Beatrix Martinez
Vice President, Investor Relations

Thank you for joining us on our second quarter and half-year 2023 earnings conference call, with Bernard Charlès, Chairman of the Board and Chief Executive Officer, Pascal Daloz, Deputy Chief Executive Officer and Chief Operating Officer, and Rouven Bergmann, Chief Financial Officer.

- Dassault Systèmes’ results are prepared in accordance with IFRS.
- The financial figures discussed on this conference call are on a non-IFRS basis, with revenue growth rates on a constant currency basis, unless otherwise noted.
- Some of the comments on this call contain forward-looking statements that could differ materially from actual results. Please refer to today’s press release and the Risk Factors section of our 2022 Universal Registration Document.

All earnings materials are available on our website and these prepared remarks will be available shortly after this call.

I would now like to introduce Bernard Charlès.
Thank you, Beatrix. Good morning and good afternoon, everyone. Thank you for joining us today. It is a pleasure to be with you.

SECOND QUARTER 2023 HIGHLIGHTS / AT A GLANCE

• We delivered strong second quarter results with broad-based momentum and total revenue up 8% accelerating by 1 point from first quarter.

• Our new business was up double-digit combining Upfront License and Subscription.

• We see evidence that the acceleration in total revenue will continue in the second half of the year.

• Turning to profitability, we outperformed our objectives with an operating margin of 31% while continuing to invest in our future growth, increasing headcount by 7%.

• Our EPS was strong, up 7% in the second quarter or up 15% at constant currency.

Rouven will provide more detailed insights into our performance, while Pascal will focus on our business environment. As usual I would like to provide you with an update on our strategic positioning and highlight this quarter the transformative journey we undertook in 2020, transitioning from Things to Life. This strategic shift empowers us to significantly amplify our impact on society and explore new horizons.

OUR LEGACY - HERITAGE & AMBITION:

Since 1981, we have been instrumental in the sustainable innovation of products that are central to our lives and core to the development of society. In parallel, our ambition to harmonize product, nature and life has led us to develop a new understanding of the
relationship between life and nature. That is why in 2020, we unveiled our ambition to develop the Virtual Twin Experience of Humans. From Things to Life.

As we look to our next horizon, 2040, we will build on this heritage to catalyze a metamorphosis thanks to Virtual Twin Experiences for a Sustainable World.

This aligns with our ambition to foster a human-centric and sustainable economy.

**REVEAL THE INVISIBLE**

Our fundamental belief is that the virtual world not only extends but also enhances the real world. To make a tangible impact, we have consistently supported the workforce of the future with our innovative solutions.

In our presentation this morning, we included a video from the Hospital Saint Louis in Paris, demonstrating this idea.

With immersive reality we can create a bridge between the virtual and real world. In the case of hospitals, this allows us assist doctors and practitioners in making better informed decisions through virtual twin experiences. This ultimately drives better healthcare outcomes.

It is a moving video that shows how AI builds an immersive experience.

**SCIENCE METAMORPHOSING SOCIETY**

Science plays a pivotal role in our endeavor, as it allows us to see the world in a new light, making the invisible visible.

Focusing on the theme of “Science Metamorphosing Society,” we recently held our “Science in the Age of Experience” and the “Virtual Human Twin Experience Symposium” events as part of the Science Week in Boston.
This brought together an impressive collection of clinicians, scientists, researchers, industry players and regulators to explore AI, Modeling & Simulation and Research Breakthroughs thanks to Virtual Twins.

Now, let's focus on the same themes: AI, Modeling & Simulation, and Virtual Twins.

**AI-DRIVEN THERAPEUTIC DESIGN**

Recently, Generative AI captured the attention of the world. At Dassault Systèmes, the truth is that AI has always been part of our DNA.

This morning, we presented an example of AI-driven therapeutic design.. The goal was to develop a new oral anti-depressant molecule that met specific criteria, including solubility, no liver toxicity, and no adverse effects on the heart. Additionally, the molecule needed to effectively target the brain's dopamine system.

Leveraging AI, our software generated millions of potential molecules, and with the aid of MODSIM, we predicted their ability to meet the criteria, assigning a success score. Expert researchers then utilized these results to select which molecules should advance to the testing phase. Currently, a shortlist of safe and effective molecules is ready for real-world lab testing.

The combination of AI and MODSIM proves to be a powerful approach, in which AI opens the realm of possibilities and MODSIM closes it with the assessment capabilities.

Google's Alphafold represents a significant leap forward, and what we are doing with AI-driven therapeutic design is a pivotal advancement for the future of medical treatments.

**VIRTUAL TWIN EXPERIENCE FOR BIOLOGY**

At the core of our modeling and simulation unique capabilities lies a multi-scale, multi-physics framework, which we continue to enrich over the years.
In the field of biology, we master various levels of scale, from individual cells to large population cohorts. With our multi-physics capabilities, we cover several medical disciplines such as dermatology, neurology, cardiology, endocrinology, and more.

VIRTUAL TWIN EXPERIENCE OF HUMANS

Let's now explore our progress in the domain of Virtual Twin Experiences of Humans.

Since we announced our strategic goal to develop the Virtual Twin Experience of Humans in 2020, we have made significant progress in creating virtual twins of key areas of focus including the brain, heart, lungs, living cell or gut microbiota to name a few.

These advancements are revolutionizing medical practices, empowering medical practitioners to make more informed decisions during processes including complex case reviews, surgical planning, operation sequencing, and personalized medical device customization.

OUR PURPOSE

Turning now to our Purpose.

Our purpose is clear - to provide 3DEXPERIENCE universes that foster sustainable innovation and harmonize product, nature, and life. Recognizing the importance of understanding life itself, we aim to align all sectors from Life Sciences to Manufacturing and Infrastructures, infusing new perspectives into everything we do.

By doing so, we can contribute to creating a world that prospers thanks to responsible and forward-thinking practices.

With that, I will hand over to Pascal to continue the discussion.
PASCAL DALOZ, DEPUTY CHIEF EXECUTIVE OFFICER

Thank you, Bernard.

Hello everyone. It’s great to be with you today.

GAME CHANGER (IN THREE SECTORS)

During the second quarter, we saw a renewed focus on investment in innovation from customers. This positive shift in the market was evident in our strong performance, driven by broad-based momentum, with both large enterprises and mid-market companies across various geographies.

The convergence of the Experience Economy and the Circular Economy is driving profound transformation across all sectors. As businesses and industries continue to evolve, we saw growing demand from customers to address the critical issues of sustainability and environmental responsibility, maintaining a competitive edge through rapid innovation, and optimizing operational efficiency.

Let’s zoom in on a few specific examples this quarter.

MANUFACTURING INDUSTRIES – UNILEVER – 3DEXPERIENCE

Starting with Manufacturing Industries.

Circularity is more than just a concept; our clients recognize the tangible benefits we bring to their concrete projects.

We are driving forward sustainability innovations in manufacturing using AI in combination with our virtual twins to minimize waste and recycle raw materials.

This quarter, we have a great proof point with Unilever, similar to Pepsico last quarter. Unilever has a bold ambition to reduce plastic waste, with a target of reducing virgin plastic by up to 50% by 2025.
To support this ambition, our 3DEXPERIENCE platform empowers Unilever to drive material efficiencies through automated optimization processes leveraging real world evidence. Additionally, new plastic bottle designs are now right the first time.

**LIFE SCIENCES – NOVARTIS – MEDIDATA’s Rave**

Turning next to Life Sciences.

The significant time required, the level of upfront costs and the potential risks involved in clinical development all provide barriers to innovation in the Life Sciences industry. We aim to help reduce and break down some of these barriers across the sector to enable greater innovation.

Last quarter, Novartis – our longstanding partner – expanded its trust in MEDIDATA, and we are thrilled to continue our long-term partnership. Our mission is to assist them in achieving a remarkable 50% reduction in clinical trial cycle time. This will be made possible through standardizing their clinical developments on our unified cloud platform ensuring comprehensive lifecycle management.

Our commitment to Novartis success is stronger than ever, as evidenced by this expanded partnership with a new 5-year commitment, to expand the scope and our share of wallet. We are dedicated to supporting Novartis in enhancing patient experience and driving unprecedented clinical outcomes.

**INFRASTRUCTURE & CITIES – RED ELECTRICA – 3DEXPERIENCE on the cloud**

Now, let’s move on to Infrastructure & Cities.

The importance of clean, safe, and sovereign energy has always been mission critical. In recent years, this topic has gained significant attention worldwide, particularly as we transition towards global carbon-free energy. While we have frequently showcased successes in energy production, this time, I want to emphasize how we can drive innovation in the domain of the grid.
Red Electrica, the sole operator of the Spanish electricity system, has adopted 3DEXPERIENCE on the cloud, not only for design but also to operate the virtual twin of the energy network for Spain's next-generation smart grid.

Operating the Virtual Twin of their network will ensure the highest grid availability while managing various energy sources and enabling easy grid connections. We are also supporting them in designing the next generation of reversible hydro power plants for energy storage. Additionally, we assist in managing the construction program for power lines, substations, and storage facilities.

This is a good example of how 3DEXPERIENCE was used to design and operate the network, and we’re very proud of this.

We are delighted to support Red Electrica's efforts and to further our purpose through sustainable energy.

2Q23 PERFORMANCE: GEOS, PRODUCT LINES

Now, let’s move to our second quarter results and a discussion of the key trends across our geographies and product lines during the period.

Starting with revenue by geography. These are second quarter, year-over-year growth rates on a constant currency basis:

Software Revenue Performance by Geography (ex FX):

- In the Americas, revenue growth accelerated sequentially to 10%, driven by strong performance mainly in Aerospace & Defense, as well as High-Tech, well supported by Life Sciences. The Americas represented 41% of software revenues, year-to-date.

- In Europe, momentum continued with revenue growth of 9%. The region benefited from strength in Germany and France, mainly driven by Consumer Packaged Goods & Retail and Transportation & Mobility which is growing really well. Europe represented 36% of software revenue, year-to-date.
• In Asia, revenue growth was 4%, thanks to a rebound in China, with growth up high single digits, continued high double-digit growth in India and strength in Mainstream Innovation. Asia represented 23% of software revenue, year-to-date.

Turning now to **Product Line Performance** for the second quarter. Again, these are year-over-year growth rates:

• **Industrial Innovation** software revenue saw 7% growth in 2Q and now represents 52% of total software revenue.
  o Within that, CATIA delivered double-digit growth in both upfront licenses and subscription, thanks to strong Cyber-Systems adoption.
  o SIMULIA also performed well, with software revenue growing high single-digits during the quarter.
  o ENOVIA also delivered good subscription results during the period.

• **In Life Sciences** software revenue increased 7% and now represents 22% of total software revenue.
  o MEDIDATA delivered high single-digit growth, lower than in previous quarters, driven by industry-wide reduction in study starts when compared to very high post-Covid levels, as well as on a very strong base line effect when compared to the second quarter of last year.
  o At the same time, we experienced strong performance with top 50 pharma companies, including several multi-year renewals, such as Novartis we highlighted earlier or Gilead, most of which including extensions of 20% in average.
  o Importantly, we plan to return to double-digit growth before the end of the year.

• **In Mainstream Innovation**, software revenue increased 12% and now represents 26% of total software revenue.
  o SOLIDWORKS achieved a strong double-digit growth with broad-based expansion across geographies, notably in China, where SOLIDWORKS
software revenue increased by 25%, a notable rebound from the -22% in the first quarter.

- CENTRIC PLM reported an excellent performance driven by Consumer Packaged Goods & Retail and saw continued pleasing momentum across its core business verticals.

**MAINSTREAM OPPORTUNITY: CENTRIC PLM**

Continuing this topic.

Today, CENTRIC PLM is used by over 12,500 brands and has a significant footprint in the market. However, the potential opportunity we see here is much larger.

We are advancing multiple axes of growth, expanding:

- from fashion and apparel to new markets including food and beverage, cosmetics and personal care, home and furniture, and consumer electronics;
- from brands today, to retailers, manufacturers, and consumers, tomorrow. This quarter we signed an important deal with a large retailer, for example.
- from collection management to establishing a business platform that will serve as a backbone for e-commerce.

We are well-positioned to continue to execute on our strategy to become a global leader, building a significant business case in this area. And we believe that CENTRIC PLM has the potential to become a billion dollar plus business.

And, now, I’ll hand the presentation over to Rouven to discuss revenue, profitability and our 2023 objectives. Rouven, you have the floor.
ROUVEN BERGMANN, CHIEF FINANCIAL OFFICER

As you can see, Q2 was a strong quarter. We delivered on all our key objectives, encompassing revenue growth, margin, and EPS driven by broad based strength across pretty much all geographies and a healthy contribution from large deal activity. As a result, we wrapped up a good first half of the year putting us on the trajectory to achieve our full-year objectives.

I am sure, you recall, when we introduced our objectives for Q2 back in April, we highlighted three main drivers to accelerate growth in the quarter: (one) an acceleration in North America, (two) continued momentum in Europe across key industries and (three) return to mid-single digit growth in China. All these elements delivered the expected or better results in the quarter.

2Q & YTD PERFORMANCE AT A GLANCE

Now, let’s look at our Q2 results in more detail:

Total revenue and Software revenue grew consistently 8%, while Services revenue was up 7% at constant currency in line with our objectives.

Upfront license revenue was up 6% y/y ahead of the Q2 objectives driven by the rebound in China, very good performance in Mainstream Innovation with Solidworks and a healthy contribution from large deal activity across Europe and North America.

Related to the performance in China, we highlighted during our Q1 call that we saw evidence of increasing activity in March – and, in fact, this trend continued driving 8% growth in China in Q2; we are confident that this progressive trend is further raising the potential for growth in the rest of the year.
Recurring revenue rose 9%, with Subscription revenue up 13% year over year. Together, Subscription and Upfront license revenue growth was up 10% highlighting the improving momentum of Q2. For the first 6 months, the share of recurring revenue reached 81% of total Software Revenue. This represents a strong increase of 200 basis points versus last year.

While Subscription revenue growth for Solidworks, Centric, CATIA and ENOVIA together was up over 30% and significantly above the average growth rate in the quarter, we experienced a temporary slower growth at Medidata – as highlighted by Pascal earlier.

To complement Pascal, I’d like to highlight 3 points to explain what is driving the Medidata performance in Q2 and for the rest of the year:

1. First, the impact of lower clinical trial starts observed by global Industry Data
2. Second, the impact of COVID mega studies which phased out during Q2 & Q3 last year
3. Momentum with Top 50 Large Pharma customers

First, we are seeing a more deliberate investment environment in which CROs are continuing to adjust volumes. Worldwide, in 2Q 2023, according to Global Industry Data, clinical trial starts decreased by around 10% YoY. While study start volumes are under pressure, our win rates remained strong, on average at around 75%.

Second, when we compare to Q2 last year, we had the benefit of the ending of mega-trials, which were started during the pandemic. Typically, at the end, of such complex studies we are entitled to true up revenue. This creates an unfavorable baseline effect with an impact of approx. 3pts to the growth rate. We expect a similar effect in Q3 before we are back to double digit growth in Q4.
Third, we signed several multi-year renewals with Top 50 Pharma. This is evidenced by strong total quarter bookings up 17%. On top, we continue to see strong renewal rates more than 20% above par (prior contracted value) over the trailing 12 months and our revenue retention rate remains above 99.5%.

To summarize, the lower subscription revenue growth contribution of Medidata is temporary and we are confident that growth will rebound towards the end of the year and further into 2024.

Looking at our strategic growth drivers of 3DEXPERIENCE and CLOUD:

**GROWTH DRIVERS**

- **3DEXPERIENCE** revenue in the first 6 months grew 5% at constant currencies. This reflects a share of 31% 3DEXPERIENCE addressable software revenue – flat year on year, relative to a very strong comparison base last year. As we highlighted before, our 3DEXPERIENCE deal roadmap is strengthening in the second half – so we expect the share to increase in H2.

- Cloud revenue in the first 6 months rose 14% representing 24% of software revenue, an increase of 2 points. While Medidata growth contribution was lower this quarter for the reasons mentioned, growth in 3DEXPERIENCE cloud remains at a healthy clip.

Now, let’s review how we performed relative to the objectives we set for the second quarter.
2Q23 RESULTS VS OBJECTIVES

We reported total revenue of €1.449 billion. Unlike in previous quarters, we had a currency headwind of 50 bps resulting in a negative FX impact of €7 million, during the period. Adjusted for currency, Total Revenue was €5 million higher than the mid-point of our target range due to the overperformance in Software Revenue by €4 million and in Services Revenue by €1 million.

We reported an operating margin of 31%, 50bps above the high-end of the range and 80bps higher than the mid-point. Better revenue performance and lower OPEX growth together contributed 110 bps improvement versus the mid-point, partially offset by a negative currency impact of 30bps.

It is clear from the numbers: we delivered on our profitability targets while continuing to invest, adding over 300 net new team members, during the quarter and 650 for the first 6 months. Due to our disciplined investment strategy, we are well on track to manage our OPEX growth in 2023 offsetting the carry over effect resulting from the strong hiring last year. This gives us the visibility to continue our focused investments in the second half of the year to address our long-term opportunities.

Now, turning to earnings per share: we reported €0.28 as reported, at the high-end of our objective range of €0.27 - €0.28.

CHANGE IN CASH AND DEBT POSITION AS OF JUNE 30, 2023

Turning now to cash flow and balance sheet items:

Cash and cash equivalents totaled €3.345 billion, compared to €2.769 billion at the end of 2022, an increase of €576 million.
At the end of the quarter, our net financial position totaled €352 million, an increase of €579 million versus net financial debt of €227 million at December 31, 2022.

Now, let’s look at what is driving our cash position at the end of the second quarter:

We generated 1,026 million Operating Cash Flow YTD. This was slightly lower by 2% or 22 million when compared to the first 6 months of last year.

There are 2 main take-aways:

First, we continue to see good momentum in our Working Capital: The net change in Operating Working Capital is up by 5% driven mainly by strong collections evidenced by sequentially improving DSOs. This is partially offset by a slightly unfavorable change in the Non-Operating Working Capital due to higher tax payments.

Second, the net income adjusted for non-cash items is lower vs last year because of two reasons: number one: As discussed, we decided to invest at higher levels in 2022 to accelerate top line growth and as a result we are absorbing the expense carry over effect NOW, in 2023. At the same time, the progressive revenue growth acceleration is taking off. And lastly (reason 2), the remaining gap is a result of an increase in social charges for share based compensation due to the higher share price versus last year. For more details, I refer you to the reconciliation table in the Appendix: Operating Cash Flow Evolution YTD.

To sum up, Operating Cash Flow was mainly used for CAPEX of €67 million, repayment of lease liabilities of €42 million, and the Cash Dividend paid in Q2 of €276 million. Lastly, of note, we had a negative FX impact of €56 million year-to-date 2023.
FY23 OBJECTIVES: CHANGES FROM APRIL TO JULY

Now, let’s turn to our fiscal year 2023 objectives.

We are maintaining our guidance: the key takeaway is that we are on a good trajectory to achieve our long-term financial objective of €1.20 Earnings per Share.

Total revenue growth between 8-9% at constant currency remains unchanged. In absolute terms, we are offsetting the FX impact of -€7 million to the year by raising the performance to maintain the range as-is of €5.940 - €5.990 billion.

This assumes that we expect progressive growth acceleration throughout the remainder of the year driven by an increasing contribution from large deal activity in H2 and mid to high single digit growth in China continuing the good Q2 trend.

Finally, we reaffirm the Operating Margin range of 32.3% to 32.6%.

3Q & FY2023 FINANCIAL OBJECTIVES

Before moving to the Q3 objectives, I would like to emphasize that the unchanged Full Year Revenue guidance assumes that we maintain growth rates at constant currency for Software Revenue of 8-9% and Services Revenue of 5-7%. We continue to expect Recurring Revenue growth in the range of 10-11% with strong Subscription Revenue, increasing in the range of 17-18%. Following the good trend of Q2 in Upfront License Revenue, we remain confident for the FY on the range of 2-5%.
Now let's turn to our Q3 objectives… We are targeting total revenue growth of 8-10%, at constant currency, with recurring revenue increasing by 10%, driven by strong subscription growth of 17-19%. We are forecasting upfront license revenue growth of 6-10%.

This reflects an acceleration in subscription revenue growth in Q3 versus Q2 driven by an increasing share of large 3DEXPERIENCE subscription deals, continued momentum in adopting subscription-based pricing of the Solidworks customer base and strong growth from CentricPLM. As mentioned, and for the reasons outlined before, Medidata is expected to contribute mid to high single digits in Q3 before returning to double digit growth in Q4.

For services revenue, we are predicting a normalized 2-5% growth.

In terms of profitability, we are forecasting operating margin of 30.2%-30.5% and diluted EPS of €0.26 - €0.27.

For additional information, and to review what we’ve discussed, I'll refer you to today’s earnings presentation.

FINANCIAL PERFORMANCE CONCLUSION

In conclusion --- we’ve had a good first half of the year with strong second quarter results. The growth is broad based, and the momentum is improving across all major geographies driven by strength in Industrial and Mainstream Innovation. We are on track to achieve our objectives for the year reflecting an acceleration in revenue growth in 2H.

These results demonstrate that our platform strategy is well aligned with the priorities of our clients. We are focused on execution to deliver sustainable growth throughout
the year and as such remain confident in our ability to advance towards our EPS objective of €1.20.

Now, Bernard, Pascal and I are happy to take your questions…