Beatrix Martinez

Vice President, Investor Relations

Thank you for joining us on our third quarter 2022 earnings conference call, with Bernard Charles, Vice Chairman and CEO, Pascal Daloz, Chief Operating Officer and Rouven Bergmann, Chief Financial Officer.

- Dassault Systèmes’ results are prepared in accordance with IFRS.

- Most of the financial figures discussed on this conference call are on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.

- Some of our 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 2021 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 Charles.
BERNARD CHARLES
VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Thank you, Beatrix. Good morning and good afternoon to all of you. Thank you for joining us. It is always a pleasure to be with you today.

THIRD QUARTER 2022 HIGHLIGHTS

We delivered solid results in the third quarter, demonstrating the resilience of our model and broad diversification of our business.

- Total revenue increased 8%, driven by accelerating recurring revenue growth of 10%.
- We continue to show strong profitability with earnings per share up 17%, while also investing for the future.
- Our strategic growth drivers performed well with 3DEXPERIENCE revenue increasing 15% and cloud revenue rising 21%.
- Looking to the remainder of 2022, we have reaffirmed our revenue objective of 9-10% growth and increased our EPS target to 18% -19%.
- We are well positioned and on track to achieve our 2024 EPS objective of €1.20.

I will give Pascal and Rouven the floor to discuss our operational and financial performance in more detail, in a moment. Now, I would like to share some perspectives on our strategic positioning.
VIRTUALIZATION – THE NEXT FRONTIER

Virtualization opens possibilities well beyond digitization - it's the next frontier. For forty years, we have been a trusted partner, leveraging science, to help clients overcome their most significant challenges, prepare for the future, and realize their greatest ambitions. We have recently been attending 3DEXPERIENCE forums around the world. It is very clear from our conversations with customers and partners that we are changing the game.

We have supported clients, first with digital mock up, then adding product life cycle management and 3DEXPERIENCE. In 2020, we announced our ambition to extend virtualization from things to life. And, believe me, there is much more to come. We look forward to sharing some updates with you during our full year 2022 earnings announcement.

SCIENCE BASED VIRTUAL TWIN EXPERIENCES

Virtualization is about applying science at scale, using the virtual world to extend and improve the real world. Our foundation in science is truly a differentiator. Our virtual twin experiences, powered by cloud-based 3DEXPERIENCE, are not simple renderings, they are fully integrated with scientific laws and principles and all of our technologies. Incorporating multi-physics, multiscale and multi-discipline, we combine modeling, simulation and data science for a holistic approach to innovation and business optimization. We empower clients to create virtual universes to operate the lifecycle of their products and services and also the production systems. This establishes a valuable foundation to fully leverage the future of data science.
3DS OUTSCALE: A NEW BRAND FOR TRUSTED CLOUD & A NEW ALLIANCE

As data collection and analysis accelerate, virtualization of society and the economy requires the highest levels of security, trust and operated services. For these reasons, we announced our new strategic objective to elevate 3DS OUTSCALE to a brand. Our unified cyber governance offers three levels of trusted, experience cloud - dedicated, private and international. We provide a holistic, collaborative universe to create and operate virtual twin experiences, process modeling, data science and business experiences.

Trust is a topic of the greatest importance for all of society – consumers, patients and citizens.

Today, we announced a new alliance with NUMSPOT to offer 3DS OUTSCALE sovereign cloud and cloud services to European citizens.

HARMONIZE PRODUCT NATURE AND LIFE: INNOVATE FOR SUSTAINABILITY

Each quarter, I return to our purpose: sustainability has always been at the core of our mission to harmonize product, nature, and life.

Virtualization is an unparalled catalyst and enabler of sustainable innovation. It allows innovators to make the right decision the first time, using only what’s necessary and incorporating reuse and recycling into the design and manufacturing. In fact, design your waste and design your experience are our mottos.

To expand the impact we can have on society and the planet, we make the power of our 3DEXPERIENCE sustainability portfolio accessible to a broader audience:
o With 3DEXPERIENCE LAB, we are supporting disruptive startups, accelerating sustainable innovation.

o We are preparing the workforce of the future with 3DEXPERIENCE EDU, and

o we are driving the adoption of sustainability measurement and standards through partnerships and coalitions.

Our ambition is to become the world’s number one, trusted partner for re-inventing a sustainable economy. I think it’s clear we walk the talk.

And now, I will hand the presentation over to Pascal to discuss our third quarter results. Pascal, the floor is yours.

PASCAL DALOZ, CHIEF OPERATING OFFICER

Thank you, Bernard.

Hello to everyone. It’s a pleasure to be with you today.

Across all three sectors of the global economy we serve, the relevance and criticality of our platform and industry solutions have never been greater. We have significant opportunities to help our clients accelerate innovation, increase resiliency and to scale. This is clearly demonstrated in our customer adoption this quarter, which incorporates numerous domains and use cases – from precision medicine to modular nuclear reactors.

Let’s zoom in on a few examples.

MANUFACTURING INDUSTRIES: JAGUAR LAND ROVER

Starting with transportation and mobility, we had another very good quarter and continue to advance growth opportunities across several vectors. 3DEXPERIENCE and our industry solutions are mission critical for electrification and battery design and
manufacturing. We are working with nearly all of the new entrants and also the large incumbents, transforming. We have many proof points in Q3 including Tesla, Volkswagen and Jaguar Land Rover.

JLR was an early adopter of 3DEXPERIENCE and our industry solutions. Today, Jaguar Land Rover is deploying 3DEXPERIENCE platform to 500 of its suppliers to build their value network. This will drive quality and time to market by standardizing critical processes, enabling simultaneous engineering and improving traceability. It will also be crucial for electric vehicle architecture.

JLR’s expansion shows the strong potential for a network effect, as our large enterprise clients connect their supply chains to fully scale our technologies.

**LIFE SCIENCES: BIONTECH**

In Life Sciences, we continue to build on our strong momentum, delivering another excellent quarter.

Looking to the past few years, Covid was an accelerator of growth, it’s true, however, it has proven to be a step-change. The pandemic revealed what is possible with innovation. It also exposed the importance of connecting the dots across research, discovery, manufacturing and commercialization. We continue to see biopharma, medtech and CRO clients invest heavily to support programs across a number of therapeutic areas, such as oncology and central nervous and infectious diseases. Customers are adopting not only our core MEDIDATA RAVE, but also expanding to MEDIDATA PATIENT CLOUD, for decentralized clinical trials, and MEDIDATA AI, which is pioneering innovation with AI driven insights and virtualization like Synthetic
Control Arms. We are really changing the game and we have differentiated, long-term competitive advantages.

Many of the BioPhama companies we supported with Covid vaccine development, started as small clients and are now some of our largest customers, advancing broad therapeutic candidates. We have a good proof point this quarter.

BioNTech leveraged our MEDIDATA platform to support the development of its COVID-19 vaccine. This quarter, the company has selected MEDIATA AI to improve trial design for cell-gene therapies in tumors, broadening the scope of our relationship.

We're pleased to support BioNTech as it advances precision medicine and strives to deliver better outcomes for patients.

**INFRASTRUCTURE & CITIES: MAMMOET**

Moving to infrastructure and cities, supply chains are facing unprecedented challenges including delivery dislocations, material costing, assessing the viability of substitutes and how to increase resiliency if there are no alternative materials or parts.

To address these issues requires managing tremendous complexity with a multiscale, multisource planning approach.

Mammoet, a leader in engineered heavy lifting and heavy transport will deploy DELMIA Quintiq, powered by 3DEXPERIENCE, to maximize resource utilization, reduce costs and retain its workforce.

Every part of the supply chain is dealing with volatility and disruptions. We expect this to drive continued demand for transformation.
As you can see, we are deepening and expanding our relationships across all sectors to help advance the strategies of our customers.

**3Q22 PERFORMANCE: GEOS, PRODUCT LINES, STRATEGIC DRIVERS**

Now, let’s turn to our third quarter, 2022 results. We delivered solid Q3 performance, against a challenging macroeconomic and geopolitical backdrop, once again demonstrating the resilience of our model and the diversification we have achieved in our addressable markets.

Starting with revenue by geography, and these are third quarter, year-over-year growth rates in constant currencies:

**Software revenue performance by Geography (ex FX):**

- **The Americas** grew 7% driven by strong performance in Life Sciences and also High-Tech, with a number of deals in the semiconductor space, such as NXP and KLA. Year-to-date, the Americas represented 40% of software revenue.

- **Europe** demonstrated strong resilience, increasing 9% with good performance in France, Northern and Southern Europe, and Transportation & Mobility, from an industry perspective. Europe represented 35% of software revenue, year-to-date.

- **Asia Pacific** rose 6%. India and Korea were up double-digits this quarter and year-to-date. China grew mid-single digits as extended shutdowns continued to weigh on activity. We some saw softness in Japan in Q3, but year-to-date, Japan has increased by double-digits. Asia represented 25% of software revenue on a year-to-date basis.
Zooming in, now, on Product Line Performance, for the third quarter, and these are year-over-year growth rates in constant currencies:

- **Industrial Innovation** software revenue rose 6% to €624 million, representing 51% of software revenue.
  
  o CATIA exhibited continued strong momentum with revenue up double-digits in Q3 and year-to-date. Cyber-Systemes and 3DEXPERIENCE delivered excellent performance again this quarter, driven by demand in Aerospace & Defense, High-Tech and Transportation & Mobility – particularly in electrification.

  o ENOVIA reported high, double-digit revenue growth, in tandem with the 3DEXPERIENCE platform and large enterprise development. DELMIA also displayed very good growth during the quarter, driven by engineering and operations, and with QUINTIQ showing excellent results on a year-to-date basis. As we talked about last quarter, there has been strong demand for manufacturing transformation.

- **In Life Sciences**, software revenue rose 13% to €295 million, representing 24% of software revenue. MEDIDATA delivered excellent performance, increasing 17%, against a high comparison base, again this quarter.

  o We acquired Mediata in October of 2019; this marks our three year anniversary. It has been an incredible journey, exceeding all expectations. We committed to 13-15% growth and 200 basis points of margin improvement per year; we have delivered well above the targets. We not only have excellent performance, but great additions to the team.
Since the acquisition, we have consistently taken market share and expanded our addressable market. Our performance has, and continues to be broad based:

- From a solution standpoint: MEDIDATA RAVE, MEDIDATA PATIENT CLOUD and MEDIDATA AI are all strong drivers.
- From a market coverage, perspective: we are growing across end-markets including biopharma, medtech and CROs. In fact, since 2019, on a year-to-date basis, we have doubled our revenue with CRO partners.

We continue to invest strategically, doubling the size of the MEDIDATA team to 4,500 experts in the industry. MEDIDATA operates at a level of scale whereby we bring the largest team, the deepest and most relevant domain expertise and the only scalable platform to advance better treatments for patients.

Today, MEDIDATA is core to Dassault Systemes. We are extending virtualization from things to life, in keeping with our purpose to harmonize product, nature and life. We are deeply committed to the Life Sciences sector and have significant ambitions to solve the industry’s greatest challenges, and ultimately have a meaningful impact on healthcare, for the benefit of society.

While it has been a terrific three years, it is only the beginning of the journey. We could not be more excited about the future.

- Now, let’s move on, to **Mainstream Innovation**: software revenue increased 5% to €312 million, representing 25% of software revenue.
The mainstream market was impacted by macroeconomic conditions, during the quarter. China’s COVID related shutdowns continued to be a significant headwind, affecting SOLIDWORKS’ results – specifically license growth this quarter.

On behalf of those in China, we hope the situation improves soon.

We expect the mainstream market to return to trend growth when macroeconomic conditions normalize.

CENTRIC PLM & STYLESAKE

Continuing on the topic of the mainstream market, we have a substantial opportunity with CENTRIC PLM and are advancing multiple axis of growth, expanding to:

- new industries & segments including food & beverage, personal beauty and consumer electronics
- new geographies - particularly Asia,
- from brands to retailers,
- and to new domains; we are extending Centric’s value proposition beyond collection management to business planning and analytics, as well as e-commerce.

This quarter, to compliment CENTRIC PLMs offering, we acquired StyleSage, a cloud-based market intelligence platform offering retailers AI-powered tools for competitive benchmarking, price optimization, and forecasting. These are absolutely critical for successful e-commerce because you need to have an accelerated pace to monitor and optimize price. StyleStage is bringing technologies with the ability to crawl websites, to extract attributes, match the product images, consolidate, build the analytics and
provide insights to the critical decision makers. StyleStage also brings strong leadership and talent to the CENTRIC PLM team. We welcome the StyleSage team onboard.

This acquisition is a game changer for the market. The PLM backbone is becoming central for e-commerce in many consumer industries.

As you can see, we are advancing our ambitions and continue to execute against our plan to expand CENTRIC PLM, well into the future.

And, now, I’ll hand the presentation over to Rouven to discuss revenue, profitability and our 2022 objectives. Rouven, you have the floor.

ROUVEN BERGMANN, CHIEF FINANCIAL OFFICER

Thank you, Pascal. Hello, everyone, welcome and thanks for joining our call today.

THIRD QUARTER 2022 FINANCIAL PERFORMANCE: HIGHLIGHTS

I will be commenting on financial performance based on NON-IFRS metrics here and refer you to the press release for IFRS metrics.

This quarter was exceptional in highlighting the resiliency of our business model. Total revenue grew 18% as reported and 8% at constant currency. Recurring revenue was up by over 10%, representing 82% of software revenue, driven by strong subscription growth of 16% exFX and also with cloud revenue up 21%. Services revenue also increased 16%, at constant currency, during the period. We delivered this good performance on top of a strong first half of the year. What was different this quarter compared to the first 6 months is that there was a shift in our expected revenue mix with a higher contribution from subscription and lower capex-based purchases. As such, revenue from licenses was down by 2%, at constant currency. This was driven
by a preference for subscription as well as the absence of a recovery in China. I will discuss this in greater detail in a moment.

Despite these shifts, as you can see in the numbers, we delivered on our profitability target, as promised. This reflects strong returns on the investments we've been making over the last few years in products, infrastructure, and our go to market. The operating margin was 31.6% and earnings per share rose 17% to €0.26, as reported.

3DEXPERIENCE, CLOUD

Our growth drivers of 3DEXPERIENCE and Cloud are very resilient and continue to propel us forward. Clients - from large established enterprises to new players and disruptors - are adopting 3DEXPERIENCE and Cloud. They are looking for platforms to accelerate innovation, scale their operations and to drive growth. Again, this quarter, 3DEXPERIENCE was a key driver of large, transformational client deals, as highlighted by Pascal.

- 3DEXPERIENCE revenue grew 15% at constant currencies and accounted for 32% of software revenue, an increase of 2 points relative to last year.
- Cloud revenue rose 21% exfx, driven by continued strong MEDIDATA momentum, up 17%, and very healthy growth in 3DEXPERIENCE cloud. Cloud now accounts for 24% of our software revenue, up 3 points versus last year.

Now, let me turn to the financial results and how we performed relative to the objectives we set.

THIRD QUARTER FINANCIAL PERFORMANCE VS OBJECTIVES
Total revenue of €1.37B was €65 million higher than the mid-point of our target range. We benefited from an FX impact of €74 million, during the period. Excluding this currency impact, we landed between the low and the midpoint of our range.

We reported recurring and services revenue above the midpoints by €10 million, and €4 million respectively. This partially offset the lower license revenue, which was €23 million below the midpoint. This was driven by two factors:

First, as mentioned, clients displayed a stronger preference for subscription with an impact of approximately 4 points of growth on the licenses. This means that we had a few deals that shifted to subscription at the end of the quarter that were previously forecasted as license revenue.

Second, we experienced continued softness in China due to the extended shutdowns and travel restrictions. This also affected SOLIDWORKS sales in China. As you know, China is a key market and traditionally one of our largest for perpetual licenses, with over 50% of the total software revenue coming from license sales. While we had factored some weakness from China into our 3Q objectives, the impact was higher than expected. This, along with some softness in the SMB market had an additional impact of approximately 4-5 points on license growth.

The bottom line is this: the shift to accelerated growth in subscription revenue is well underway. We are well prepared, as you can see. We are progressively increasing the share of recurring revenue while continuing to deliver on the top line revenue and our profitability objectives, despite the lower growth contribution from license revenue. Again, as I said before, this highlights the excellent resiliency of our model and we will continue to support our clients with the optionality that meets their needs.
We reported an operating margin of 31.6%, as mentioned, in line with the objective, while hiring nearly 800 net new team members during the quarter. We grew headcount by 10% year-on-year, overall. So, as you can see, we remain committed to our plan to make the critical investments in support of our long-term growth objectives. Also, important to highlight is that more than 50% of the hires in R&D are in India, of which a good portion fuels the continued growth of MEDIDATA.

Compared to our objectives for the quarter, operating margin benefited 10 basis points from a positive FX impact and 50 basis points from lower expenses, offsetting the negative impact from the slightly lower revenue.

Now, turning to third quarter earnings per share: we delivered strong growth of 17% to €0.26, as reported, above the objective range of 6-11%. The growth in EPS benefited this quarter from:

- a more favorable FX conversion driven by the strengthening of the US Dollar versus the Euro with an impact of 1.3 cents,
- a lower tax rate and higher financial income contributing 0.7 cents

Finally, the non-IFRS tax rate for the quarter of 20.7% versus our guidance of 21.6% was driven by a lower tax rate in France and continued benefit from higher FDII tax deduction in the US.

**CASH FLOW AND BALANCE SHEET (Year-To-Date 2022, IFRS)**

Turning now to cash flow and balance sheet items:

Cash and cash equivalents totaled €2.787 billion, compared to €2.979 at the end of last year, a decrease of €192 million.
Our net financial debt on September 30, 2022, decreased by €681 million to €208 million, compared to €889 million on December 31, 2021. This keeps us well ahead of schedule on our deleveraging objective.

Now, let’s look at what is driving our cash position this quarter:

First, cash from operations totaled €1.281 billion for the first nine months, an increase of 2% relative to last year, on the back of a strong comparison base of up 24.5% last year.

By far, the largest impact on the operating cash flow performance year-to-date comes from the change in non-operating working capital. There are two distinct effects related to an increase in income tax payable and adjusting for these two effects, cash flow from operations would have been up 10% year-to-date.

As we've said before, we're committed to returning value to our shareholders through technical innovation, strategic acquisitions, stock repurchases and prudent use of debt and our dividend. Consequently, in the first nine months of this year, we used operating cash for share buy-backs, net of proceeds from stock option exercise at a total of €359 million, we paid out dividends of €224 million, and repaid debt at the level of €885 million, net of proceeds from 250 million Commercial Paper issued this quarter. Lastly, of note, we had a benefit of €218 million from FX with €103 million coming from Q3 only.

**OBJECTIVES: FISCAL 2022**

Now, let’s turn to our fiscal 2022 objectives.
As we look to the fourth quarter, we feel confident about our business momentum as we continue to refine our model towards resiliency and predictability with increasing recurring revenue as a percent of total software revenue.

First, we are reaffirming our 2022 total revenue growth objective of 9-10%, to a higher absolute range of €5.610 to €5.650 versus €5.485 to €5.535 previously, incorporating an update to the US Dollar rate from €1.10 to €1.05 for the remainder of 2022. This adjustment to our currency assumptions, along with a third quarter FX benefit, has a positive impact of €114m on our total revenue objective.

Reflecting the resilient growth in subscription and support revenue throughout this year, we are confidently adjusting our recurring revenue growth target to a range of 9% - 10% from 9% previously, reflecting continued acceleration in subscription revenue. At the same time, we are reflecting the increasing volatility of license sales to a range of 5-7% growth from 9-11% previously. This reflects the lower performance of Q3, returning to low to mid-single digit growth in Q4.

Second, operating margin: we are reaffirming our full year objective of 33.4% – 33.7%, reflecting continued investment in our future growth initiatives.

And finally, we are raising our 2022 diluted EPS objective to 18-19% growth (as reported) reaching €1.12 to €1.14 from €1.08-€1.10 or 14-16% growth previously.

To complete the picture, we are projecting services revenue growth to be in the range of 11-12%.

**OBJECTIVES: FOURTH QUARTER 2022**

Before closing, let me briefly share our objectives for the fourth quarter:
Total revenue growth of 8%-10% ex FX, with software revenue growing 8-10%. We are targeting recurring revenue growth of 10-11%, license revenue in the range of 2-7%, and services revenue up 6-11%.

Operating margin of 34.9 -35.9% and diluted EPS growth of 12-18% to €0.32 -€0.34.

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

FINANCIAL PERFORMANCE CONCLUSION

This was an excellent quarter highlighting the resiliency of our business model in terms of accelerating subscription revenue and delivering on the operating margin objectives with EPS growth up 17%.

What I want you to take away from this quarter is that we are well prepared for a progressive acceleration in subscription growth while continuing to support our clients with optionality that meets their needs. Our key growth drivers, 3DEXPERIENCE and Cloud continue to build momentum. As you see in our updated guidance, we adjusted our revenue mix with lower contribution from license revenue to addresses the continued volatility in China and the SMB customer segment. At the same time, we are increasing the share of recurring revenue, offsetting the lower license contribution.

In conclusion, we are reconfirming 2022 total revenue growth of 9-10% exfx, to a higher absolute range of €5.610 to €5.650, incorporating the full €114 million currency benefit. We are raising our EPS growth objective to of 18-19% for the full year.

And now, Pascal, I’ll hand the call back to you.

PASCAL DALOZ, CHIEF OPERATING OFFICER
Thank you, Rouven.

THIRD QUARTER 2022 CONFERENCE CALL CONCLUSION

So what are the key takeaways?

- Our technologies have never been more relevant or critical for clients. We are uniquely well positioned to help our customers overcome today’s many challenges and realize their ambitions.
  - Our science-based, platform approach affords long-term competitive advantages.
- We have demonstrated we have a strong and resilient business model with high recurring revenue. We are walking the talk, fostering a progressive acceleration in subscription growth while delivering on revenue and profitability.
- We reported a solid third quarter and raised our full year EPS target. We have a solid pipeline, putting us on the trajectory to achieve our near and long-term objectives.
- Finally, during the next few months, we will be participating in several investor events and roadshows in Europe and the US. We look forward to seeing you.

And now, Bernard, Rouven and I will be happy to take your questions.

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