Second Quarter 2024 Earnings Conference Call 25th July 2024

BEATRIX MARTINEZ, Vice President, Investor Relations

Thank you for joining our Second Quarter 2024 earnings conference call with Pascal Daloz, Chief Executive 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 2023 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 hand over to Pascal Daloz.

PASCAL DALOZ, CHIEF EXECUTIVE OFFICER

Thank you, Beatrix. Good morning to everyone joining us on the call.

This morning, we issued our earnings press release, confirming the information we shared 2 weeks ago during our preliminary release and call.

24Q2 LESSONS LEARNED

If I go straight to the point, our second-quarter total revenue increased by 4%, and earnings per share rose by 8%.

What did we learn from that? First, delays in customer decisions caught us by surprise in Q2. At the same time, looking ahead we can confirm we have a robust pipeline, which is structurally stronger in the second half compared to the first one. Additionally, we remain on track to close, this year, the majority of the deals that have been delayed and we see the maturity of opportunities as improving as we advance through the year.

From a profitability standpoint, we are taking the required measures to not only preserve our operational efficiency but also protect our long-term investments. Therefore, we are in a position to expect the EPS to be up 8 to 11% this year.

Game Changer:

Let's start by discussing our business environment across the three sectors:

- **Manufacturing:** Despite recent volatility in customer decisions, particularly in Aerospace & Defense, the demand for **3D**EXPERIENCE solutions remains extremely strong, and we have several deals, including extensions and win-backs. Our customers are seeking innovative ways to differentiate in the market and strengthen their customer relationships.

Zooming in Aerospace & Defense, customers have a huge backlog due to manufacturing ramp-up delays caused by supply bottlenecks. This has obviously created cash flow issues and impacts their investments' plans. However, despite their investment pause in the near term, we're extremely confident our solutions can help address their current issues.

At the same time, we see Transportation & Mobility as extremely resilient and well-represented in our second-half pipeline as we are not subjet to volumes of production. Consumer industries are growing strongly, and we expect this trend to continue in the second half. In addition, we have a much better pipeline in H2 compared to H1, with the right mix of volume and larger transactions.

- **Life Sciences:** In Life Sciences, we believe we are at the turnaround point and that the market contraction is behind us. In other words, we have reached the bottom. At the same time, we have reinforced our position with increased market share and a new innovation cycle is starting. The evidence is the launch of our new product, Medidata Clinical Data Studio. We officially launched at the end of June, we have already achieved remarkable successes, including significant win back clients. We are using this as a competitive differentiator to expand our value proposition beyond traditional EDC.

  We believe this will completely transform clinical trials in the years to come, and Rouven and I will explain why in a moment.

- **Infrastructure**: In Infrastructure, the momentum continues, driven by the deployment of the **3D**EXPERIENCE in our existing accounts.

Key Wins

I'd now like to highlight three major competitive wins this quarter:

MANUFACTURING INDUSTRIES – Mahindra & Mahindra adopts 3DEXPERIENCE platform on the Cloud

Mahindra & Mahindra has selected the complete **3D**EXPERIENCE portfolio for Transportation & Mobility, which means all the solutions we have, fully adopting it for all future vehicle programs, displacing at the same time a competitor solution. The innovative side is being 100% cloud-based, it provides an out-of-the-box industry solution and the platform will connect 3,500 users, including engineering services suppliers. Initially they will start with three vehicle programs, including their best-sellers,. Data centricity within **3D**EXPERIENCE was a key decision factor, aiming to reduce cycle time and gain an edge against increasing competition from China. In this regard, the ability to source locally is really critical. This is also a reason why they have chosen us, as we enable all business decision capabilities to be integrated into the early design phases, thereby maintaining low costs. Ultimately, the adoption our platform enables Mahindra & Mahindra to gain a unique competitive advantage and electrify most of their cars. This win is emblematic to strategically reposition us in India as we are redirecting to expand and penetrate the region.

LIFE SCIENCES – Bristol Mayers Squibb

Bristol Myers Squibb (BMS) has renewed its partnership after a deep benchmarking exercise. And at the end, they reconfirmed their collaboration with Medidata, extending our successful 10-year partnership by an additional five years. The new contract includes access to Medidata's Rave, AI capabilities and the new Clinical Data Studio, and is driven by Medidata's ability to effectively manage BMS's complex and diverse clinical trial portfolio, which includes cell and gene therapies which is unique.

BMS has also adopted Medidata's Clinical Data Studio to integrate data from multiple sources, starting with Electronic Data Capture (EDC), the system used in hopistals to collect treatment data, Electronic Health Records (EHR), and sensors, while maintaining high standards of data quality and integrity. This expanded partnership reflects BMS's commitment to advancing clinical research processes and reinforces its dedication to improving patient outcomes and obviously personalized medicine.

INFRASTRUCTURE & CITIES – Marmon

Marmon, a highly diversified Berkshire Hathaway company, operating in industries like construction, energy, industrial equipment, and transportation. What is interesting is that they have chosen **3D**EXPERIENCE SOLIDWORKS on the cloud for an integrated approach. This decision involves replacing all legacy design and simulation point solutions, while incorporating advanced collaboration capabilities. I think the **3D**EXPERIENCE family is unique as we offer a unified solution on the market that delivers ROI unmatched by other approaches, demonstrating the platform's concept is relevant for Mainstream once a certain number of users is reached.

Developing AI Driven Use cases

We continue to invest and are actively developing AI-driven use cases to accelerate future growth across the three sectors of the economy we serve. We are uniquemeiy positioned. We are leveraging our largest multi-industry data sets, as many, if not most of, manufactured products, are created with our software. The combination is allowing us to create generative experiences. Here are three examples of these experiences available to our customers.

1. **Systems Standard Compliance by Design** improves the process of writing requirements by using AI to read and interpret all relevant regulations and norms. It then automatically verifies that the design meets the established performance criteria.
   Systems Standard Compliance by Design plays a critical role in helping EV makers

address current challenges, significantly reducing time to market. It ensures accuracy the first time, and enables life time changes for Over-The-Air (OTA) updates. The increasing level of autonomy of these smart and connected products implies a rigorous traceability along the entire design processes, from the definition of the requirements to the end of the Verification and Validation processes. We are currently collaborating with early adopters among Automotive OEMs and Tier 1 suppliers and plan to expand into Aerospace and Defense shortly. Following these initial engagements, we will scale our solution to other players.

2. **Clinical Data Studio** is a new generation of data management solution that provides seamless access to integrated data from various sources (EDC, EHR, sensors). Previously, information from EDC or sensors was added manually to the systems, but now Clinical Data Studio simplifies massively data aggregation, standardization, and management workflows using AI. This enables multiple users to work with real-time data, reducing workload, speeding up reviews, improving quality, lowering risk, and enhancing patient safety. This new approach will reshape the future of clinical trials by providing a single source of truth for compliance and regulation. I encourage to attend NEXT in New York where we will discuss this topic further.
3. **Perfect Consumer Product** enables the creation of unique experiences for mass personalization. To serve a large number of customers quickly, automation through AI is crucial, leveraging customer data to drive generative experience.

   This quarter, we are partnering with **ASICS**, a well-known Japanese sportswear brand, to offer personalized shoes. Building on the momentum of the Olympic Games, ASICS opened several locations across Paris where people can scan their feet to create customized running shoes, with unique soles tailored to each individual. These shoes will be manufactured on demand and locally to reduce the CO2 emission footprint. If you visit our Paris campus in the coming months, you will see their modular 3D printing manufacturing unit in action.

Trends by Region

I would like to conclude by providing an overview of the trends by region.

Europe: Europe remains resilient and continues to be a key anchor for growth. There is definitively strong demand to transform the European industry, particularly in Transportation & Mobility, Aerospace & Defense, and Home & Lifestyle.

Americas: In North America, we expect accelerated growth in the second half of the year in core industries: with notable progress in Aerospace & Defense and ongoing contributions from Transportation & Mobility as well as in Life Sciences.

Asia: In Asia, growth dynamics are well-balanced across countries. India presents strong opportunities ahead, while Korea and Japan are expected to deliver consistent, durable performance. China is projected to grow but remains subject to volatility.

CONCLUSION

To wrap up and before handing over to Rouven, I want to emphasize that, as showcased through the client wins in this presentation, we have achieved multiple win-backs, meaning that we are not only competing successfully, but also displacing the competition. Our platform approach is a key differentiator and more relevant than ever. This gives us confidence in our growth potential for the second half of the year and beyond. While we may experience short-term volatility, our game-changing vision attracts customers who value our long-term approach.

And now Rouven, the floor is yours.

ROUVEN BERGMANN, CHIEF FINANCIAL OFFICER

Thank you, Pascal -- and hello to you joining our call today.

First, I want to confirm our results of Q2 are in accordance with the preliminary announcement from July 9th.

Now, let's review the performance of Q2 and the first 6 months in more detail.

Q2 Software Revenue was up 3% with subscription revenue at 8% and Upfront License Revenue down by 1%. As discussed, we closed fewer large deals as we experienced cautiousness in customer signings towards the very end of the quarter in a complex geopolitical environment.

The relative strength on the bottom line with an EPS at 30 cents growing at 8% was driven by a lower expense growth, strong interest income from cash invested and a lower tax rate. The operating margin was 29.9%.

Looking at the first 6 months, total revenue was 2.995 billion, up 5% with an operating margin of 30.5% and EPS growth of 10% versus H1 of last year.

Subscription revenue was up 9%, - however when excluding Medidata, subscription growth was up 20% in H1 and 29% on a Trailing Twelve-Month basis at the end of June. Clearly, the momentum continues to be strong reflecting our customers appetite for 3DEXPERIENCE Platform and Cloud.

Important to highlight, the Medidata performance was largely in line with our expectations – which I will discuss in more detail - shortly.

Now, let me briefly review the deviations to the Mid-Point of our objectives for Q2:

Total revenue came in at €1.496 billion in the quarter, €44mn below the mid-point and €29 million below the low-end of our objective including a positive currency impact. This reflects the volatility in customer decision-making. However, all the important deals that have been delayed, are still in our roadmap for future quarters. When purchase decisions are made, our win rates remain very strong.

Operating margin was 29.9%, below the low end of guidance. Opex growth in Q2 was 5% and offset approximately half the impact from the shortfall in revenue. Thanks to an effective hiring and expense policy, we reduced net headcount growth in the first 6 months of 2024 to 270 FTE.

Additionally, Q2 Opex growth included a one-time benefit of approximately 1pt. Now going forward in H2, we will dial up the hiring to support our long-term growth strategy, and as every year in Q3 we are onboarding interns and young graduates to fuel our talent pipeline.

As mentioned, EPS was €0.30, in line with our objective. The combination of lower opex growth, very healthy financial income and a lower tax rate offset the miss in revenue.

As you can see, we have taken a prudent approach to preserve our EPS objective, while ensuring the necessary long-term investments.

Turning to our **GROWTH DRIVERS**…

Despite a more challenging business context in the second quarter, we saw sustainable growth in 3DEXPERIENCE revenue, up 18% in Q2 and 23% in H1, driving the share to 36% of software revenue.

This quarter, over 2/3 of the 3DEXPERIENCE growth was driven by deals over €3m, with the remainder generated by mid-sized deals.

Overall, this highlights the broad-based momentum and resilience of 3DEXPERIENCE growth despite the elevated scrutiny in our sales cycle at the end of Q2.

Cloud revenue grew 10% in Q2 and 8% in the H1. Excluding Medidata, Cloud growth rose around 70% in Q2 and 60% in H1 driven by strong momentum in the adoption of 3DEXPERIENCE Cloud. In Q2, we had several large customers expanding their adoption of the 3DEXPERIENCE Platform on the Cloud, such as MAHINDRA-MAHINDRA, HONDA, BIOGEN, SAFRAN.

Now let’s review our performance for Q2 and the first half by **PRODUCT LINE**..

Software Revenue of Industrial Innovation grew 6% for the first 6 months led by strong growth in Netvibes/ Data Science and a solid performance of ENOVIA and DELMIA growing at high single digits. CATIA and SIMULIA growth was particularly affected by the increased deal scrutiny and delay in decision making, while the subscription run rate remains solid and embarks future growth.

Life Sciences growth was at -2% for H1 – with MEDIDATA growth at -3%. This scenario was factored into our plan for the first half. As we now transition to the second half, we believe that the period of post COVID market contraction is largely behind us. In Q2, we saw study start volumes up sequentially for the first time since early 2022 – after 2 full years.

The trend of progressive recovery continues in Q2. This is evident in the bookings performance, most notably in the study-based volume business, thanks to an increase in CRO Partner consumption. Also, Patient Cloud bookings were up.

While still early, we saw a good trend in bookings from new products launched in 2024. For the first time this quarter, Clinical Data Studio was adopted by several enterprise customers as Pascal highlighted during his presentation. We also renewed with our largest Sponsor, BMS, our multi-year contract. Importantly, BMS expanded their commitment ramping up in 2025.

On the flip side, we saw fewer large deals in the quarter. However, we expect this trend to normalize as the share of large transactions will grow with upcoming renewals in the next quarters including 2025.

To conclude on Life Sciences, it is clear that we are competing well in the market. We continue to expand our market share in Phase III trials by over 2.5 pts and also in Phase I by over half a point. All of the above contributes to the path of progressive recovery.

Moving on to Mainstream Innovation - we see continued strength, mainly driven by Centric PLM. And for Solidworks, continued adoption of Subscription contracts with existing and new customers more than offset the decline in Upfront License.

Now, I'd like to briefly expand on the continued momentum of **CENTRIC PLM:**

This quarter CentricPLM signed several large Enterprise Deals with leading brands such as Lacoste, Hugo Boss and Shopsense, a Reliance Industries company in Retail Tech, in India. Many are displacements.

As evidenced by the track record, CentricPLM offers a highly integrated business platform for consumer-driven industries that encompasses all aspects of product development—planning, pricing, inventory, market intelligence, and more.

By bringing together product developers, planners, quality and compliance teams, buyers, merchandisers, and designers, CentricPLM optimizes every step of bringing a product to market.

Consequently, we are well positioned to secure large-scale enterprise PLM contracts. It is now a completely different game.

Turning now to **CASH FLOW AND BALANCE SHEET** IFRS items:

Cash and cash equivalents totaled €4.031 billion, compared to €3.568 billion at the end of 2023, an increase of €463 million.

At the end of the quarter, our net cash position totaled €1.036 million, an increase of €458 million versus , December 31, 2023.

This clearly highlights a disciplined and efficient Capital Allocation policy.

Now, let's look at what drove our cash position at the end of the first half:

We generated €1.130 billion Operating Cash Flow for the first 6 months versus €1.026 billion last year or growth of 10%. As highlighted already in Q1, we delivered the positive catch-up in the second quarter thanks to strong collections and improvements in non-operating working capital, mainly from lower cash tax payments and expected reimbursements.

For the first 6 months, Cash conversion from Non-IFRS Net Income improved to 1.42 times versus 1.39 times last year.

For any additional information you will find the Operating Cash Flow reconciliation in our presentation published this morning.

To sum up, Operating Cash Flow was mainly used for the net repurchase of Treasury Shares of €273 million and dividend payments of €303 million.

In terms of CAPEX, we invested 106 million in Property and Equipment, which is around 40 million above last year's level for H1. This is mainly due to global office expansions and IT-related Capex to support our Cloud growth. We are investing in our operations in

India, modernizing our Delmia location in Detroit to strengthen our manufacturing presence in the US and further expanding at our headquarters in Paris.

Evidently, we are investing long term to support our growth, and we are convinced that our workplaces are the foundation for collaboration, innovation and our strong culture.

Now, let's transition to our **FY OUTLOOK**

Over the first six months we made continued progress in advancing our growth drivers of 3DEXPERIENCE and Cloud. While we signed fewer large deals in H1, the number of mid-size transactions is actually up by 8% in the quarter and over 10% for H1.

At the same time, we experienced an elevated scrutiny in our sales cycles across major GEOs in Europe and NAM, specifically in the Aero and Defense industry at the end of the second quarter.

Now, as we look ahead to H2, we see a healthy demand for our solutions in our customer base, primarily from platform adoption, value network and domain expansion. Our pipeline coverage is well aligned with historical trends.

Taking all these factors into account, consistent with our pre-announcement from July 9th, we are updating our FY objectives, with total revenue now in the range of 6.260B to 6.335B, representing growth of now 6 to 8% versus previous guidance of 8 to 10% growth.

For Software Revenue we now expect 7-8% growth driven by Upfront License Revenue in the range of 3% to 5% versus 2% to 5% previously and recurring revenue of 8% to 9% versus 10% to 11% previously.

Subscription revenue is now in the range of 13% to 15% versus previously 17% to 19%. This reflects the delay in customer signings which impacted mainly large subscription contracts. Finally, we expect Services Revenue in the range of 3% to 5% versus 8% to 9% previously.

From a bottom-line perspective, we now expect an Operating Margin in the range of 32% to 32.4% which is flat y/y at the mid-point and EPS in the range of 8-11% growth or 1.27 EURO to 1.30 Euro. The tax rate is updated to 19.5% for the FY versus 20.5% previously.

Now, I would like to share some additional points to help shape your models reflecting the Q3 outlook.

First comment is regarding the baseline comparison: Q3 2024 is the anniversary of the JLR Mega Deal creating a challenging y/y comp.

As such we expect Total Revenue growth in the range of 4% - 7% with Software Revenue of 3-6% driven by ... …Recurring Revenue of 7% to 9%. Subscription Revenue is estimated to grow between 12% to 17%. In this outlook, we expect Medidata to improve sequentially and be flattish.

Operating Margin is expected in the range of 29.4% to 30.2% and EPS between 28 cents to 29 cents, up between 1-6% year over year.

The JLR effect is over 3points on the revenue, visible in Upfront License and about 120 bps on the operating margin, EPS is impacted by about 3 cents.

Now, before I conclude, I would like to share a few remarks on the trajectory of the second half, for which we are now expecting 9% growth. This implies an increase of around 300m in revenue vs H1.

2/3 of the sequential growth is related to normal seasonality. The remaining 1/3 is roughly split between the slipped deals to be signed in H2 and the impact of the backend loaded year which encompasses both 3DEXPERIENCE and MEDIDATA.

In conclusion, I want to reiterate our commitment to investing to support long term growth while expanding our margins. We continue to see strong customer demand and engagement across our 3DEXPERIENCE Portfolio, CENTRIC PLM and Medidata, ALL supporting our financial objectives near and mid-term.

Now, Pascal and I look forward to your questions.

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ABOUT DASSAULT SYSTÈMES

Dassault Systèmes is a catalyst for human progress. We provide business and people with collaborative virtual environments to imagine sustainable innovations. By creating virtual twin experiences of the real world with our **3D**EXPERIENCE platform and applications, our customers can redefine the creation, production and life-cycle-management processes of their offer and thus have a meaningful impact to make the world more sustainable. The beauty of the Experience Economy is that it is a human-centered economy for the benefit of all –consumers, patients and citizens.

Dassault Systèmes brings value to more than 350,000 customers of all sizes, in all industries, in more than 150 countries. For more information, visit www.3ds.com

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