DASSAULT SYSTEMES
2014 Third Quarter Conference Call
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Final

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Thank you for joining Bernard Charlès, CEO, and Thibault de Tersant, CFO, for our 2014 third quarter conference call.

Several brief reminders:

- Dassault Systèmes' financial results are prepared in accordance with IFRS. We have provided supplemental, non-IFRS financial information and reconciliation tables in our earnings press release.
- Some of the comments on this call will contain forward-looking statements that could differ materially from actual results. Please refer to our Risk Factors in today's press release and in our 2013 *Document de référence*.
- Revenue growth figures are in constant currencies, unless otherwise noted.

I would now like to introduce Bernard Charlès.

Bernard Charlès
President and Chief Executive Officer

Thank you.

Overview

Before commenting on our financial results let me share with you an event I attended earlier this week, the opening of the Louis Vuitton Foundation in Paris. This new glass building is the most recent example of Frank Gehry’s architectural genius – in design, in materials and in esthetic and beauty.

We were honored that Frank Gehry said that the Louis Vuitton Foundation building was yet another example of making breakthroughs reality thanks to the contribution of our software solutions for Architecture, Engineering and Construction around CATIA.

For Dassault Systemes, this is what drives us – helping make possible innovation across industries for the betterment of companies and individuals all while harmonizing product, nature and life, in short, sustainable innovation.

With such motivation, we continued on our path of growth, market expansion and focus on operational excellence in this third quarter.

We are continuing to prepare our future with our social industry experience strategy:

- It is visible in our elevating client engagements– a new way of connecting and demonstrating the value of our solutions;
- In the continuing strengthening of our large account sales channel;
- In the very significant addressable market expansion with BIOVIA focusing on scientific innovation markets;
- In manufacturing, bringing together a unique, end to end offer with Quintiq now becoming part of our DELMIA brand along with Apriso last year to better serve our industries;
- And finally with our continual focus on improving how we operate across the Company.

Looking at our financial objectives, while we are certainly mindful of the fluctuations in the market, and reduced economic growth projections in certain countries, we are comfortable with our fourth quarter and full year outlook and therefore are reaffirming them. We are adding Quintiq and fine-tuning our currency assumptions as Thibault will cover shortly.

So let’s move to our financial performance in more detail.

Third Quarter 2014 Financial Highlights

The third quarter 2014 was a period of solid financial performance. Revenue was well in line with our objective, and operating margin and EPS were slightly ahead.

We have said that 2014 would be about organic new licenses revenue growth and it is – up 14% in the third quarter and 9% year-to-date in constant currencies. We were particularly pleased to note the performance of our direct sales. I said last quarter that we were starting to see some traction and initial results from our investments here – and we are, indeed.

Second thought to keep in mind about our financial performance – our earnings dynamic is much stronger than the reported figures indicate as we are absorbing significant currency headwinds in 2014. Excluding currency effects, EPS is higher by 7% in the quarter and 9% year-to-date.

Software Revenue by Brands

Looking at our results by brands, we will continue to operate internally from a brand perspective – it guides our roadmap of what we want to build for users. At the same time we are evolving the customer dialogue so that we are focused on a more comprehensive approach to addressing their critical business issues with our industry solution experiences.

As you can see we had good performances across a number of our brands – CATIA and ENOVIA both delivering strong growth in new licenses revenue in the quarter and year-to-date. Through the first nine months of the year new licenses revenue is up 19% for CATIA and 28% for ENOVIA in constant currencies.

Looking at total revenue, both SIMULIA and SOLIDWORKS were up double-digits in the third quarter. SIMULIA is doing well in a number of industries and seeing very strong demand in transportation and mobility especially. SOLIDWORKS benefited from unit growth, multi-product sales and solid pricing.

Revenue by Region

Moving to a regional review, let's begin with the Americas. We are encouraged by the improvement underway in our direct sales channel which focuses on large accounts. New licenses activity was up sharply in the Americas.

In Europe, we did see a noticeable shift in the third quarter in some geos which had been strong in Q2, particularly Germany. And of course, Russia was weak. At the same time there were areas of improving performance including Southern Europe and Northern Europe.

Asia had a strong performance – in total and organically. This is the continuation of the trend since the start of the year. Multiple countries delivered good growth including Korea, India, China and Japan, which I will cover in more detail shortly. It should come as no surprise that our largest brand is a key driver in this region, well supported by most of our solutions.

Large Account Sales

Our social industry experience strategy encompasses a new way of engaging with our customers. It is based upon providing a common link to all the dialogues we have with our clients – aligning our capabilities in a way that most clearly resonates with the perspectives customers take in running their businesses to deliver a successful end-consumer experience.

To have that engagement we have been strengthening our sales channels, most notably our direct sales organization – to have the appropriate coverage of the different industries, to ensure that we have the right person leading the client engagement and then providing that engagement leader with the right level of brand and technical support. We have been doing this on a progressive basis around the world and will continue to do so.

In the third quarter large accounts new licenses revenue were up 40% in constant currencies As we look across our 12 geos, the pay-off is starting to show this year in North America, the United Kingdom, China, India and Japan. Korea has for some time been performing very well in this area.

At the same time we have invested in our direct sales channel for large accounts over the last two years, we have been working with the industry, R&D and brand teams to transform how we sell and what we sell to our target industries. As we discussed last quarter, we now have introduced 40 industry solution experiences.

Turning to customer engagements, last quarter I shared with you that Barilla selected our 3DEXPERIENCE platform and Perfect Package. And BNP Paribas chose our 3DEXPERIENCE platform and Factory Innovation Solution to speed their time to market an estimated 20%.

This quarter Pratt and Whitney Canada selected our 3DEXPERIENCE platform, based upon our V6 architecture, including CATIA, ENOVIA, SIMULIA and EXALEAD applications with the objective of unifying marketing, engineering, operations and customer service on one single enterprise innovation platform. It represents a very significant IT simplification, with a 33% expected reduction in business applications, the reduction of 25 bill-of-material sources to one, single BOM with multiple views, and the phase-out of numerous legacy systems in total.

JAPAN

We have had a great year in Japan, with a significant increase in investments among companies, visible across our three sales channels.

Japan as you may know represents an important component of our business in Asia. We have a leading presence with automotive OEMs and suppliers and are growing our business with companies in the High Tech, Industrial Equipment and Life Sciences industries.

A recent win was with AMADA, a manufacturer of metalworking machinery and devices. They selected Dassault Systèmes for three key reasons: first to enable global design management, second, to secure engineering data sharing and third, to reduce costs as a result of being able to better coordinate product sourcing in conjunction with design.

BIOVIA

With both internal initiatives and our external investments, we are deepening our coverage of core industries and broadening our offer for new industries. Our new brand called BIOVIA represents a very significant expansion of our capabilities to serve scientific-focused innovation industries thanks to the deep expertise we have acquired in chemistry, biology and materials sciences; and it represents an important extension of our addressable market. With its materials science expertise, BIOVIA is important to our core industries and its clients include some of our largest customers in aerospace for instance.

BIOVIA is off to a good start this year, delivering a solid performance in the third quarter. And it is well on track to meet its financial outlook for the full year.

Key wins in the third quarter included MedImmune in the United States, AstraZeneca's biologics research and development arm, and Kelun Pharmaceutical in China, among others.

Finally, in our third quarter presentation, we highlight that Professor Amano, a Physics Nobel prize winner, is a user of BIOVIA's Materials Studio, former Accelrys.

DELMIA

In addition to introducing a new brand with BIOVIA, we have transformed our DELMIA brand in a very significant manner encompassing global industrial operations.

It now has an end to end reach, beginning with digital manufacturing resource engineering to manufacturing operations management to now include supply chain planning and optimization with Quintiq which closed on September 9th of this year. We have a very exciting opportunity in front of us to cross sell and to bring these different applications to our client base. The technology we are adding is second to none, so there is no question that this opens up a significant opportunity in manufacturing for us.

Quintiq is extending our capabilities to work with companies in new domains we did not touch before – in production planning and optimization, in workforce optimization and in logistics optimization. And to reach new companies we did not work with before.

Quintiq has established a strong reputation with industry leaders in diverse industries including:

- Aluminum producers responsible for 80% of the world's rolled aluminum;
- Aerospace, with its workforce optimization technology, which is responsible for the rostering of air traffic controllers managing 65% of the world's airspace;
- In the rail industry, where it works with two of the top three players in Europe;

- And in distribution, where Quintiq works with two of the world's top three delivery companies, carrying over one million packages per day.

Quintiq is on a track to deliver strong revenue growth in 2014, about 85 million euros in total, compared to 70 million euros in 2013.

Thibault will have more to add here with respect to its contribution to Dassault Systèmes so let me turn the call over to him now to review our financial performance, outlook and Quintiq in greater detail.

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.

Overview

All in all it was a solid quarter from a number of aspects including revenue, operating performance and cash flow. And in the context of the softening macro backdrop, particularly in Europe, we are certainly pleased.

Looking ahead we have had an ambitious plan for the fourth quarter in our guidance. Despite the softening that has taken place, we believe we are in the position to reaffirm our business outlook for the fourth quarter, and, in turn, our full year financial objectives.

Therefore, we are updating our financial objectives to add the Quintiq acquisition and the better evolution of currency in Q3 and to reflect updated currency exchange rate assumptions for the fourth quarter.

And finally, we have shared with you at the outset of the year key goals in terms of growth and operational management. Given our progress through the first nine months of this year we are in a very good position to reach them.

Software Revenue

Turning now to our software performance, there are several key take-aways:

- First, we saw a very solid growth in new licenses revenue in Q3, up 14% on an organic basis and up 9% year-to-date in constant currencies. We were particularly pleased by the results of our direct sales – both for the third quarter and the nine months, where we have been making important, progressive changes over the last two years as Bernard reviewed today. And from a brand perspective, both CATIA and ENOVIA recorded double-digit new licenses revenue growth in the third quarter, and year-to-date, which is up, respectively, 19% and 28% in constant currencies – all organic.
- Second, with respect to recurring software revenue we continue to benefit from a high level of renewals with customers, additional contracts

under maintenance and year-over-year growth. On the rental side the results were mixed with some usage adjustments as anticipated. SIMULIA, the largest portion of our rental activity, had strong results. All in all, organic recurring software revenue grew 5% in constant currencies in the third quarter and for the first nine months. Recurring software revenue represented about 74% of our total software revenue year-to-date.

Services and Other Revenue and Gross Margin

Turning to services and other revenue the key focus has been on improving the contribution of services to our operating performance. The components to drive this improvement have come from: first, shifting the mix of services activities and here our acquisitions have been of significant help. And second, focus on improving our service operations from an organic perspective. In combination, our services gross margin was 16.6% year-to-date.

We are on track to reach our full year goal, with the 8.3 percentage points of improvement already achieved through the first nine months.

Looking back, our services gross margin has improved from 5.8% in 2012, to 11.9% in 2013 and we look forward to reporting our 2014 results next quarter.

Operating Income, Operating Margin and Earnings

Our focus on operational improvements extends to our global operations. A key financial goal this year has been to increase our organic operating margin to help mitigate the dilutive impact of acquisitions. We are well on track here with 150 basis points of organic operating margin progression year-to-date.

During the third quarter, non-IFRS EPS increased 2% as reported and 7% excluding currency effects. Year-to-date, the headwinds have been stronger with a negative currency impact of 9 percentage points on non-IFRS EPS and almost the same level of impact on our non-IFRS operating income growth.

Cash Flow and Balance Sheet

Let me make a few comments on capital allocation and cash flow:

- First, the largest use of cash this year has been for acquisitions, and reflects the fact that we are in the early years of our 3DEXPERIENCE journey. Excluding cash acquired, we have invested just under one billion euros this year.
- Second, we have been more active in share repurchases to better manage our share count. Year-to-date, we have used 151 million euros for repurchases compared to the 48 million of cash received

for stock options exercised. We have repurchased 3.4 million shares through Sept 31st.

- And third, our dividend, payable in cash or in shares, used 32 million.
- Our net operating cash flow increased to 90.1 million euros in the third quarter and 445 million euros year-to-date.
- Unearned revenue increased 15% on an organic basis and excluding currency effects, compared to the year-ago period.

Now, let me move to our financial objectives for the fourth quarter and full year, both of which are presented in our earnings press release and in our quarterly presentation.

Reconfirming Full Year Financial Objectives
Updating for Quintiq acquisition and Currency

Looking at our full year guidance, we are reconfirming our 2014 financial outlook despite the slowing macro in Europe, updating for currency and also adding Quintiq.

Moving now to the details, our 2014 revenue growth objective range increases 1 percentage point to 15 to 16% in constant currencies. The reported revenue range moves up 35 million to 2.325 to 2.335 billion euros.

- By size, Quintiq is the largest portion of this increase with an assumption of a 29 million euro revenue contribution, of which 22 million euros for the fourth quarter and 7 million euros coming from the third quarter. Looking in more details at Quintiq, let me remind you of its revenue mix last year which was about 60% software and 40% services for the full year 2013 and that is a reasonable mix for you to assume.
- Second, from a currency evolution perspective, we have a net addition of 9 million euros in total:
    - With a 6 million euro positive impact to our Q3 results;
    - Combined with a 7 million euros estimated positive impact in Q4 from the strengthening of the US dollar, offset in part by an estimated 4 million euros negative impact in Q4 from several emerging markets' currencies.

On the earning side:

- We are introducing a range of 1.75 to 1.80 euros, with the low end our prior objective.
- The range reflects the higher third quarter contribution of 3 cents.
- In addition, we have a higher Q4 currency impact of 1 cent which is offset by a one cent improvement.
- We expect Quintiq to be neutral to our non-IFRS EPS in Q4 as I mentioned earlier.

With respect to our non-IFRS operating margin, our target is tightened to about 29.5%, compared to 29.5% to 30%, previously. This assumes an estimated dilutive impact from acquisitions and divestitures ranging from 210 to 230 basis points during the year and also about a 140 to a 150 basis points impact from the yen and other currencies.

So now to recap for 2014:

- Our non-IFRS revenue growth objective is 15-16% in constant currencies;
- Our non-IFRS EPS growth objective is 8 to 10% excluding currency effects;
- And our goal is to generate about 150 basis points expansion of non-IFRS organic operating margin to partially offset dilution from acquisitions and also currency headwinds. Based upon our progress to date we are right on target and on our plan to expand the underlying non-IFRS organic operating margin to about 33%.

For 2015: Concerning the dilutive impact of acquisitions, I would like to help factor these acquisitions, mainly Quintiq and BIOVIA in 2015, which is our point. Of course, we will continue to deliver organic margin improvement and we are confident to offset this impact in 2015.

Let me now turn the call back to Bernard.

Bernard Charles
President and CEO

Summary

As a conclusion, through the first nine months of this year we have been in a period of heightened investment as we move to rapidly implement our social industry experience strategy. This has entailed an expansion of our addressable market in a meaningful way, a deepening of our process coverage for users across our clients' enterprises, and we believe an increase in the value proposition we bring to our prospects and clients.

To this expanded market opportunity we bring talented teams now totaling over 13,000 employees – representing an increase of almost 25% over the last twelve months or so.

Looking forward we are focused on meeting our strategic, business and financial goals for 2014 and are excited about creating the future of Dassault Systèmes altogether.

Thibault and I would be happy to take any questions now and we thank everyone for their participation earlier today and on this call.