DASSAULT SYSTEMES (DS)
Newswire Conference Call – Q3 2009 Results
Thursday, October 29, 2009
Final

Thibault de Tersant
Senior Executive Vice President and CFO

Thank you for joining me today to review Dassault Systemes third quarter financial and our business highlights.

Before beginning, let me state that some of the comments I will make on this call are forward-looking. Actual results could differ materially from those projected in forward-looking statements as discussed in today's earnings press release, and in our 2008 *Document de référence.*

I would remind you that most of the financial figures I am reviewing with you today are given on a non-IFRS basis. We believe that the presentation of supplemental non-IFRS financial information is helpful in order to better understand our performance. Reconciliations between IFRS and non-IFRS figures are included in our earnings press release.

Summary Financial Results

Turning to the quarter, let me highlight several points:

- While revenue was in line with our objectives, we delivered operating margin and EPS above objectives thanks to our cost savings program.
- Looking at the numbers, revenue was 292 million euros, compared to our objective of 285 to 300 million euros. Similar to last quarter, visibility on the timing of transactions is still not clear, with decisions taking longer and transaction sizes being smaller than prior to the recession.
- Our non-IFRS operating margin was 25.5 percent, compared to our objective range of 21 to 24 percent.
- And our non-IFRS earnings per share came in at 44 cents compared to our objective range of 36 to 42 cents.
- So far this year we have achieved about 100 million euros in savings and we are on track to overachieve our 2009 cost savings target of 120 million euros. This figure represents about 12 percent of our baseline costs. I would like to emphasize that we are maintaining our capacity in terms of both research and development and customer support. So I think our approach has been a very smart one.

- Earlier this week, Dassault Systemes and IBM jointly announced the next steps in our almost 30 year partnership, with DS planning to acquire IBM PLM and becoming a global alliance partner to IBM.
    - The purchase price is approximately $600 million, an all cash deal.
    - We expect the acquisition to be accretive to both our earnings and operating margin on a non-IFRS basis.
    - While this acquisition would be the largest in our history, post-closing we remain with a strong cash position, continuing to give us significant flexibility.
    - Based upon closing conditions, we anticipate completing the acquisition in the 2010 second quarter.

Third Quarter Review

Now let me turn to the third quarter in more depth.

Looking at the business environment, it was generally unchanged from the first half of the year. Customers continue to be hesitant in making new investments. While we cannot control the environment, we have been working very hard to contain the impact of the global recession on our financial performance.

Overall, revenue was lower by 12 percent in constant currencies, similar to the 11 percent decrease in the second quarter. Looking at sales activity by region, again no real change by geography compared to the second quarter. By region and excluding currency effects, the Americas declined by 17 percent, Asia by 16 percent and Europe by 7 percent.

- In the Americas we are building a track-record of Version 6 PLM customers in Aerospace and new industries. However, the entry point for new transactions remains small as we are at the beginning of industrial deployments.
- In Europe, performance here is continuing to hold up better than the other regions.
- And in Asia, we are seeing growth in several countries, mainly in China, but Japan's results still weigh heavily on performance in this region.

Turning to our software revenue results, both new licenses revenue and recurring software revenue generally tracked to the discussions we had together last quarter. New business is still down substantially year on year, but has leveled off. In the third quarter new license revenue decreased 37 percent in constant currencies.

And we are seeing a progressive slowdown of recurring software revenue growth due to the lag effect from lower new license revenue and terminations in the first half. Again, this is what we indicated last quarter. Importantly, renewal rates were in line with our expectations in Q3. Recurring software revenue increased 1 percent in constant currencies and represented 77 percent of total software revenue.

2009 Financial Objectives

Turning to our financial objectives for 2009, we are reconfirming our full year 2009 non-IFRS earnings per share objective range of 1.76 to 1.91 euros. With one quarter to go, we are narrowing our non-IFRS operating margin objective to the midpoint of the prior range, so about 25%.

We are slightly lowering our non-IFRS revenue objective by 10 million euros, taking into account our third quarter results as well as some caution assuming that the preparation for the closing of the IBM PLM acquisition could have an impact on our revenue results over the next two quarters.

This leads to a 2009 total revenue range of 1.24 to 1.27 billion euros, representing a year on year decrease of between 7 to 10% in constant currencies.

Business Review

1) DS Go-to-Market

Looking in depth at our sales channels, we have developed a strong indirect channel for the Mainstream 3D, with our Professional channel which is the best in its market. We completed a well-crafted transition from IBM to ourselves, and in this process have created an effective channel for reaching small and mid-sized companies in the PLM market. And now we turn our attention to our large clients, with the goal of delivering a new level of engagement. In conjunction with that, our intent is to integrate IBM PLM and our direct sales together within our PLM Enterprise Business Transformation channel.

2) Well-timed Agreement as We Launch V6 PLM

So now we are moving forward with a major transformation of our go-to-market channel activities for large customers. The timing is no accident as it coincides with the ramp-up of our Version 6 PLM. And it also responds to the growing demand from our customers to be closer to them to deliver unique V6 values for sustainable innovation. So it is clear that now is the right time to take the next step in the transformation of our go-to-market strategy.

This new engagement model is focused on providing a complete PLM value proposition to our large PLM clients, with a unified go-to-market model, encompassing the entire DS portfolio, to a large set of industries. It answers to our customer requests to have a closer working relationship with them. And it will be designed to offer them a much simpler sales experience, along with significant expertise across targeted industries and brands. Thanks to our expanded partnership with IBM, we will also offer our clients more value.

3) New Global Alliance with IBM

A particular area of interest was to strengthen our cooperation with IBM Global Services to deliver project management, consulting and integration services for Version 6 PLM clients.

We are also strengthening the cooperation with IBM more broadly in financing with IBM Global Financing, and, through our relationship with the IBM Software Group will offer new enterprise infrastructure.

4) New Level of Engagement with Customers

By focusing on our core strengths, both DS and IBM can better serve our clients and help them maximize the value of their PLM environment and business processes

Summary

In summary, our objectives at Dassault Systemes are clear. We remain focused on advancing our strategic priorities, despite the global recession. And, at the same time, we continue to work hard to contain the impact of this deep recession on our financial results. Our announcement of the proposed acquisition of IBM PLM earlier this week and our third quarter earnings and margin performance demonstrate our commitment to these major objectives.

# # #