DASSAULT SYSTEMES
2011 Fourth Quarter and Fiscal Year Conference Call
Thursday, February 9, 2012
Final

François-José Bordonado
Vice President, Investor Relations

Thank you for joining Bernard Charles, CEO, and Thibault de Tersant, CFO, for our 2011 fourth quarter and year-end conference call. We held our webcasted annual presentation in Paris earlier today and have placed the presentation on our website.

Two brief reminders before we begin. First, Dassault Systemes' financial results are prepared in accordance with IFRS. We have provided supplemental non-IFRS financial information which is explained in the IFRS and non-IFRS reconciliation tables included in our earnings press release. And second, some of the comments we will make on this call will contain forward-looking statements, which could differ materially from actual results. Please refer to our risk factors in today's press release and in our 2010 *Document de reference* and 2011 Half Year Report.

I would now like to turn the call over to Bernard Charles.

Bernard Charles
President and Chief Executive Officer

Thank you for joining us today at this conference call and thanks again to all of you who joined us earlier today in Paris.

Delivering On All Our Objectives

2011 was an excellent year for Dassault Systemes, in fact a record year – for revenue, earnings and cash flow as customers adopted our Product Lifecycle Management solutions. Looking at the year in total we delivered on all our key objectives.

- Our financial performance was well balanced, illustrating the good execution across the Company and resulting in our strong revenue growth of 14 percent in constant currencies and earnings per share growth of 17 percent.
- It was a very good year for all of our brands, underscoring their market leadership, technological innovations and keen understanding of their target user communities. Looking at software growth by brand, CATIA was higher by 16 percent, ENOVIA by 14 percent, SolidWorks by 12 percent and Other PLM, including SIMULIA, DELMIA, Exalead and 3DVIA, was higher by 18 percent in constant currencies. We are expanding our presence in new domains in systems with CATIA as illustrated with BMW earlier this year. We are expanding into information intelligence with Exalead providing search-based applications. A recent new engagement is with Abercrombie and Fitch, helping them to protect their intellectual property.
- It was a good year for our sales channels, demonstrating their understanding of their respective markets. We saw a strong performance in our SMB

channels all along the year, and good progress in direct sales, further demonstrating the success of the IBM PLM salesforce integration. We deepened our relationships with existing clients and welcomed over 18,000 new 3D application customers during 2011.

- Demand for our products was strong around the globe with double-digit growth in constant currencies in our three geographic regions. The stand-out performance from a geographic point of view came from Europe. We are also benefiting from our geographic diversification investments. In Asia we are seeing a very nice dynamic in China, Korea and India.
- 2011 provided many examples of how well V6 is resonating with clients. More broadly, we believe the value of V6 as an online, open integration platform is becoming increasingly evident and its scalable business process support with ENOVIA V6 is equally evident with customers in volume production with thousands and tens of thousands of users demonstrating its robustness and performance capabilities. We are working with over 1,000 V6 enterprise customers to date and seeing the start of CATIA V6 implementations.
- There are several customer engagements that I would like to share with you. Pierre Fabre, a leading life sciences company has selected ENOVIA V6 as its PLM platform to accelerate time to market, improve compliance, expand internationally and drive innovation. Astrium, an EADS company and leader in space transportation and satellite systems, has selected V6 with CATIA, ENOVIA and SIMULIA to enable digital mock-up for all. We are very happy for this project as our first V6 introduction within the EADS group. And we were pleased that Porsche, the well-known luxury car brand within the Volkswagen group, has selected ENOVIA V6 and expanded their DELMIA and CATIA installations to improve their module and platform strategy.

Opening a New Horizon

Now let me share with you some of the changes we are seeing in the marketplace and insight into how we are evolving our strategy.

This morning we issued a second press release outlining our plans to open a new horizon: 3D Experience. Very simply, our customers' successes depend upon the success of their product innovation. And this in turn is very dependent upon having a good understanding of their end consumer experience.

If you look across the many successful products on the market, what many of them have in common is that the companies introducing them are innovating in a different way from others. What is changing is that they really want to be able to project themselves into what will be the end customer or end consumer experience. To do so these companies are placing the user experience at the very heart of the innovation process.

At the same time, innovation itself is changing as we move to social industry innovation. So in order to transform the way innovators are able to innovate with consumers it is vital to connect designers, engineers and marketing managers in a new "Social Enterprise".

Now as we observe the world around us I believe the 21st century will be a time of unprecedented invention and innovation by providing business and people with 3D experiences to imagine sustainable innovations capable of harmonizing products, nature and life.

V6 platform evolution, strategic and operational elements in place

Now you may ask is this horizon a reasonable one for us to take on and I think here we in fact bring a lot already to the table.

- Working closely with our largest customers we have enriched our V6 platform in the last few years with the addition of Intelligent Information search-based technologies, social innovation capabilities and realistic 3D virtual experiences and today announced the Netvibes acquisition, as we support even more the Social Business Apps which are part of our 3D Experience Platform. So all the critical components, strategic operational elements are here and we are ready to help our customers – continuing to help them accelerate innovation, improve quality, shorten time to market, reduce costs, enhance supply chain management and manufacturing – as we have been doing, and to also help them in the process to ensure winning consumer experiences.

- So we have all the strategic elements to power a 3D Experience. These strategic elements are accessible through our compass, a navigating panel. Here you have the ability to go very quickly to collaboration for social innovation; find accurate 3D representations; you have the ability to simulate behavior merging the virtual world and real world; you have access to information. So you can really project yourself into the future, powering the experience of your future customer and giving life to a true 3D Experience.
- On top of the strategic elements we already have all the operational elements in place: With our brand focus on user experience which is why we have always insisted on driving leadership here; with our industry focus, bringing knowledge and understanding of what is important and unique to the industries we are addressing; with our sales channels to power the customer experience; and finally bringing it altogether with the 3D Experience Platform.

And if you look at our financial results, it is clear that our excellent financial performance was driven strongly by the 3D Experiences already made possible with our software applications and especially our V6 platform.

Enhancing and Strengthening Our Industry Approach

Now, in order to help our customers better understand their ultimate customer it is very important for us to have our solutions well aligned to the most critical business requirements of each industry. Therefore, in conjunction with the changes in V6 over the last several years we have also been transforming ourselves, investing in our industry practices in research and development, marketing, and sales, including internally and with our vital partner networks.

To lead our effort, I am very pleased to announce the recent appointment of Monica Menghini, to be Executive Vice President, Industry, Marketing and Corporate Communications and a member of the Dassault Systemes' Executive Committee. I am counting on Monica to spearhead our industry approach by connecting the dots between brand equity, product innovation and marketing excellence to ensure we bring the best value to our customers in all the industries we serve together with our partners. In business meetings with our largest customers it is clear that she has a keen understanding of what is most important to them. And as you have read from the press release she brings a very strong background to this newly created position.

Significant Opportunity with 3D Experience and Product Lifecycle Management

Providing a 3D Experience platform broadens the domains we address and it also expands the potential addressable market of users as more people are involved today as the world turns to social innovation.

So we are ready to provide a new technology wave with our 3D Experience platform. We are thrilled by the potential of our 3D Experience strategy to expand our horizons and we are equally excited about our opportunities in Product Lifecycle Management.

Acquisition of Netvibes

Now let me share a few more comments on Netvibes. It is an award-winning brand in dashboard technologies, based here in France. It is integral to what we are doing as V6 is truly a business system, so offering our customers' dashboard intelligence is indispensible. Netvibes is very unique in its ability to enable users to very easily develop personalized dashboards, integrating both internal company information and external data and doing so in a secure fashion. It also offers significant flexibility in delivery with availability on all mobile devices.

With that, I am sure Thibault would like to review our financial results and outlook with you in more detail.

Thibault de Tersant
Senior EVP and CFO

Good morning and good afternoon to all.

IFRS/non-IFRS Differences

My comments today are based upon our non-IFRS financial results. In our press release tables you can find the reconciliation of our non-IFRS to IFRS data. For revenue, IFRS and non-IFRS are essentially identical for the 2011 periods and for 2010 the difference was 5 million euros in the fourth quarter and 16 million euros for the full year.

As a reminder, revenue growth rates are stated in constant currencies.

New Licenses Revenue Growth

New license revenue increased 13 percent in the fourth quarter. In evaluating the quality of the quarter's new activity I look at two factors among others. First, how did we do last year, and here let me remind you that in last year's fourth quarter new licenses revenue increased 33 percent in constant currencies. So I think we did pretty well here. And second, looking at our quarterly seasonality, I would say that we are closer to our historical seasonality pattern than we were in the year-ago quarter but still stronger than the pre-recession period from 2006 to 2009 with new licenses in the fourth quarter representing 33 percent of our total new license revenue for 2011. So here again a nice proportion and consistent with what we would expect.

For the year, new licenses revenue increased 20 percent. Demand for our software was truly broad-based demonstrating the interest for all our brands. And growth by geographic regions, sales channel and industries was also equally gratifying.

Recurring Revenue Growth

Turning to recurring software revenue, it was also a good quarter. First, despite a very strong comparison basis with 2010 where we had a high level of one-time maintenance reinstatements, recurring software revenue increased 6 percent in the fourth quarter. And on a sequential basis the growth was 2 percent, so here again very consistent.

For the year recurring software revenue increased 13 percent benefiting from our new licensing activity, solid trends across the Company with respect to maintenance renewal rates and good growth in our rental business. We also benefited from the IBM PLM acquisition.

Services Revenue and Gross Margin

Services and other revenue increased 11 percent in constant currencies in the fourth quarter principally reflecting an increase in V6 engagements. For the full year services increased 10 percent.

And with a service gross margin of 16 percent for the fourth quarter, we brought the service gross margin back to positive territory for the second half in total at 6.9 percent.

Operating Income, Operating Margin and Earnings

Our operating income increased 20 percent to over 540 million euros, driving an increase in EPS of 17 percent for 2011. As you saw from our results we did not receive much help from financial revenue and other, as exchange losses offset the growth in net interest income.

And with a 30.4 percent operating margin for 2011, I can now officially say we met our mid-term 30 percent non-IFRS operating margin target, ahead of our original plan. It is clear we reached it sooner thanks to the demand for our products as customers focus on innovation in all areas of product development and this helped drive adoption of our 3D PLM software. We also reached this target thanks to our focus on leveraging our infrastructure.

Turning to the fourth quarter operating results, I am sure you observed that our operating margin and EPS results did not fully reflect the operating leverage from our revenue outperformance. There were two reasons for this. First, we needed to accrue for a higher level of performance compensation with respect to the revenue results. And second as we did an updated analysis of our normal year-end accruals we decided to take additional reserves for certain IP claims and certain tax matters, with both these items impacting G&A. So these one-off expenses largely accounted for seeing less of the fourth quarter revenue upside fall to the bottom-line. We continue to maintain a strong focus on our expenses and I hope this message is clearly understood.

Regional Review

Turning to a regional review,

- Europe was our strongest region in the fourth quarter with growth of 15 percent. We benefited from a strong dynamic in Germany and France. For the full year, revenue in Europe increased 17 percent where we did well in our largest markets in Germany and France as well as in many of the other regional markets within Europe. And from an industry perspective growth came from a number of industries.
- Revenue in the Americas was flat in the fourth quarter although from an activity perspective it was a solid quarter. Revenue results simply reflected an important level of deferred revenue for ENOVIA. For the year, the Americas grew 11 percent as we benefited from growth in new target industries and in aerospace and industrial equipment.
- Revenue in Asia increased 6 percent in the fourth quarter and 14 percent for 2011. We continued to see a strong level of activity in China and Korea during the fourth quarter and for the year a nice level of activity across China, Korea and India. With respect to Japan we saw a nice recovery in spending in our SMB channels in the second half. All in all the growth in Asia during 2011was pretty good, especially with the reduced level of new licensing activity with some customers in Japan following the natural disasters.
- Looking in greater depth at our geographic diversification, we made very nice progress here during 2011 with revenue growth of more than 20 percent in constant currencies. It is really the result of the transformations we have made in our three sales channels. Since 2008 high growth countries have grown by 4 points. They now represent 14 percent of total revenue and a higher percent of our new licenses revenue.

Revenue by Product Line

Turning now to our brands:

- I would like to begin with CATIA, the number one brand in the industry for product excellence. Its software revenue increased 7 percent in the quarter on a high comparison basis. First, in the year-ago quarter we had a strong level of maintenance reinstatements as you recall, with these one-time payments largely related to CATIA and second, we also had a high comparison basis for new licensing activity. Nevertheless, I would point out that CATIA had an excellent fourth quarter from a licensing perspective on a tough compare. For the full year CATIA software revenue increased 16 percent. We saw an excellent level of activity in both the automotive and aerospace industries and in target industries as well including recent transactions with Alstom and Nikon.
- For the year, ENOVIA's software revenue increased 14 percent in constant currencies. It had a good level of activity in 2011, including the fourth quarter where ENOVIA had a number of transactions in auto, energy, electronics and consumer goods. It did have a large level of deferred revenue as revenue is recognized over key points in the contracts and this impacted its reported software revenue growth in the fourth quarter.
- 2011 was Exalead's first full year as part of Dassault Systemes and we saw a sharp increase in software revenue, up 80 percent. We see a large opportunity as companies need to utilize massive amounts of information and extract valuable intelligence from it. Our strategy is focused on building an application portfolio, including information intelligence for spares, call centers and e-reputation for example.

- Turning to SolidWorks, it had 9 percent software revenue growth in the fourth quarter with seat growth of 1 percent. Due to the timing of sales in December, recognition of revenue for these seats slipped to January. However, underlining bookings growth was around 10 percent for the fourth quarter, showing a healthy level of growth. During 2011 SolidWorks software revenue increased 12 percent with new seats up 14 percent to just under 48,000 seats and average selling prices up slightly in constant currencies. And finally in terms of footprint and reach, both with businesses and with educational institutions, total seats licensed at the end of 2011 approximated 1.7 million for SolidWorks.

Net Financial Position Review

Turning to a brief review of our sources and uses of cash during 2011 you have seen from our earnings press release that we further strengthened our balance sheet during 2011. We ended the year with a net financial position of 1.15 billion euros, up from 845 million euros at the end of 2010. The 2011 amount is net of 200 million euros of debt which is now classified as short-term debt.

Our operating cash flow was about 450 million euros. During the year we paid our annual cash dividend, totaling 66 million euros. With several ten year stock option programs reaching maturity, we received cash of 233 million euros from stock options exercised. We also repurchased approximately 4 million shares in the aggregate, totaling 227 million euros.

Now, just a few words on our DSOs – a quick view would lead to the wrong conclusion. If you look at our deferred revenue you will see that it has increased significantly and this is affecting the DSO calculation. Our collections, health of receivables and bad debt levels are all showing positive indicators.

Initiating 2012 Financial Growth Objectives

Now let me share with you our initial 2012 financial objectives and how they were developed.

First of all, our thought process is consistent with what we discussed at the end of the third quarter with respect to the market environment. We were and are concerned with the broader climate around us. The economic environment continues to be mixed. There is a focus on reducing public deficits. While government business is more a growth opportunity for us as a company rather than a concern we do have customers that are affected by government budgets. We also anticipate the potential for tighter credit markets and this could have some affect on our customers, particularly our SMB customers. So this is the list of our concerns.

On the positive side, we benefit from our 3D PLM adoption and the broadening of our market with 3D Experience. Further, we continue to see a good level of interest from customers for our brands and this demand is coming from many areas. We are about to enter an accelerating adoption period of our new product cycle with V6. We have three well defined sales channels and in fact are looking to expand our capacity in our indirect channels during 2012 and with respect to our direct sales we have been strengthening our industry focus quite a lot, building out our teams. And our R&D is introducing important new applications, tailored to our industry focus, extending our reach to more domains and broadening the usage of our software to multiple communities of users across companies.

Our initial baseline revenue objective for 2012 represents a compromise between the positive factors we see in our businesses and the concerns we have more globally and how they might affect customer decisions. We believe we are starting from a very realistic baseline with our non-IFRS revenue increasing in a range of five to seven percent in constant currencies which represents a growth rate range close to that anticipated for our recurring revenue.

We are looking to deliver a stable operating margin while also making investments. To do this means we are working to generate further operating leverage which above 30 percent can be reinvested in our business. And from an earnings perspective, our initial range is for growth of 3 to 8 percent.

For the first quarter, our objectives are for revenue growth of 5 to 8 percent in constant currencies, a stable operating margin and earnings growth of between zero and 8 percent.

Importantly, we have also assumed a US dollar exchange rate of 1.40 per euro and for the yen 115.0 per euro for all of 2012.

So to summarize, let me leave you with some clear take-aways. First, we see a good dynamic in our business. Second, we have constructed our initial objectives assuming a worsening economic environment and if that turns out to be the case, we believe the revenue growth objectives we have set are workable for all of 2012. Third, we have constructed our budget so that investment spending is aligned with our revenue outlook. Here again, we think this is a better approach rather than trying to undo investment plans later in the year because the environment weakened and this helps ensure we meet our operating margin objective. Now, we were wrong with respect to the fourth quarter in that customers did invest at a healthy level, and in fact as you saw, we had a terrific quarter in Europe. Nonetheless I hope these comments help you appreciate our approach. We think it is the right one for shareholders and a better way to ensure that we have our resources where we need in advance in order to deliver our business objectives for 2012 and beyond.

Let me turn the call back to Bernard now.

Bernard Charles
President and CEO

Thank you, Thibault.

Summary

We are pleased with what was accomplished in 2011, demonstrating solid execution as we delivered on all our key financial and business objectives. Our performance underlined the significant opportunities across industries and geographies. For us, there is no mature geography or industry. And our customer successes illustrate the value of our V6 platform and applications.

As a company we are well positioned going into 2012 as we have highlighted with you here today. Our initial financial objectives take into account what we see as a more complex and volatile economic environment.

And finally, based upon our progress, our strategic vision and roadmap, we have even more confidence than ever in the mid-term growth opportunities for Dassault Systemes as we see a significant potential to expand our horizon with our 3D Experience platform strategy and we see significant potential for growth in all our markets for Product Lifecycle Management.

Thibault and I would be happy to take any questions now.