DASSAULT SYSTEMES (DS)
2010 First Quarter Conference Call
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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*.

As a reminder, we will be holding our analysts' event June 14th and 15th at our headquarters. 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

While Thibault and I are here to review the first quarter 2010, we in fact would like to share with you a more important discussion.

2010 marks the beginning of a new stage of growth for Dassault Systemes. We have been preparing for this new era for a number of years, with our research and development, our marketing and sales and even in our finance and legal departments. And with the completion of the acquisition of IBM PLM we now have all the resources within Dassault Systemes to execute on our vision.

As we will review today, we are ready:

- With the online architecture of Version 6, beginning its ramp-up phase of adoption;
- With our go-to-market strategy with our channels uniquely positioned to work closely with customers;
- With our brands, world leaders in their respective domains;

Importantly, the market is ready, in fact more ready than ever before.

First Quarter Highlights

Now, let me turn to the quarter.

My take-away is that it was a quarter of good execution for Dassault Systemes. We completed the largest acquisition in our history, joining together all our resources focused on sales and marketing to our largest accounts and representing together 50 percent of our business.

While we had assumed there might be some distractions or disruptions to business activity, in fact we observed very little. It was an enormous undertaking for legal, finance and HR teams as we were closing in 27 different countries. Here I want to thank them and I want to thank our sales organizations for maintaining their focus on customers.

As a result, our financial performance was well in line with our objectives that we had shared with you last quarter. Importantly, this quarter gives evidence of DS strengths for the years to come.

Regarding the first quarter just a few observations. Total revenue was slightly above the high-end of our objective at guidance currency rates.

- We were pleased to see a return to growth with new licenses revenue increasing 19 percent in constant currencies and with ENOVIA growing above the average of our brands, with a 29 percent increase.
- And we saw progress across all regions, leading to double-digit new licenses revenue growth in all three geographic regions.

This quarter also highlighted our operating leverage and strong cash flow from operations as Thibault will review with you. But let me just say, we were pleased to have delivered operating margin expansion (+2.7 points of growth) and strong EPS growth (+16 percent) thanks to our cost efforts and currency management. Reflecting a better currency environment, we are raising our EPS growth objective for 2010 to 18 to 23 percent.

While the currency environment has been better than we anticipated, I believe our read on the business recovery has been reconfirmed during this first quarter. We have seen a number of positive signs but given the magnitude of the downturn, we continue to believe that the improvement in the business environment will be a gradual one.

Version 6: Relevance and Differentiation

Now, let's turn to our strengths. First of these is our portfolio and our Version 6 technology. Version 6 is quite promising because it very exactly answers to the most important current customers needs and the answers we provide with Version 6 are quite original and cannot be found in our competitors' value propositions.

Version 6 is different because this version in natively online. Online means that people can access product data, and work on them, "online" using a simple internet line.

Version 6 is different because it is an integrated platform to manage all processes and disciplines (design, simulation, production, life-cycle management and life-like experience) without any data duplications.

Why are online and integration so important for our customers? They are important because they enable collaboration both across geographic locations and across disciplines. They are important because they make this version easy to use and deploy. And natively online and integrated are important because they drive a lower cost of ownership due to the V6 speed to deploy. The ongoing cost is also lower with only one server to maintain for thousands of users.

If you remember nine months ago Renault decided to move to V6. At that time, Odile Desforges, EVP engineering and quality at Renault said: "we chose the V6 platform because its integrated PLM environment brings our global teams together through real-time collaboration and online-enabled design anywhere".

This quarter Meyer Werft, a leading cruise liner shipyard in Germany, decided to move to CATIA V6 and to add ENOVIA V6. Building a large cruise ship entails a number of technical challenges, among the most important is the fact that no prototype can be built and the ship must deliver expected performance requirements on time.

When explaining their choice to move to V6, Lambert Kruse, Managing Director at MEYER WERFT stated "Our decision for the V6 solution was based on several key factors, including its powerful combination of 3D and PLM infrastructure". Again, the integrated platform was a key element in their decision to move to V6.

Another win of the quarter was Optimal Energy, a small privately owned car manufacturer headquartered in South Africa. They have a very promising electric car project and selected ENOVIA V6 because (and here we quote Anton Greeff, Chief Mechanical Engineer at Optimal Energy) "Everything is in the same platform and interconnected. If someone needs information on the product, there is only one place they have to go and look."

Let's take a last example in V6 recent wins to share with you how online and integration is so important for our customers.

Dongfeng Boiler Group, one of the largest power station boiler suppliers in China, will be using the ENOVIA V6 collaborative platform to support its global collaboration requirements. Why did they choose ENOVIA V6? Because "With the deployment of ENOVIA V6, our CAD designers will be able to collaborate online and in real time with the company's other key functions, including engineering and manufacturing, as well as our key suppliers," said a deputy general manager, at Dongfeng Boiler Group.

We see that Version 6 is providing business value to our customers. It is very different from the solutions provided by any of the competitors. Now, even if Version 6 is recent, it is quite production-proven and robust from a technology point of view, both scalable and easy to deploy. We already have installations with several thousand users in a large set of industries.

We continue to build a track record of V6 customers, representing 320 clients at the end of March. We are working in each of our target industries to partner with leading companies. During the first quarter, we had several major transactions in high tech and energy, representing about 20 percent of the new license revenue we had with large accounts, and of this, about 60 percent were V6 related.

Today, I would like to share with you some information on three of the new companies we are working with on Version 6. s.Oliver and Charles Vögele are two companies in the apparel industry.

The success story of s.Oliver Bernd Freier GmbH & Co. KG started in 1969 with the launch of its first store in Würzburg. Within a few decades, the company has become one of the biggest clothing manufacturers in Germany and Europe, featuring fashion and lifestyle products for the whole family. Various design teams turn ten product lines into 12 collections by various design teams. Today, s.Oliver has 155 of its own stores, runs 370 stores with partners and is represented in 2,360 shops and 2,550 sales areas.

Charles Vögele Group is one of Europe's leading vertical fashion companies. It offers the latest fashions at great prices to people in the prime of their lives who want to feel good. With attractively presented goods, combined with friendly, knowledgeable advice, it creates a relaxed and enjoyable shopping experience. Charles Vögele has sales outlets in nine countries: Switzerland, Germany, Austria, Slovenia, the Netherlands, Belgium, Hungary, the Czech Republic and Poland. In 2009, the Group generated gross sales of CHF 1.5 billion with approximately 7,800 employees. Charles Vögele Holding AG's shares are quoted on the SIX Swiss Exchange (securities number: 693 777).

Companies in the fashion (Apparel, Footwear, Accessories) sectors are facing intense global competition. Pressures to lower product development costs and the need to create new revenue streams while keeping up with constantly changing customer preferences demand a new strategy to launch products to the market.

FLSmidth, headquartered in Denmark, is a leading supplier of equipment and services to the global cement & minerals industries. They recently selected ENOVIA V6 as their PLM collaborative backbone to design anywhere / manufacture anywhere and are targeting about 3,000 users on ENOVIA V6.

Increasing DS Presence in High Tech

A second strength for DS' future is the increased adoption of PLM in the new industries thanks to the quite meaningful value proposition we have in those industries.

In prior calls we have spoken about some of our target sectors, including apparel and life sciences. Today I would like to spend a few minutes on our increasing presence in the high tech sector, which is the second largest market for PLM after automotive.

Our end-user revenue in the high tech industry is approaching the 10 percent threshold. We have built a good base of relationships in the semiconductor industry where our software has become the de facto standard. And we are also well present in the consumer electronics industry, with more than 25 of the leading global manufacturers using Dassault Systemes' solutions. I believe we bring critical solutions to help companies in these sectors so we expect to see these numbers grow over time.

High tech is an industry where they face tough challenges every day - with intense competition and complex value chains. And the fast pace of product and technological innovation is propelling companies to form alliances in order to co-innovate together in advanced technologies and to share the high development costs of new products.

These challenges are driving them to transform their processes, focusing on portfolio management, collaborative systems engineering, compliance and sustainable development and component supplier management.

On top of the benefits of our on-line solution for collaboration which are well adapted to help high tech companies address these challenges, we bring a deep knowledge. In combination, we can offer them a platform for collaboration with ENOVIA V6, good integration between 3D and data management and CATIA Systems for product design and systems engineering.

Completion of IBM PLM acquisition

Now, let’s turn to the IBM PLM transaction. As you all saw we completed the acquisition of IBM PLM at the end of the first quarter – closing in 27 countries precisely on time. We were very happy by the very high level of acceptance by IBM PLM employees.

I would like to emphasize that the timing of the acquisition could not have been better. With our integrated Version 6 software, bringing our sales forces together made good sense. Internally, we have been bringing together our sales efforts while also maintaining brand expertise, in order to improve our sales process and better serve our customers.

Through the combination, we are now able to enlarge our territories and market the entire PLM portfolio. So clearly we have an opportunity to improve our sales productivity over time.

Looking from a customer's perspective, they have direct access to DS for software sales while continuing to benefit from the expanded partnership we have with IBM for services, financing and middleware. And working together IBM is able to bring their knowledge and deployment expertise in a number of industries.

Along these lines, we were very pleased to have recently signed our new global alliance agreement with IBM encompassing services, financing, and other key areas as we extend our long-standing relationship.

Sales Capacity Maintained Thru the Downturn

Turning to our sales channels more broadly, a key priority during the downturn was to maintain our sales capacity. And we did.

In fact, looking at our combined indirect sales resources encompassing our PLM Value Channel and our Professional channel for Mainstream 3D, the total number of VARs has increased on the order of 7 percent.

And in our PLM Enterprise Business Transformation channel our combined sales capacity is at a similar level to December 2008.

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. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data.

Summary

Turning to our financial results, let me begin with a few qualitative observations.

First, it reconfirms what we said to you last quarter.

- We expect to deliver double-digit new licenses revenue growth;
- With ENOVIA well-positioned to deliver new license revenue growth above the Company average as it did this past quarter;

Second, although overall revenue growth is modest at this stage as recurring revenue and services will lag the improvement in new activity, we were able to deliver operating margin expansion and earnings growth. Our cost savings and efficiency efforts from last year are having a positive impact in 2010. And they are having their biggest impact in the first quarter, as the cost initiatives we undertook during 2009 became more meaningful as we moved through last year. In addition, as our new activity increases we will have higher variable remuneration with sales commissions in 2010 than we did in 2009. And, we are adding legal and accounting resources to support the larger organization size since those resources were not part of IBM PLM. So, combining these factors, leads us to target about a 100 basis points improvement in our operating margin in 2010.

Third, thanks to very good execution we were able to complete the IBM PLM acquisition on time. Here I would like to emphasize that this was due to detailed planning begun in the 2009 third quarter and precise execution all along the way by DS, IBM PLM, and IBM.

And thanks to sales teams, both IBM PLM and DS, the focus remained on customers rather than deal distractions. We therefore had minimal delays in business closures compared to what we had reserved for. Having said that, there still remains an important to do list ahead;

Fourth, our true focus as a Company is more than achieving year-over-year growth from the deep recession of 2009, but delivering on a higher level of new business performance more globally. That is how we are measuring our progress internally.

So that brings me to my final observation, how was the first quarter? All in all, I would characterize it as a quarter of good execution. From a financial perspective, we came in at the high end of our objectives. Now, let's turn to some of the details.

Revenue Review

So, where are we in the economic recovery?

- Looking at our new licenses revenue, it increased 19 percent in constant currencies in comparison to the 2009 first quarter. ENOVIA new licenses revenue growth increased 29 percent in constant currencies. Looking by channel, our Value Channel had the strongest new license revenue growth, as this channel was significantly affected by the downturn. So this is a positive sign that we are starting to see some increase in activity in the supply chain for automotive companies and more generally among smaller companies. Our channel for large enterprises also grew very nicely, with new license revenue increasing double-digits, benefiting from a number of important transactions. And by geo, we saw double-digit new licenses revenue growth in all regions.
- Recurring software revenue results tracked to our expectations with just a slight decrease of 1 percent in constant currencies. We saw some positive signs with respect to subscription renewal rates which

are starting to improve, progressing towards their historical pre-recession levels.

- Services, which also lag the improvement in new activity, represented 10 percent of total revenue in the first quarter and decreased 14 percent in constant currencies. Leaving aside the recession, we are determined to improve our business results here.

Mainstream 3D with SolidWorks

Turning to SolidWorks, new business activity was much better in the first quarter compared to one year ago, leading to a 1 percent software revenue growth for SolidWorks.

New seats licensed totaled 9,843, representing year over year growth of 9 percent. Looking closer, major regions, including North America, Asia Pacific and Japan showed double-digit growth in new seats. We did not see a positive turnaround yet for Europe which was the region that entered the downturn later compared to the Americas and Asia. I should point out that while Japan has improved, its base is significantly below a few years ago reflecting its ongoing economic difficulties and positioning relative to the rest of Asia.

In addition to an improving new seat dynamic, SolidWorks also had an increase in larger deals, which we characterize as over 25 seats. We are also seeing stability in subscriptions, so all positive signs for SolidWorks that the engine is restarting. But it will take time for the new license growth to translate into growth in subscription revenue.

Pricing was very stable, which certainly reflects the value customers obtain from using SolidWorks in production as pricing in the marketplace by others continued to be low.

Customers show good interest in the broader solution sets SolidWorks is offering with product data management, simulation and product documentation with 3DVIA Composer.

Looking out, we believe a number of factors play favorably for SolidWorks to return to double-digit software revenue growth once the global economy regains its strength.

Operating Margin and Earnings Per Share

Turning to our profitability, our operating income and margin performance benefited from continued attention to cost control. The first quarter was favored more than we will see in future quarters as our cost savings plan was just starting to ramp during the 2009 first quarter.

Non-IFRS EPS increased 16 percent, driven by margin expansion, currency management as well as the positive impact of currencies.

Cash Flow and Net Financial Position

Our net cash flow from operations was very good, at 133 million euros for the first quarter, up significantly from last year's level of 96 million euros, thanks to working capital improvements. And we remain with a strong flexibility following the IBM PLM acquisition with our cash, cash equivalents and short-term investments totaling 905 million euros at March 31st.

Financial and other revenue, net

Thanks to good currency management and some currency tailwinds our financial income this quarter was at a good level compared to the year-ago period.

Completion of IBM PLM Acquisition

Now, let me turn to the IBM PLM acquisition which we completed on March 31st.

From a cash perspective the net outflow from DS was 460 million dollars taking into account deferred revenues. In the third quarter, IBM will be transmitting to us amounts for the retirement asset liabilities, so the 460 figure will effectively be reduced.

Based upon very favorable lending opportunities, we elected to finance a portion of the asset purchase from two lending institutions in Japan. This 5 year term loan credit facility in the amount equivalent to about 160 million dollars was closed in early April. It was a floating rate which we effectively swapped for a fixed rate of about 1%, so you can see quite attractive. The loan of course is yen-based and so it serves an additional purpose, as a hedge to our yen-based revenue.

With respect to the accounting, the IBM PLM acquisition was a purchase of assets. At this stage we are in the midst of an analysis, so estimates for goodwill, intangible assets and deferred revenue are only preliminary and anticipate having final figures for you at our second quarter earnings.

We have outlined each of the adjustments from IFRS in the earnings press release and presentation as we always do.

One further point I would like to make is with respect to deferred revenues, net income and cash flow from operations. 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. So for the coming quarters, these amounts will not show up in our cash flow from operations, even if they would have been recorded had we not done the IBM PLM acquisition. In the aggregate, this represents about 60 to 65 million euros of deferred revenue which will not show up in our cash flow from operations over the next three quarters.

Financial Outlook

Turning to our financial objectives, as I outlined in the earnings press release, we are reconfirming our objective for 2010 non-IFRS revenue to increase about 15 percent to 17 percent excluding currency effects. The new range is 1.455 to 1.475 billion euros, which has been updated to reflect updated currency exchange rate assumptions based upon the evolution we have seen in the market. We are reconfirming also our non-IFRS operating margin growth objective, targeting to increase it by about 100 basis points to about 26 percent.

We are increasing our non-IFRS EPS growth target to about 18 to 23 percent growth, reflecting a more favorable currency environment than we had assumed.

Let me turn the call back to Bernard now.

Bernard Charles
President and CEO

Thank you, Thibault.

On top of the cyclical recovery, DS is entering a new stage of growth and we are ready to move ahead:

- With respect to technology, we have our new natively online architecture of Version 6 and its integrated applications portfolio. More and more, leading companies in different industries are developing a comprehensive relationship with Dassault Systemes.
- With respect to our brands, we are in leading positions in markets, most with the opportunity to grow revenues double-digit over the mid-term, so clearly we have a broad set of growth drivers.
- With respect to our sales channels, our go-to-market strategy has led to the development of three unique channels, well positioned on their respective markets. We will continue to add to our industry expertise, building upon the foundation we have developed. Importantly, our sales channels enter 2010 with their capacity in place.
- Turning to customers, each day new companies and existing clients are discovering how PLM online and here I mean, collaboration online, and also design, simulation and digital manufacturing, can

help them manage their most critical business processes, and this discovery is happening in more and more industries. So for us at Dassault Systemes 2010 is the beginning of a new and exciting journey.

With that, Thibault and I would be happy to take your questions.

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