DASSAULT SYSTEMES
2017 Second Quarter Conference Call
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Final

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Vice President, Investor Relations

Thank you for joining Thibault de Tersant, Senior EVP and CFO, and Pascal Daloz, EVP Brands and Corporate Development, to review our 2017 second quarter business and financial performance.

Several brief reminders:

- 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 2016 *Document de référence.*
- Revenue growth figures are in constant currencies, unless otherwise noted.
- A copy of this morning's webcasted presentation is available on our website and these prepared remarks will be on our website shortly after we finish.

I would now like to introduce Thibault de Tersant.

Thibault de Tersant
Senior Executive Vice President and CFO

Thank you for joining us. Good morning or good afternoon. I would like to thank Pascal Daloz for participating on this call.

OVERVIEW

As you have seen from our earnings press release and some additional news, the second quarter has been an important one, not just in regard to this year, but in advancing Dassault Systèmes towards our path of growth acceleration thanks to the value we are bringing to clients across key disciplines and to their business in total.

Today we announced a new, expanded strategic partnership with Boeing. This new agreement represents a remarkable milestone. Boeing is the largest aerospace company in the world and a leading manufacturer who has been admired by its peers and global leaders of other industries. I believe the agreement well underscores that our mission, strategy and investments have been the right ones for us to make and are well aligned with the direction companies are moving to.

The ramp-up, starting in 2018, should drive revenue growth acceleration for several years and represents a key inflection point in 3DEXPERIENCE adoption by the market.

Coming back to our second quarter financial results, we delivered all key financial objectives at the high end of our guidance.

- Software revenue increased 7%, compared to our 6 to 7% target.

- New licenses revenue increased 8% versus the 5 to 7% target, and a positive progression from the first quarter.
- Recurring software revenue grew 6%, exactly as planned.
- Our operating margin of 30.1% is to be compared to the target range of 29.4% to 30.4%.
- Earnings per share also came in at the high end of our range, at 62 cents, up 9%. For the First Half, EPS increased 12% if we were to exclude the tax reserve reversal we had in the year-ago first quarter.
- Cash flow increased 32% in the 2017 First Half.

Finally, just to help reconcile our revenue results with consensus. If you update the consensus figures for the actual currency rates of the quarter, our results are very well aligned. So in other words, we performed precisely as we expected to.

Now, turning to our growth drivers, both the second quarter and first half illustrated our different drivers in action.

- In terms of 3DEXPERIENCE, the most important event of the quarter was our new and extended partnership signed with Boeing.
- From a financial perspective, 3DEXPERIENCE represented one-third of related new licenses revenue.
- SOLIDWORKS software revenue was up 14%, benefiting from its product strength in the marketplace, its channel partners and a licensing model giving customer choice.
- Diversification Industries represented 33% of software revenue and more in terms of new licenses.

- We are making important investments in the Cloud and furthered them during the second quarter, acquiring majority ownership of Outscale, our principal cloud provider.

Looking to our second half performance and year, we are reconfirming our constant currency growth rates for total revenue, new licenses revenue and recurring software for 2017. Further we are also managing our expenses and hedging positions to maintain our operating margin objective for 2017 while also continuing our investments for the future. At the same time, we are updating our reported revenue and EPS guidance to reflect the recent strengthening of the euro against all of our major currencies.

BOEING AND DASSAULT SYSTÈMES SIGN NEW EXTENDED STRATEGIC PARTNERSHIP

This morning we announced that we had entered into a new, extended partnership with Boeing spanning its Commercial Aircraft, Space and Defense divisions. Boeing will be adopting our 3DEXPERIENCE platform for Manufacturing Operations Management and also for Product Lifecycle Management software, and extending their usage of our design, engineering simulation and digital manufacturing software.

More specifically, Boeing will deploy the 3DEXPERIENCE platform and our aerospace solutions to deepen its end to end digital collaboration, design, engineering, analysis, manufacturing planning and shop floor execution capabilities throughout the enterprise.

While we have had a long successful partnership with Boeing, this decision followed a competitive process that included the rigorous analysis of technical and functional capabilities, cost and business benefits across the value chain.

Most of the contract is confidential in nature. We believe it well reflects on our strategy, investments and relationships of trust we have tried to build with our clients over time.

While it is hard to imagine the future and look back, we have some experience in what this could mean. Every company today talks about digital innovation, but for us, it did not begin in 2017, it began over 25 years ago. The importance of the digital world's role in innovation was truly first revealed thanks to Boeing's historical decision at that time to rely on Dassault Systèmes Digital Mock-up technology to design its new Boeing 777 aircraft, paving the way for digital twins of products.

Today, companies are now seeing that data can become a valuable asset with the potential to deliver massive benefits for users and their corporations. The roadmap to do so requires two key elements. First, it requires digital continuity and this is what we provide with the 3DEXPERIENCE platform. And the second key element is that to turn data into a true asset companies need to be able to make sense of the data and models enable this. A model-based approach is at the core of the 3DEXPERIENCE platform and is valuable to ensure innovation effectiveness.

3DEXPERIENCE PLATFORM and INDUSTRY SOLUTION EXPERIENCES

With our 3DEXPERIENCE platform, made available in 2014, we believe Dassault Systèmes is pioneering the next generation innovation platform supporting breakthroughs for clients in products, customer experiences and new business models. Our platform and the industry solutions experiences we have introduced fit very well with our customers' requirements and with the 3DEXPERIENCE platform we enable the digital continuity across departments that our clients are looking for in order to turn data from all areas into their corporate asset and I would say even their most valuable corporate asset.

We now reach a much broader scope of our clients' departments:

1. Design, Engineering and Systems
2. Engineering Simulation
3. Manufacturing with the expanded DELMIA portfolio
4. Global Business Operations: complementing our manufacturing software offer with QUINTIQ
5. Digital Marketing & Sales with 3DEXCITE

As an illustration, last quarter we discussed the expansion of our footprint with clients in our largest industry, Transportation & Mobility. On an individual customer basis, we have the potential to extend our relationship across multiple departments and from a revenue perspective, double our sales footprint within an individual client and its ecosystem.

Today, we have 100 Industry Solution Experiences across our 12 industries. While we cannot discuss them all, in our business review Pascal is now going to take you through Aerospace & Defense and several of our Diversification Industries to illustrate what is driving adoption of our industry solutions in these respective verticals.

With that let me turn the call over to Pascal Daloz.

Pascal Daloz
Executive Vice President, Brands and Corporate Development

Hello to all. It is my pleasure to join the call today.

SECOND QUARTER BUSINESS REVIEW
Software Revenue by Brand

Let's begin the business review with an update on the quarter's activity by brands.

CATIA had a strong, double-digit new licenses revenue growth in both the Americas and Europe in the second quarter. Total CATIA software revenue increased 1%, reflecting a mixed quarter in Asia, particularly in China which is a very important market for it. CATIA 3DEXPERIENCE software revenue increased 7% in the second quarter.

Moving to ENOVIA, there are two important takeaways. First, the 2017 second quarter was the second highest in its history. You can't see that from the growth rate of 2% which simply reflects the very high comparison base. Let me remind you that ENOVIA new licenses were up 34% and 32% respectively, in the year-ago second quarter and first half. The second takeaway is that we are anticipating a year of good growth, with a number of larger transactions involving ENOVIA to close in the second half.

SOLIDWORKS performance reflects multiple growth drivers, leading to software revenue growth of 14% in the quarter and 13% for the First Half. First, we are seeing very good demand around the globe and we think there is more opportunity to capture. Second, we also saw good growth rates for multi-product sales. Third, we are continuing to benefit from many 3D to 3D wins – customers moving to SOLIDWORKS from other 3D providers.

Other Software grew 9%, with strong results in particular for QUINTIQ with its software addressing global business operations.

SECOND QUARTER BUSINESS REVIEW
Software Revenue by Region

Moving to our software revenue results by region, let's begin with the Americas. Total software increased 9%, led by double-digit growth in new licenses revenue in North America. It was a strong quarter there for both the Professional Channel with SOLIDWORKS, and in our direct sales organization. Last quarter we mentioned that we are seeing extended sales cycles with large accounts. We were pleased that a very competitive transaction that we were targeting for Q1 was successfully closed in the second quarter. So this speaks well of the pipeline in terms of qualifying the transactions, while challenges remain on estimating the timing of some.

In Europe software revenue grew 7%, with double-digit new licenses revenue growth, thanks to Central and Southern Europe.

In Asia, our software revenue growth of 4% was weighed down on a weak quarter in China, where we see quarterly volatility but expect a solid year of growth. We saw very good growth from Korea and Asia Pacific South. And for Japan, the first half of the year has been slower except in the Professional Channel with very solid results.

SECOND QUARTER BUSINESS REVIEW
Core Industries: Aerospace & Defense

Last quarter we shared some perspectives on our opportunities in Transportation & Mobility, our largest industry. Today with the Boeing new partnership announcement we thought it would be very helpful to share more broadly what is animating our Aerospace & Defense industry vertical. This had been an industry that had been ‘quiet’ in terms of investments for several years and it began to increase starting in 2016 and we expect it will see further progressive improvement in 2017 and step up thereafter.

Looking at the second quarter, Aerospace & Defense software revenue was up 14% with a very important new win in the area of propulsion where our 3DEXPERIENCE platform and solutions won out over competitors with strong legacy positions. We also are seeing expansion of our work with suppliers to aircraft manufacturers and diversification to other sub-segments of the market thanks to our software offers in business operations management with QUINTIQ as well as DELMIA Apriso in manufacturing operations management. DELMIA Ortems in planning and scheduling is also doing well.

Let me share some examples:

- The first is Rockwell Collins, a current client who is extending its relationship with us, adopting the 3DEXPERIENCE platform and our Co-Design to Target Industry Solution Experience. This solution leverages our ENOVIA and EXALEAD applications with the objectives of improving collaboration across its research, development and manufacturing processes, streamlining workflows and change management, and helping manage its internal costs for increasingly complex systems.
- The second example illustrates the strength of our Manufacturing Offer and speaks to our investment strategy. Latecoere is adopting our digital manufacturing, manufacturing operations management, and advance planning & scheduling software to strengthen their processes, visibility and synchronization of all activities.
- In the area of new materials, Airbus expanded its work with us. It will use the 3DEXPERIENCE Platform for additive manufacturing which integrates design, simulation and manufacturing altogether as part of our Co-Design to Target industry solution.
- The final new win highlight is Dubai Airports. They own Dubai International, the world's busiest airport in terms of international travel and ranked 3rd in the world for overall passenger traffic. Therefore we were very pleased that they selected QUINTIQ.

And looking forward, we now have a new extended partnership with Boeing, which we would expect to begin ramping up in 2018 as Thibault indicated earlier.

SECOND QUARTER BUSINESS REVIEW
Diversification Industries:
High-Tech, Life Sciences, Consumer Packaged Goods- Retail and Architecture, Engineering & Construction

Now, let's look at our progress in Diversification Industries. During the second quarter this group of industries grew double-digits in total with the strongest growth in High Tech, Life Sciences, Architecture, Engineering & Construction and Consumer Packaged Goods-Retail.

And from a contribution perspective, Diversification Industries represented 33% of total software revenue in the second quarter, increasing 2 percentage points.

We have multiple drivers of our growth in Diversification Industries: starting with our largest brands targeting specific diversification industries; our broader offer in manufacturing and global business operations; and our newer brands with BIOVIA in life sciences adding to our presence in a meaningful manner and GEOVIA in natural resources. Looking ahead, we see the Cloud as an important driver to penetrate certain verticals.

SECOND QUARTER BUSINESS REVIEW
Cloud/ Outscale

This brings me to my final topic, the Cloud. While adoption is at the early stages, we are seeing increasing traction.

Early adopters include industries that are a natural fit in terms of being **project-based** with a different set of actors working together such as in AEC for instance; we are also seeing higher initial interest from companies in our **Diversification Industries** more broadly, such as CPG-Retail and in our largest industries where there is **open innovation** with outside parties. These early adopters confirm our initial expectations.

Now we are seeing interest from municipalities. For instance, in western France, the city of Rennes and its surrounds are using 3DEXPERIENCity on the cloud, enabling a range of use cases from interaction with citizen groups to simulations of traffic, environmental and other use cases.

From a portfolio perspective, today, Dassault Systèmes has the largest cloud portfolio in our market space with sixteen industry solution experiences, covering 67 industry processes and addressing 175 user roles.

To support our customers we have 10 data centers: 1 in Europe, 2 in the United States and 4 in Asia including Hong Kong, Singapore, China and Korea.

Our enterprise-class cloud computing infrastructure services have been principally provided by Outscale, a company which we began working with in 2010 when they were founded. With the traction on our Cloud increasing, we decided it was an important step to have more control of our cloud resources and services, to be able to deploy more features and to be sure we could provide on premise, private and hybrid cloud solutions for our customers so we acquired majority control this past quarter. Importantly, Outscale has demonstrated the success of its unique cloud architecture by offering enterprise-class cloud resources worldwide, with something which is unique, a data sovereignty compliance approach.

At this point, let me turn the call back to Thibault.

Thibault de Tersant
Senior EVP and CFO

Thank you, Pascal.

TOTAL REVENUE

Revenue increased 6% in the second quarter and 7% for the First Half. On an organic basis, first half revenue increased 5%.

SOFTWARE REVENUE

Software revenue for the second quarter and first half tracked very well to our objectives, and increased 7% for both Q2 and H1. New licenses revenue saw progression, with growth of 8%, up from the 6% growth we reported in the first quarter. Recurring revenue was well in line at 6% growth in the quarter and 7% for the First Half. We continue to have a very good dynamic with maintenance subscription.

SERVICES

Services came in a little lighter in the second quarter. But with the strong Q1, the growth in services revenue for the First Half was 7%, accompanied by improvement in the gross margin from 5.6% to 9.5%.

OPERATING INCOME AND MARGIN

Moving to our operating performance, there are three points I would like to share.

1. First, we delivered at the high end of our target range, with a non-IFRS operating margin of 30.1% in the second quarter.
2. Second, we are continuing to maintain the higher level of our investments in sales and R&D.

3. Third, we outlined at the beginning of the year plans for about a 50 basis points underlying organic improvement and we are confirming this goal.

Looking at the results, operating income increased over 6% to 244 million euros in the quarter and reached 444 million euros for the first half. As anticipated the operating margin decreased about 30 basis points on higher investments representing 20 basis points with acquisition dilution and currency benefits largely offsetting each other.

EARNINGS PER SHARE

Earnings per share at 62 cents also came in at the high end of our objectives in the second quarter. And for the first half EPS would be up 12% if we were to exclude the Q116 tax reserves reversal.

OPERATING CASH FLOW

Moving to cash flow, the brightest highlight of the quarter, there are two key points I would like to make. The first is that we had a very good evolution of cash flow in the 2017 First Half. Our operating cash flow increased by 32% to 592 million euros, reflecting higher net income before non-cash items and a strong improvement in working capital coming from accounts receivables and the timing impact of tax down-payments.

The second point I would like to highlight is unearned revenue. For the first half, unearned revenue increased 4% excluding currency understates its normalized growth rate of 6%. We continue to focus closely on accounts receivables management as you can see from our DSO performance. We also did a very detailed review during the second quarter of receivables where we had reserves against them to evaluate collectability and did essentially a clean-up, removing them from accounts receivables. Second, as we advance our QUINTIQ solutions, there is less customization in the delivery of the software solutions and as a result, a lower level of deferred software revenue. So to be clear, there is no change in our policies in terms of converting the existing unearned revenue into revenue.

2017 FINANCIAL OBJECTIVES: CONFIRMING

Turning to our outlook, we are maintaining our constant currency guidance for revenue growth of 6 to 7%, new licenses revenue growth of 8 to 10% and recurring software revenue growth of about 6% and our operating margin objective of about 31.5%.

Based upon the strengthening of the euro against multiple currencies, we are taking away 50 million euros from our revenue range, bringing it to 3.240 to 3.265 billion euros. Key components of this include a 28 million euro impact from the dollar, 13 million euros from the Japanese yen, and 9 million from multiple other currencies.

As I stated we are maintaining our operating margin target at about 31.5% and this embeds an estimated 50 basis points of organic improvement excluding currency.

For EPS, we are reducing the range by about 6 cents, which is directly driven by the reduction of the reported revenues in euros, resulting in a range of 2.62 to 2.66 euros. This represents an EPS growth target of 5 to 7%, or 7 to 9% excluding the five cent impact coming from the Q116 tax reserves reversal.

Our estimated tax rate for the year is in the range of 33.5%.

For the third quarter, you will find our objectives in the earnings press release.

Summary

We laid out our perspective on 2017 in February – we see a year where we are progressing toward an inflection point for 3DEXPERIENCE and Dassault Systèmes in total.

It is clear that we are bringing the next generation innovation platform to the market and that we are helping companies convert data into an enormous asset with significant benefits for their businesses. The new Boeing partnership and the multiple new client engagements we have discussed today illustrate this very well.

We would now be happy to answer any questions and thank everyone for their participation on our earlier webcast and this conference call.