DASSAULT SYSTEMES
2016 Third Quarter and Nine Months Conference Call
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Final

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Thank you for joining Bernard Charles, Vice Chairman of the Board of Directors and CEO, and Thibault de Tersant, Senior EVP and CFO, to discuss our 2016 third quarter and year-to-date financial performance. This conference call follows our webcasted presentation earlier today in London. For your information:

- 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 today's press release and to the Risk Factors section of our 2015 *Document de reference.*
- Revenue growth figures are in constant currencies, unless otherwise noted.

I would now like to introduce Bernard Charles.

Mr. Bernard Charles
Vice Chairman of the Board and CEO

Thank you for joining us here and good morning and good afternoon.

SUMMARY OVERVIEW

To begin, let me share with you my key take-aways on the quarter.

First, we delivered a strong EPS, up 9% in the quarter and 11% year-to-date. Our financial performance was solid overall in terms of software results, but we can do better in terms of new licenses revenue.

Second, we are seeing strong 3DEXPERIENCE momentum. 3DEXPERIENCE software revenue increased 40% in the third quarter and 38% through the first nine months.

Third, from a brand perspective, ENOVIA continued to show a very good growth trajectory – most of its new sales are 3DEXPERIENCE. SOLIDWORKS' improving trend was visible, with excellent growth. Its newest release, SOLIDWORKS 2017 is now in general availability. CATIA also had a good quarter continuing to increase its market presence in target industries and countries.

Fourth, in terms of industries, we are benefiting from greater breadth – with an active quarter in our largest industry, Transportation & Mobility and in a number of Diversification Industries.

Fifth, we are strengthening and expanding our addressable market in High Tech and other industries addressing IoT including for autonomous cars, smart homes, smart devices and smart cities. For instance,

- With SIMULIA extending multi-physics simulation capabilities with the CST acquisition in electromagnetic simulation;
- And with SOLIDWORKS focused on significant expansion of its market opportunity with combined mechanical & electrical focus and its printed circuit board partnership;

Finally, turning to the outlook for 2016, we see a year of solid revenue and earnings growth, cash flow generation, new customer acquisition and market share gains.

Regional Performance

Turning to a regional review, following a strong level of activity in Europe and the Americas in the second quarter with double-digits new licenses revenue growth, we continued to have a number of opportunities but were affected by timing for some 3DEXPERIENCE transactions. In the Americas, we had a lower level of large deal activity while seeing good performance in both of our indirect channels. And in Europe, France and Southern Europe were the best performers in the quarter. Year-to-date, both the Americas and Europe grew software revenue 6% with a solid contribution from most of our largest geos.

Asia was the strongest region in the third quarter, with many of our product lines seeing double-digit software growth. In terms of country performance, China had an outstanding quarter and South Korea delivered a good level of growth. Year-to-date, China was the best performing geo in Asia.

Software Revenue by Brand

Moving to a product line review let me begin with our largest brands.

CATIA software revenue increased 7% in the third quarter led by strong growth in Asia, most notably China and by industry, in Transportation & Mobility, High Tech and AEC. In terms of its coverage, we continue to invest in bringing additional, specialized capabilities and this is an important component of CATIA's software revenue.

ENOVIA delivered another strong quarter, with new licenses revenue growth of 27% and total software revenue higher by 9%. The growth came from multiple industries – including Transportation & Mobility, High Tech, CPG and CG as well as Industrial Equipment.

With respect to Other Software, the results reflect a high comparison base to last year as well as a mixed performance. SIMULIA, Quintiq and Exalead had solid results.

SOLIDWORKS in FOCUS

This quarter I would like to focus some of our time on SOLIDWORKS, the second largest product line at Dassault Systemes, representing about 20% of our total revenues.

From a financial perspective, SOLIDWORKS software revenue increased 14% in the quarter, with double-digits new licenses revenue growth in all three regions. Recurring software results were also excellent, demonstrating the strong value SOLIDWORKS brings and the dynamic community it has established – with over 725,000 commercial users.

Its ecosystem is even broader with over 3.1 million users including education and research, a strong reseller network, and hundreds of software partners building applications to work with SOLIDWORKS as a platform.

SOLIDWORKS 2017, which was launched earlier this month, has been designed to enable users to drive innovation. The new release includes SOLIDWORKS PCB, printed circuit board, to seamlessly synchronize electronic and mechanical design; SOLIDWORKS Model-Based

Definition to quickly and accurately communicate critical product information throughout downstream manufacturing operations. In addition, we will shortly be offering to SOLIDWORKS users the possibility to connect to the 3DEXPERIENCE platform to improve collaboration for those under subscription via 3DDrive.

3DEXPERIENCE Year-to-date Performance

Moving now to our 3DEXPERIENCE platform and industry solution experiences, they are showing good traction and momentum. From a new licenses perspective we are seeing very good growth, up 76% year-to-date and importantly, these sales are representing an increasing percentage – about 33% of our related sales. And total 3DEXPERIENCE software revenue is up 38% since the start of 2016.

Companies in Transportation & Mobility, Industrial Equipment, High Tech, CPG-Retail, CG-Retail and AEC were among the wins this past quarter.

Among existing 3DEXPERIENCE clients, Renault now has 10,000 users running on it. With our ‘Target Zero Defect’ industry solution experience Renault has been able to lower costs and reduce risks associated with new platform introductions.

3DEXPERIENCity

I would like to touch on a new initiative and win with 3DEXPERIENCity. As many of you may know we are working with Singapore to develop a digital twin experience of the city. We now have entered into a partnership with Cybernaut Investment Group, to help advance Smart Cities and 'Made in China 2025' initiatives.

At the World Cities Summit in Singapore held in July, we showcased the value of the 3DEXPERIENCE platform in terms of how you can take all types of IoT data merged with many other information related to a city's behavior and make sense of it. Equally important, with the 3DEXPERIENCE platform you can model and run simulations to improve how a city operates and helps improve daily life experiences for its citizens and businesses.

Industries Review – Focus on High Tech

Turning now to an industry review, today I would like to focus my remarks on High Tech, which is our largest vertical within our Diversification Industries.

2016 has been a very good year, with High Tech new licenses software revenue up 36% for the quarter and 30% year-to-date. We have a long presence working with semiconductor companies, virtually all of the leading players. Here our 'Silicon Thinking' industry solution experience helps drive an improved development environment, efficiency, cost management and decreased time-to-market through improved collaboration and data management.

In addition to semiconductor companies our clients include electronics product manufacturers. Here we are seeing good traction thanks to our 'Smarter, Faster, Lighter' industry solution experience which helps manage embedded systems and complexity of products with both hardware and software as well as helping to reduce size and weight of all the components.

In our webcast earlier today we had video example of how we can help High tech companies develop and deliver efficient and safe components to be embedded in smart wearable devices thanks to our unique ability to model both smart connected objects as well as the human body. In this example the human arm is an extension of an antenna on a smart watch. So it is clear how important it is to be able to model and understand the impact on humans to ensure that these products are safe and compliant.

High Tech is at the core of a new world of hyper-connectivity, therefore connecting to many of the industries we address, including Smart cities, connected wearable devices, medical or industrial equipment, or intelligent retail, and all industries interested in Internet of Experiences.

SIMULIA – Expanding its Portfolio with CST

Simulation is an important component of our product portfolio with SIMULIA, the technology and market leader in structural analysis especially. We have now closed the acquisition of CST, the technology leader in high frequency electro-magnetic simulation, whose product portfolio is very relevant for High Tech and all connected objects.

With this acquisition we are significantly enhancing our multi-physics and multi-scale simulation. CST's technology also covers all length scales, from subatomic particles to full commercial aircraft.

With that summary, let me pass the call to Thibault.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

Financial Summary

To recap, I think there were a number of financial highlights in the quarter and 2016 to date:

- First, 3DEXPERIENCE software revenue, which increased 40% in the quarter and 38% year-to-date.
- Second, ENOVIA with strong new license revenue growth of 27% and 30% for the three and nine months, respectively. A large majority of this is 3DEXPERIENCE sales.
- Third, our two largest product lines performance, with CATIA software up 7% and SOLIDWORKS up 14%.
- Fourth, multiple core and diversification industries performed well in the September quarter.
- Fifth, our operating margin and EPS performance where we are both improving our operations while also investing for the future.

Thanks to our earnings upside in the third quarter, we are upgrading our earnings per share range for 2016.

Now let's look at our revenue results in more detail.

Total Revenue and Software Revenue

Total revenue growth came in at 7% in constant currencies, in line with our guidance of 6 to 8% growth.

New licenses revenue totaled €162 million, representing an increase of 6% in constant currencies. This was a solid performance, particularly given third quarter seasonality, but it did not fully capture the acceleration we were looking for. Where we came perhaps just five million euros short of our double-digit goal was in our 3DEXPERIENCE sales to large accounts. Our two indirect sales channels were well in line with our expectations while large account sales took more time. We are bringing significant business value and the transactions typically involve multiple domains, so it is generally at a business strategy level that the discussions and sales process take place.

Recurring software performance was well in line with our expectations increasing 8% to €486 million. Growth came both from maintenance subscription and rental subscription. On a regional basis, Asia had the strongest increase on the maintenance side, coming in particular from China. But all three regions turned in a good performance.

Recurring software revenue was 75% of our total software revenue in the third quarter and 73% year-to-date.

Services – A Positive Indicator for 3DEXPERIENCE

Services also performed well, with revenue up 6% to €88 million and with 3DEXPERIENCE engagements an important contributor. So I believe this is another indicator of the traction and momentum underway.

Operating Margin and EPS

Our operating margin and EPS came in ahead of our objectives. As we plan for 2017 we are adding sales and R&D resources principally, with a net increase of about 300 people just in Q3. The hiring came more toward the end of the quarter and therefore had less impact, but they should be in your fourth quarter perspective.

I want to emphasize that we continue to focus on driving improvements in our business. Our operating margin was 32% in the third quarter, compared to 31.2% in the year-ago period. There was an underlying improvement in the operating margin of about 190 basis points. Currency had a slightly negative impact of about 10 basis points in Q3 and year-to-date.

Non-IFRS EPS increased 9% in total or 17% leaving aside tax one-offs this past quarter and in the year-ago period. Year-to-date, non-IFRS EPS is up double-digits.

Operating Cash Flow

We had a good evolution of operating cash flow in the quarter but it does require a little explanation. Operating cash flow was €77 million, compared to €113 million in the 2015 third quarter. From a working capital perspective, excluding the timing impact coming from two line items – about €67 million related to tax downpayments of last year and €20 million related to accrued compensation, operating cash flow increased at a healthy level for Q3 and in turn for the first nine months of the year.

Unearned revenue increased 7% excluding currency impacts, well tracking the recurring revenue progression.

Fourth Quarter and 2016 Financial Objectives

Moving to our financial objectives, we have outlined them in our earnings press release. Let me briefly review them, beginning with the year.

- We are adding the acquisition of CST with a €10 million revenue assumption, and the full amount of the currency upside from the third quarter, €17 million. We then subtract about €2 million of estimated negative currency impact from the British pound. And then we are narrowing the range as we always do since we only have one quarter left in the year.

- The new revenue range is now €3.015 to 3.030 billion. At the low end there is no change in activity assumption and at the mid-point, there is a €5 million reduction.
- Our non-IFRS operating margin objective remains at about 31% with the improvement captured in the 2016 nine-month period to reach this figure.
- And as I mentioned at the beginning of my remarks, we are slightly upgrading our non-IFRS EPS to a range of €2.40-2.45 from the former objective of €2.40. Excluding 2 percentage points of currency headwinds, the non-IFRS EPS objective implies a growth of 9% to 11%.
- As a reminder, CST has a highly recurrent financial model, so most of the €10 million should be in recurring software revenue.

For the fourth quarter, our revenue range objective is about €832 to €847 million, embedding new licenses revenue growth between 8 and 12%, and recurring software revenue growth of about 7 to 8% in constant currencies. Our operating margin target range is about 33 to 35% with the mid-point of the range lower by just 50 basis points compared to Q415 on increased investments and after excluding currency headwinds estimated at about 70 basis points. Our EPS range of about 69 to 74 cents embeds about 6 points of estimated currency headwinds.

Let me turn the call back to Bernard.

Mr. Bernard Charles
Vice Chairman of the Board of Directors and CEO

Summary

I think it is clear from our progress that we are seeing strong and growing interest in our 3DEXPERIENCE platform and industry solution experiences. Further, the message of 3DEXPERIENCE is resonating with leaders in a wide variety of industries, evident in the growth we are seeing in our Diversification Industries, and also with many of our Core Industries customers like in Industrial Equipment in Germany or in Transportation and Mobility especially in Asia, UK or France, for example.

With our expanded capabilities in simulation combined with our other brands capabilities, we are well positioned to help clients across industries interpret and act upon data and information from smart, connected products.

We look forward to reporting a strong fourth quarter, well reflecting the opportunities we see in front of us.

Thibault and I would now be happy to answer your questions and thank you again for your questions earlier today on our webcast.