

DASSAULT SYSTEMES
2014 Second Quarter Conference Call
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Final

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Vice President, Investor Relations

Thank you for joining Bernard Charlès, CEO, and Thibault de Tersant, CFO, for our 2014 second quarter conference call. We are also pleased to welcome, Dr. Victor Allis, CEO of Quintiq.

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

Overview

From multiple perspectives, our business progress is visible in our second quarter financial results.

- It spans growing investments by customers in Transportation & Mobility and High-Tech, among others;
- Strong brand performances of CATIA and SIMULIA, where software revenue increased double-digits in constant currencies;
- To improved sales performances across our channels.

We are building up promising sales opportunities and increasing strategic dialogues with customers and potential new clients.

Turning first to our brands, we are strengthening them with continued investments. And we are also expanding our brand portfolio as we extend our addressable market.

- This past quarter we unveiled a new brand, BIOVIA, for scientific innovation across chemistry, biology and material sciences.

- In simulation, we continue to selectively add important technologies to SIMULIA as we did with the recent acquisition of SIMPACK, for multi-body simulation.
- We have said that manufacturing is a key focus area and over the last year have significantly expanded the scope of DELMIA. We are doing so again today, with the proposed acquisition of Quintiq for Business Operations Planning.

We are delivering against our Social Industry Experience strategy. During the second quarter we introduced a number of new industry solution experiences. Industry solution experiences are enabling us to have a more strategic dialogue with clients and these discussions are turning into new business opportunities as illustrated by several of the new wins announced this quarter.

Finally, our performance this quarter well supports our full year financial objectives so we are reconfirming them and updating for the SIMPACK acquisition.

So let's move to our second quarter in more detail.

Second Quarter 2014 Financial Highlights

Our financial results were well in line with our objectives across the board. It was a solid quarter at the top-line thanks to our software revenue performance, well complemented by growth in services, coming from our acquisitions. Each of our channels performed well to their sales plans.

We are starting to see acceleration in organic software revenue growth thanks to our new licenses activity as well as recurring revenue. Our performance is benefiting from improving dynamics in our largest industry, Transportation & Mobility, as well as High Tech most notably.

In total, software revenue increased 13%. And on an organic basis, it increased 7% in the second quarter compared to 5% for the first half. CATIA and SIMULIA both had very good quarters.

Head-line growth rates for earnings per share do not tell you the underlying progress we are making this year due to the strong currency headwinds. Excluding currency, non-IFRS EPS increased 13% in the second quarter and 10% for the first half.

Revenue by Region

Turning to a regional review, Europe saw strong growth – as reported and organically – in Germany, the United Kingdom and Sweden especially. In

Asia, South Korea continues to have an excellent dynamic and India had good results. More broadly, with Q1 an important seasonal period for Asia, I could add Japan and China to this list of countries. In the Americas, we were encouraged to note a number of larger deal transactions in a diversified set of industries.

All in all, our sales channel investments, in particular for our direct channel, are starting to pay off and we are seeing evidence of this in our regional results. As I indicated last quarter, we have had a number of strategic wins - and replicating these successes at a faster pace is what we are now focusing on.

For our indirect sales channels we are focused on increasing capacity and specialized industry and domain knowledge expertise.

Software Revenue by Brands

The improving dynamic by region is also visible in our brand performances. I will talk about CATIA shortly, let me just say its software revenue increased 11% in constant currencies. SIMULIA had an excellent quarter with software revenue up double-digits – largely organic. ENOVIA had a good first half overall, with a number of key deals closing in the first quarter. In the volume market, SOLIDWORKS is also seeing an improved dynamic compared to 2013, visible in its

software revenue increase of 8% as well as new seat growth of 5%. RTT is globally tracking to expectations, and with respect to Apriso larger transactions are expected in the second half of the year.

Advancing our Social Industry Experience Strategy

Now, a few words on how we are advancing our social industry experience strategy.

First, as I mentioned at the outset of my remarks, we are expanding our industry solution experience portfolio, with 40 at the end of the second quarter. We added eleven in Q2 alone, so a very active period of deliverables from R&D and our industry groups standpoint.

Our ability to offer a number of solutions on the Cloud as well as on premise is enabling us to expand our audience. We had said that the Cloud-Mobile is a market expansion opportunity for us, particularly in new industries – and some of our initial new business wins are demonstrating this. So we have a very different dynamic from what you see in other parts of the software industry – where it is about replacing on premise. For us, it is about expanding on premise and expanding on the Cloud.

Two wins I would like to share with you this quarter are:

- Barilla, a global pasta leader in the consumer packaged goods industry. As some of you know they have been a client of ours. And they are now expanding their relationship – taking our **3DEXPERIENCE** platform and Perfect Package Solution – to help them reduce time to market, improve the quality of their packaging, enable improved process integration and reduce costs. .
- BNP Paribas Securities Services is a first of a kind win. Why are we working with them? Very simply, they have products that they create and sell – so time to market, collaboration across different teams and complex business process issues – regulatory and compliance, are central concerns for them. They have selected our **3DEXPERIENCE** platform with our Factory Innovation industry solution experience to speed their time to market by an estimated 20%. And YES financial services companies have people heading up Product Lifecycle Management initiatives.

Our industry solution experiences are instrumental to changing the conversation with clients – turning them into strategic conversations where our sales teams can address the key business concerns of our customers and prospects and more directly relate how our software solutions can help them. While we are changing the conversation, we are also expanding these to industries, companies, and departments we did not reach before.

CATIA – SHAPING THE WORLD WE LIVE IN

Now, let me talk about CATIA, our largest brand. Companies in Transportation & Mobility are increasing their investments in our solutions and this is happening around the globe. In addition, we are seeing a strong take-up from customers for our specialized CATIA applications. These represent an important portion of new activity.

In total, CATIA new licenses revenue increased 24% in the second quarter. Customers expanding their installed bases in the second quarter included Hyundai Kia, Geely, Renault, Hella and Bertrandt.

BIOVIA

We unveiled our newest brand, BIOVIA in May. Our focus is on scientific innovation for chemistry, biology and material sciences. The new brand combines the knowledge brought by Accelrys with our BioIntelligence activities. We start out the gate as the world leader in this domain and with Max Carnechchia's leadership and the great team of people coming together across our two companies we see a very bright future.

Near-term as Thibault outlined last quarter, we have some revenue headwinds from legacy products winding down. Underneath this are

businesses with very attractive growth dynamics. Moreover, our conversations with customers in different industries are already revealing the expanding opportunity for Dassault Systèmes with BIOVIA.

SIMULIA: Simulating product, nature and life

Turning now to SIMULIA, it had a very solid quarter, with software revenue up double-digits. We continue to deepen and expand its capabilities. Earlier this month we announced the acquisition of SIMPACK, a technology leader in multi-body simulation, with more than 130 clients in the energy, automotive, and rail industries. A great addition, we welcome Alex Eichberger, SIMPACK's CEO and his team.

Enriching the 3DEXPERIENCE platform and Expanding DELMIA with Quintiq for Business Operations Planning

Enriching the 3DEXPERIENCE platform

This morning we announced the signing of a definitive agreement to acquire Quintiq, a leading provider of on-premise and on-cloud supply chain and Operations Planning & Optimization software. Quintiq has a strong scientific focus, with robust optimization algorithms that can be applied equally well across different industries and problem sets.

With its solutions we will enrich our **3DEXPERIENCE** platform to enable global business operations planning, so as you can notice it goes beyond the DELMIA scope.

Expanding the DELMIA Brand

At the same time the proposed acquisition also expands our DELMIA brand portfolio in a significant manner. Our vision for DELMIA is comprised of three principal components:

- Digital Manufacturing: working together to help our clients plan their manufacturing facilities with the virtual world of digital manufacturing;
- Manufacturing Operations Management: to manage their plants to their key metrics and objectives; and
- Operations Planning and Optimization: to plan & optimize all aspects of a company's operations.

Our initial DELMIA applications serve the first part, Apriso which we acquired last July brings us the second component and now with Quintiq we have the strongest technology to help companies enhance their supply chain planning and optimization.

Let me turn the call over to Dr. Victor Allis, Quintiq's CEO to provide you with an overview of the company. Victor, welcome again and please go ahead.

Dr. Victor Allis
Quintiq CEO

Thank you, Bernard.

Quintiq
Addressing all aspects related to Planning & Optimization

When I co-founded Quintiq, we set out on a mission to solve complex operational planning puzzles. We wanted to do that by designing a software platform that was robust enough to solve these puzzles while being applicable to many planning challenges in many different industries.

Today, Quintiq's software solutions address all aspects of planning & optimization. Specifically, our software is used for planning puzzles ranging from production planning and scheduling, to logistics routing and dispatching, to workforce scheduling and rostering - all with a single, highly configurable application.

Let me share some examples:

- In Transportation & Mobility, we work with rail companies to manage a wide range of goals: maximizing on-time performance, complying with regulations on working hours, and adjusting for workers preferences;
- In aerospace & defense, our customers include organizations such as the Federal Aviation Administration in the United States and many others all around the world.
- In consumer packaged goods, companies such as Danone, Amy's Kitchen and SIG Combibloc use our software for production planning, scheduling and workforce optimization.
- In business services, our solutions help package delivery companies like DHL determine who should deliver which package with which truck at what time. If you receive a DHL package, chances are that we had something to do with it.
- And in retail we work with the market leader like Wal-Mart to decide which driver will pick up which load when to ensure that all of their 4000+ stores in the USA get all deliveries that they need.

Finally, let me share our perspective as to why we wanted to combine with Dassault Systèmes. From my comments it should be clear that we share a common DNA. I speak about ‘puzzles’ because Quintiq’s technologies enable our customers to do a complete model of their

business operations, including planning, logistics and workforce assignment and optimization, complementing well the DS technologies enabling the complex, digital mock-up of a product.

Today, Quintiq brings record-breaking decision support and optimization technology to the most complex global business planning challenges. Together with Dassault Systèmes, our objective is to bring to our customers new levels of innovation, operational efficiency and performance.

At this point, let me turn the call back to Bernard.

Bernard Charles:

Thank you, Victor. I know that all this is possible due to your great leadership. I look forward to warmly welcoming the entire 800-person team from Quintiq shortly.

I am sure Thibault would like to review the financial results now and give you more comprehensive details. Thibault please go ahead.

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.

Software Revenue

New licenses revenue increased 13% in the second quarter on solid organic new licenses revenue growth of 7%. Europe led this performance and from a brand perspective it was CATIA with new licenses revenue up double-digits – all organic.

Recurring revenue increased 12% benefiting from acquisitions, and reflecting strong maintenance renewal rates. Rental performance was led by SIMULIA as well as benefiting from some catch-up payments.

Services Revenue and Gross Margin

Acquisitions were the driver of growth in services revenue which increased 34% in the second quarter. With their higher margin profile, they also drove the gross margin result of 21.7%, up from 10.8% in the year-ago quarter. Improvements in our core services business also contributed to the year over year increase.

In total, the services gross margin improved almost 12 percentage points for the First Half of 2014.

Operating Income, Operating Margin and Earnings

Turning now to our operating performance, we have made very good progress, which currency depreciation has done, unfortunately, a good job of hiding. As CFO I hope you will indulge me as I share the reality and get underneath the headline figures.

In February we indicated that our focus during 2014 would be on increasing the organic operating margin by about 150 basis points. We made good progress in the first quarter and further advanced our goals during the second quarter with an increase in the organic non-IFRS operating margin of about 260 basis points.

And we made very good progress in total for the first half. Excluding currency effects, our non-IFRS operating margin was largely stable in comparison to the 2013 period, so our organic improvements largely balanced out the dilutive impact of acquisitions.

Looking at the bottom-line, non-IFRS EPS increased 2.4% as reported, but 13% in constant currencies in the second quarter. We have a similar impact on our first half, where non-IFRS EPS would have been up 10% excluding currency.

Cash Flow and Balance Sheet

Moving now to cash flow, just a few comments:

- First, our net operating cash flow was roughly stable for the quarter and first half, slightly increasing in both cases to 172.4 million euros and 354.6 million euros, respectively.
- Unearned revenue increased 10% on an organic basis and excluding currency effects.
- Looking forward, just a reminder: working capital is absorbing tax reassessment payments – recall that we made a large payment in the first quarter of about €20 million and looking ahead we may have a more substantial payment, which we are defending of course and we also believe that our defense is very solid but we will have to do these payments.

- DSOs were generally well in line with our expectations. No issues here.

Reconfirming Full Year Financial Objectives Updating for SIMPACK acquisition

Turning to our guidance, there are several key points that I would like for you to keep in mind:

- First, we are reconfirming our 2014 financial objectives and updating for the addition of SIMPACK.
- Second, we are continuing to target double-digits organic new licenses revenue growth for the full year.
- Third, we are continuing to target organic operating margin improvement – on the order of 150 basis points for the full year.

Turning to our specific guidance, our 2014 revenue growth objective range remains at 14 to 15% in constant currencies. The reported revenue range is tightened around the high end of the range – to 2.29 to 2.30 billion euros, compared to 2.28 to 2.30 billion euros previously. The addition of SIMPACK is assumed to add about 5 million euros to revenue in the second half.

At the operating margin level, the non-IFRS operating margin objective range is unchanged at 29.5% to 30%.

At the EPS level, we are making the high end our objective, about 3.50 euros in non-IFRS earnings per share, from our former expectations of 3.45 to 3.50 euros previously. Adjusted for the stock split, our EPS objective for the year is now 1.75 euros. This represents a growth rate of about 8% excluding currency effects.

In our earnings press release and presentation we have given our third quarter objectives.

Timing of Proposed Acquisition of Quintiq

Finally, let me share some further details on Quintiq. For its fiscal year 2013 revenues totaled approximately 70 million euros, with about 60% software and 40% services. We are expecting to complete the transaction in September and will include it in our financial objectives at the time of our third quarter press release. The purchase price is 250 million euros.

From an operational perspective, we expect Quintiq to be neutral to our non-IFRS EPS in 2014 and to be break-even on a twelve-month forward basis, beginning from the 2014 fourth quarter. Quintiq's strong revenue growth has been reinvested by the company in putting in place an infrastructure and organization to support it into the future.

Let me turn the call back to Bernard now.

**Bernard Charles
President and CEO**

Summary

Two years ago we introduced **3DEXPERIENCE** and our Social Industry Experience strategy. We have made significant progress putting our vision into place. With the first half of 2014 completed, key components of our plans are well underway with:

- First, the introduction of our **3DEXPERIENCE** platform and industry solution experiences, and first set of Cloud-Mobile solutions;
- Second, the transformational work in our direct sales channel which is showing first signs of pay-off;
- Third, the addition of key acquisitions expanding our addressable market, user base, and portfolio of brands;
- And, fourth the enhancement of our global operations to support our growth and improve our processes.

Finally, with Product Lifecycle Management, Dassault Systèmes has been integral to our clients' design, engineering and manufacturing environment. With **3DEXPERIENCE**, our objective is to be integral to the entire breadth of our clients' business enterprise by providing them with a comprehensive environment to model, simulate and optimize their business performance.

We would be happy to take your questions now.