the broader **3D**EXPERIENCE market, and this is reflected in everything we are doing across Dassault Systèmes.

Turning to our financial results, in the second quarter total revenue increased 6% in constant currencies and earnings per share increased 9% - please note that our employee base is larger by 6% compared to one year ago. Similarly, for the First Half I think we have delivered solid figures in light of the environment, with total revenue up 7% in constant currencies and earnings per share up 10%.

These results reflect the investments we have been making in extending our geographic footprint within each of our three regions – Europe, the

Americas and Asia. One year ago, Europe had a record second quarter. This year Asia has been the top performer, with total revenue up 13% in constant currencies in the second quarter and 11% for the First Half.

In addition, our progress demonstrates the value of our strategic investments. For a long time we have believed in the significant return on investment DELMIA can bring to customers and we have persisted with our investments. With DELMIA companies can design their manufacturing processes as they are designing their products, illustrating the value of digital assets continuity from design through to manufacturing.

And now we are becoming a major player in the Manufacturing Operations Management (MOM), a section of the software market with the acquisition of Apriso extending DELMIA's reach to a new, complementary market with high growth potential.

In February we indicated that 2013 is about accelerating our **3D**EXPERIENCE strategy roll-out with an ambitious R&D delivery plan. This morning we announced V6 R2014, a major milestone as I will discuss shortly.

Increasing Our Footprint in Asia

Now let's speak briefly about Asia – really an enormous opportunity for us. We start from an excellent base with the largest presence in Japan among PLM providers. From this departure point we have been building out our business over a number of years strengthening our presence in South Korea, India, South Asia and China.

From a financial perspective Japan and China are part of our top five regions for new licenses and in the second quarter all five countries within Asia delivered double-digit new licenses revenue growth.

Looking at China, we really started from nowhere just six years ago. In fact, China was our first initial step to what eventually became the full management of our sales channels, setting up an indirect channel there from scratch. So we are particularly proud to have been named the Number 1 Comprehensive PLM player in China. CATIA is an important part of our success in China - at a recent forum, Philippe Laufer, CEO of CATIA, presided over record attendance and interest. So China presents an interesting picture of what we can do. The opportunity is in front of us, but we have made very good progress in the last six years.

And this progress is happening at the same time in South Korea, India, along with increased targeted focus in Japan and South Asia of course.

Just to give you one recent customer example, let me mention Qoros, a joint venture between Chery Automotive and Israel Corp, in China. They have selected CATIA V6 and ENOVIA V6 to accelerate the delivery of their new vehicle in the premium segment.

DELMIA

From Asia let's turn to DELMIA- it had a great first half. Our DELMIA brand helps companies address key business challenges in manufacturing – how do I shorten my time to produce in order to meet my customers' requirements. This is a critical issue in many industries. Manufacturers continue to push for quality improvement, both for the end consumer experience and to reduce the critical problems of cost over-runs through production rework. At the same time, companies are also trying to address how do they build into their production systems the ability to be flexible and agile? DELMIA helps companies successfully answer these critical manufacturing business issues and provides an excellent return on investment to customers.

Looking at its performance, in Q2 new licenses revenue was up 69% for DELMIA and by 65% for the First Half in constant currencies. And looking at its revenue this is equally distributed over the three regions, so very well balanced demand.

Michelin is one of DELMIA's key customers – a very interesting company, where we are helping them improve key business metrics – agility, quality, inventory, and resource utilization.

Apriso Acquisition

In May we spoke with you about our Apriso acquisition agreement and we closed it earlier this month. Very simply, it extends our addressable market by about 1 billion dollars and makes us a major player in the manufacturing operations management space in 10 of the 12 industries we are targeting.

Why is Apriso a leader? – three concepts – flexibility, standardization and operations management; Companies can standardize their best manufacturing processes, have the flexibility to address local manufacturing needs and can manage and know 24/7 what is happening across all their plants worldwide.

The manufacturing operations management market is still early in the game – the runway ahead of us is very significant as the number of homegrown resources is large. So we believe our entrance into this market is coming at the right time, and we are entering it with the right technology and the right leader. Very big companies with massive operations are relying on Apriso.

V6 Activity

Moving to some V6 business highlights, V6 is in production and providing high value to customers.

- In the Aerospace and Defense industry, Bell Helicopter ranked Dassault Systèmes as their number one preferred supplier on their business system modernization program. They stated that utilizing ENOVIA V6 and CATIA V6, they could really bring their designers and manufacturing engineers, their quality engineers and their customers' support personal together so that they can truly collaborate in one central source.
- One of our industrial equipment customers, Metso Pulp, Paper & Power, illustrates the value CATIA V6 brings to globally run companies. CATIA V6 is architected to enable companies to design and build anywhere, knowing that they have dispersed R&D and service teams all around the world. The collaborative aspect of V6 is truly a breakthrough and is based on the **3D**EXPERIENCE platform.
- In the medical device industry, Smith & Nephew is a perfect example of the attraction we are seeing for our newly designed industry solution experiences. They have purchased our 'licensed to cure' industry solution to address the regulatory compliance challenges of the industry.

V6 R2014 and V6 R2014X

Now this morning we unveiled Version 6 Release 2014. It represents a major milestone for several reasons. First, it is about creating a business **3D**EXPERIENCE platform, not an IT platform. And so it is completely aligned for packaging by industry and by business process to speed up deployment at customers' sites. Second, it is a business platform, so it is open and inclusive so that companies can use it to power third party applications that are being developed for the new experience economy. Third, we are introducing a ground-breaking user interface and we have named it, the IFWE Compass. Fourth, the platform, based on our V6 architecture, is on premise and on a public and private Cloud. Finally, we have embedded many key technologies, among them the ability to enable the formation of social communities, to enable automatic dash-boarding and to enable companies to leverage Big Data, combining internal information with information intelligence from the web. We will be proceeding on a limited basis with selected customers in many types of industries and incorporating their feedback in the general release, V6 2014X.

Let me turn the call to Thibault now.

Thibault de Tersant
Senior EVP and CFO

Good afternoon and good morning to all.

IFRS/non-IFRS Differences and Constant Currency Revenue Growth Comparisons

My comments today are based upon our non-IFRS financial results. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data. In addition, revenue growth rates are stated in constant currencies.

Summary Highlights

Let me briefly review key highlights with you.

- First, we said new licenses would return to growth in the second quarter and they did, up 4%. Based upon the evolution we saw in the quarter, we can reaffirm that the second half will see acceleration in our new licenses revenue.
- Second, we delivered strong earnings per share growth, while also expanding our business. Earnings per share grew 9% in the second quarter and 10% for the First Half. Headcount is up 6% compared to June 2012, with a large part of the increase coming through our acquisitions as well as selective hires in key areas.

- We added to our financial resources, with a new €350 million credit facility.
- We increased our annual dividend by 14%, and offered the option of stock or cash.
- And finally, we are upgrading our earnings per share objective for 2013.

With that let me share some further details.

Software Revenue

Turning to software revenue, the growth was 6% in the quarter. Recurring software revenue was also up 6%. Approximately 3 points of the recurring software growth in the 2012 second quarter related to slippage of renewals from the 2012 first quarter, so recurring software revenue increased about 8 to 9% in constant currencies normalizing for this timing shift last year.

For the 2013 First Half software revenue is higher by 7% on strong growth in recurring software revenue, which grew 9%. Renewal rates remained stable at a high level. New licenses increased 1%.

Services Revenue and Gross Margin

It was a nice quarter for services, with new V6 engagements, leading to a 9% increase in revenues and a positive service margin of 11%.

Regional Review

On a regional basis, Asia delivered a strong performance with revenue up 13% in constant currencies on broad strength. The Americas had a solid software performance, with software revenue increasing 8% in the second quarter and 10% for the First Half. And in Europe, there is a softer macro environment, but I would also keep in mind that in Q2 2012 Europe grew 19%.

Business Segment Review

Turning briefly to a review of our PLM and SOLIDWORKS businesses, let me share a few points.

In PLM, total software revenue increased 6% and was led regionally by Asia. CATIA, SIMULIA and DELMIA all had double-digit new licenses revenue growth in Asia. The Americas also delivered a solid performance. Europe was soft, and on a comparison basis, the 2012 second quarter was a very strong quarter for our PLM businesses.

Turning to Other PLM, SIMULIA is the largest portion, and here the results were solid. Bernard has covered DELMIA which had a great second quarter and first half performance. We have now completed the first full year since the Gemcom acquisition. The integration has been going well. At the same time, as we all read, the mining sector is under a good deal of pressure reflecting the reduction of raw material prices. When we acquired Gemcom it was clear that the environment would be challenging for some period of time. Now there is a significant potential over the mid-term here, we have purchased the market leader and even in this softer period, we are certainly gaining over other players in this space and growing our market share.

Despite the market softness, ENOVIA's Version 6 based portfolio is seeing progress along several fronts – first, in its business value delivered and feedback from current users; second we are seeing some nice wins with important companies across several industries including Life Sciences, Industrial Equipment and Transportation and Mobility as well as CPG and Energy.

SOLIDWORKS revenues increased 6% in constant currencies, driven by recurring software as well as new licenses revenue growth. New units were lower by 3%, on a very high comparison base as we ran a major promotion last year. On the maintenance side, the business is very healthy, as indicated by the level of on-time renewals, a statistic that we track closely, as well as the overall rate of maintenance renewals, which remained very stable.

Operating Income, Operating Margin and Earnings

Turning to our profitability, non-IFRS earnings per share increased 9% for the quarter and 10% for the First Half on higher revenue and financial income. For the first half of the year, the operating margin is stable.

Cash Flow and Balance Sheet

Turning to our cash flow and balance sheet, I would like to review several items.

With respect to cash flow we generated €353 million for the first half of this year with a very nice cash conversion rate. The year over year comparisons for cash flow for both the second quarter and First Half largely reflect the great progress we made last year in improving our accounts receivable management processes. These improvements benefited working capital last year and continue to do so this year, although not at the same magnitude.

In June we took advantage of favorable rates to lock in a five year credit facility in the amount of €350 million and we drew the full amount down at that time. Our cash balances at the end of June totaled €1.95 billion. Earlier this month we completed the Apriso acquisition for about $200 million.

Turning now to unearned revenue, on a sequential basis, the increase excluding currency effects was about a 4% increase, in line with our billing timing in Asia. There was a very significant quarter to quarter currency impact, as unearned revenue increased by about €24 million from activity, while currency had a €17 million impact in the other direction.

Full Year Financial Objectives – Upgrading our EPS Objective

Looking to our guidance, we are upgrading our EPS objective and updating our revenue objective. This is principally based upon a reaffirmation of our second half revenue outlook, updating of our currency exchange rate assumptions and tax rate, and adding Apriso.

Our non-IFRS revenue growth objective in constant currencies is now 7 to 8%, up 1 percentage point. We are updating our currency exchange rates working assumptions, which add €20 million to reported revenue. And we are adding €20 million for Apriso. It has a higher service mix than DS overall, so you should assume about 35% to 40% of Apriso revenues are services related.

From an earnings perspective, our new objective is non-IFRS earnings per share of €3.57 to €3.67, representing growth of 6 to 9%. The nine cent increase is coming from 7 cents for higher activity, a lower tax rate and currency combined, and 2 cents from the addition of Apriso. Our non-IFRS operating margin objective is between 31 and 32%, very stable compared to last year in spite of the Apriso acquisition.

For the third quarter, we are setting a revenue objective of about €520 million, representing growth of about 8 to 9% in constant currencies. On the earnings side, we are assuming earnings per share of about 92 cents, a 3% growth. Bear in mind that last year EPS was helped by currency in the third quarter in a significant manner. We are assuming a non-IFRS operating margin of about 31% which would represent a decrease in comparison to the year-ago period. As it is the first three months of integration of Apriso, we are taking some normal caution.

In our earnings presentation on our website we have provided a bridge for you.

And now, let me turn the call back to Bernard.

Bernard Charles
President and CEO

Summary

In summary, we are focused on delivering for the short-term, by meeting our financial objectives. And at the same time we are pushing forward on our **3D**EXPERIENCE strategy and advancing our growth drivers.

Thibault and I would be happy to take any questions now.