DASSAULT SYSTEMES
2018 Fourth Quarter and Full Year Conference Call
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Final

François-José Bordonado
Vice President, Investor Relations

Thank you for joining us on our earnings conference call, with Bernard Charles, Vice Chairman and CEO, and Pascal Daloz, Executive Vice President, CFO and Corporate Strategy Officer.

- Dassault Systèmes' results are prepared in accordance with IFRS. During 2018, the first year of implementation of IFRS 15, we have provided IFRS financial information on both an IFRS 15 and IAS 18 basis to provide comparability to prior years. All figures on this call are presented under IAS 18 and are on a non-IFRS basis with revenue growth rates in constant currencies, unless otherwise noted. See our earnings press release appendix for details regarding IFRS 15 and IAS 18 financial information and reconciliation schedules of these two standards as well as IFRS and non-IFRS information.
- For 2019 our financial information and objectives will be given in IFRS 15 only and will reflect the new IFRS 16 Lease standard also.
- Some of our 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 2017 *Document de référence.*

All earnings materials are available on our website and these prepared remarks will be available shortly after this call also.

I would now like to introduce Bernard Charles.

Bernard Charles
Vice Chairman and Chief Executive Officer

Thank you.

SUMMARY OVERVIEW

I am very pleased to be with you today. 2018 was a remarkable year – with clients ranging from start-ups to cities, aligning themselves with our purpose and belief. We had a record level of large **3D**EXPERIENCE platform transactions. We strengthened our position across industries and domains. And we expanded our addressable market.

Looking at our 2018 financial performance, we achieved all our objectives: Total revenue and software revenue grew 10%. Licenses revenue increased 11%. We delivered strong profitability, and earnings per share increased 16%, or 20% at constant currency.

I believe all key elements are in place to deliver sustainable growth in the coming years:

- With our **3D**EXPERIENCE platform and industry solution experiences, where during 2018 **3D**EXPERIENCE software revenue increased 24%. We also reached some important threshold levels as Pascal will discuss.
- With **3D**EXPERIENCE on the Cloud serving as an important vehicle for market expansion and new usages thanks to the robustness of our offer and the platform value we bring.
- With our industry solutions approach where eight out of our twelve industries delivered double-digit software revenue growth in 2018.
- With our sales channels where we gained 27,000 new customers.
- And with acquisitions complementing our domains and industries focus. During 2018 we significantly strengthened our market offer for the Fashion Industry with Centric PLM, for cyber systems with No Magic and for Manufacturing ERP with

the IQMS acquisition. We also recently completed two small acquisitions: in systems with Argosim, and in chemical fluid simulation with COSMOlogic.

OUR PURPOSE AND BELIEF IN ACTION

In 2012 we introduced a broader purpose for DASSAULT SYSTEMES to provide business & people with **3D**EXPERIENCE universes to imagine sustainable innovations capable of harmonizing product, nature & life. We see the century before us as a time for unprecedented invention and innovation, an Industry Renaissance. At the same time, we believe it is critical for all of us to see ourselves within the larger context – it is no longer about a product or service. It is about an experience, and the world of experiences is not limited, but extends to our environment, including the urban environment of the future of course, where more than 70% of the world population will live.

A Harvard study we shared this morning talked about the power of ‘handprints’. When people speak of the environment they ask what is your footprint and how can you minimize your negative impact? The study revealed how ‘handprints’ – the ability to help companies improve sustainability can have a positive and outsized impact. This is our goal here at DASSAULT SYSTEMES.

Critical to this purpose is an underlying belief of the immense power of the virtual world – thanks to the ability to imagine and explore digitally – to extend and improve the real world, to transform. We see a strong alignment of our purpose and the priorities of our customers.

One of our clients in AEC, Zaha Hadid Architects, works on developments in 44 countries around the world. They describe what they do as creating **transformative** cultural, corporate, residential and other spaces that work in **synchronicity with**

their surroundings. The 3DEXPERIENCE platform helps them to ensure that this vision is achieved.

In India, the government is targeting to create 100 Smart Cities Programs. We are working with one of the first programs, Jaipur City, with a population of over 3 million. The city officials selected the **3D**EXPERIENCE platform on the Cloud to listen to the voice of citizens and to improve the lives of citizens in terms of mobility, environment with more green spaces, and information sharing with all stake-holders to improve planning, building and construction within the context of the city life.

PLATFORM FOR KNOWLEDGE AND KNOW-HOW

Now, many people speak of platforms but what makes DASSAULT SYSTEMES a catalyst and an enabler for the 21st Century Industrial Renaissance? First, it is not about us being a platform company but helping clients become platform companies with complete end to end digital continuity. The platform connects the knowledge and the know-how – while most of our competitors digitalize how something works physically, the **3D**EXPERIENCE platform gives access to all knowledge and know-how thereby enabling the creation of value networks.

AIRBUS ADOPTING THE 3DEXPERIENCE PLATFORM

In that regard, we are very pleased to share that Airbus Group has selected the **3D**EXPERIENCE platform and our aerospace industry solution experiences in connection with its Global Digital Enterprise Transformation Program. We have entered into a strategic partnership where the **3D**EXPERIENCE platform will play an integral role in the enterprise transformation of Airbus Group and its value chain as it ushers in the next phase of its world-class aircraft creation.

SAFRAN NACELLES ADOPTS THE 3DEXPERIENCE PLATFORM

Also in Aerospace, Safran Nacelles, has adopted the **3D**EXPERIENCE platform and several of our industry solutions to drive digital continuity across manufacturing and after-sales services.

You may recall that in the second quarter we announced that Safran Electronics & Defense is adopting the **3D**EXPERIENCE platform too.

EXPANDING FOOTPRINT AND DIVERSITY WITH 3DEXPERIENCE ON THE CLOUD

In my opening remarks, I touched on the role of **3D**EXPERIENCE on the Cloud. For us it expands our market footprint, bringing new usages and new types of users and is opening MORE doors.

For example, in our Core industries, new ELECTRIC VEHICLE start-ups are able to be productive very quickly, such as EVELOZCITY. In industrial equipment, Kärcher is using our **3D**EXPERIENCE platform and industry solutions on the Cloud to manage its product development process, leverage knowledge and know-how across the company and monitor requirements management.

In Diversification sectors, a perfect example of a new usage is the well-known Danish brand, ECCO Shoes, who wanted to produce a unique in-store experience. They adopted our cloud-based **3D**EXPERIENCE platform with CATIA applications to interpret biomechanical data into geometries for 3D printing. In under two hours a fully customized shoe, based on anatomical scanning and real-time analysis, is finished.

NAVAL ENERGIES ADOPTS THE 3DEXPERIENCE PLATFORM

A further examples of the platform's value is with Naval Energies, who is focused on sustainable energy including offshore wind developments as well as harnessing thermal energy from the sea. Digital applications on the Cloud will help Naval Energies reduce development time and costs.

3DEXPERIENCE.WORKS

I am pleased to announce that we are creating **3D**EXPERIENCE.WORKS, a new business applications family on our **3D**EXPERIENCE platform to bring the power of the platform and portfolio to the Mainstream market. SOLIDWORKS is now natively on the platform with XDESIGN. Recently acquired, IQMS will be rebranded as DELMIA.WORKS - it will be part of this new business applications family to serve the mainstream manufacturers. We believe this offer, on the **3D**EXPERIENCE platform, will change the game in the Mainstream market by connecting the dots between business and manufacturing processes. We will have more to say at SOLIDWORKS World in Dallas next week.

Let me now turn the call to Pascal.

Pascal Daloz
Executive Vice President, CFO and Corporate Strategy Officer

Hello and thanks to all for joining us.

BUSINESS & FINANCIAL REVIEW

3DEXPERIENCE Platform and Industry Solution Experiences

Moving to a business review, let me begin with **3D**EXPERIENCE where I think we are now reaching important threshold levels.

Let's zoom in on several key metrics we follow:

- Looking first at software, from a <u>growth</u> perspective **3D**EXPERIENCE software revenue increased 33% in Q4 and 24% for 2018 in total.
- From a <u>penetration rate</u> we move up to 25% of related software revenue from 21% in 2017.
- Looking from a <u>licenses</u> revenue perspective, **3D**EXPERIENCE licenses revenue grew 45% in the fourth quarter and 31% for the full year.
- This translates to a penetration rate moving to 40% for 2018 from 33% in 2017 of related license revenue.

INDUSTRY HIGHLIGHTS

Moving to industry highlights, during 2018 all of our core industries had double-digit software growth and five of our nine Diversification Industries as well. With the strength in our Core verticals, including the contribution from acquisitions, Diversification Industries represented 32% of our software revenue, similar to 2017.

REGIONAL REVIEW

Now let's move to a regional business review:

Americas software increased 4% in the fourth quarter, with good growth in indirect sales and a mixed performance for our direct sales. For the full year, software revenue increased 7%, reflecting the contribution from new acquisitions, strong growth in subscription revenue and continued strengthening in Latin America.

In **Europe** software revenue increased 12% in Q4 with very strong **3D**EXPERIENCE activity in Western Europe – notably France. Looking at the year, Europe grew 8%, led by Western Europe and strong recurring software revenue results generally.

Asia delivered the highest software growth for both the quarter, up 19% and the full year, up 16%, with double-digit growth for all five geographies and importantly its two largest, Japan and China. Both licenses and recurring revenue results were very solid in the region.

Finally, a major component of expanding our reach and market leadership is through geographic diversification. **High Growth countries** software revenue increased about 18% for both Q4 and the full year and represented 18% of our total software revenue, up 100 basis points from 2017. The strongest performers for the year were China, South Asia and Turkey.

BRAND REVIEW

Moving to a brand review:

CATIA software increased 2% in the quarter reflecting a very high base of comparison, bringing its full year growth rate to 4%. Keep in mind that in Q4 last year, CATIA was growing 10%.

ENOVIA had a record number of deals that closed in Q4 to make it the biggest quarter in its history with licenses revenue up 84%. Total software revenue increased 33% in Q4 bringing **its growth for the year up to 14%** from 7% through the first nine months.

As we had expected, SOLIDWORKS returned to higher growth in Q4 following a tough Q3 comparison, up 12% and bringing its software growth for the year to 10%. Licenses revenue increased 14% in Q4 and 9% for the year. With the record, exceptional results in 2017, the strong 2018 performance speaks to its offer for the Mainstream Market, the strength and reach of its channel, and SOLIDWORKS' market leadership.

Other Software increased 13% in Q4 and 15% for 2018 with SIMULIA up double-digits including acquisitions, and DELMIA also up double-digits, benefiting from growth in multiple industries and especially aerospace & defense. We also had solid support from BIOVIA, especially in Q4, and EXALEAD and QUINTIQ for the year.

2018 ACQUISITIONS: Strengthening Our Offer by DOMAIN, INDUSTRY AND MARKET SEGMENT

Looking at our portfolio, during the year we made several acquisitions strengthening our offer:

- By domain: with No Magic, an important addition to CATIA's system engineering offer.

- By industry: with a majority ownership of Centric PLM, the leader in PLM for the luxury, fashion, retail and consumer goods sectors.
- By market segment: with IQMS for manufacturing ERP for the Mainstream Market

IQMS acquisition:

In early January we completed the acquisition of IQMS for 425 million dollars. For 2019 we are assuming revenues of about 58 million euros and a 2-cent contribution to EPS. At the operating margin level, we estimate a dilution impact of about 30 basis points.

Argosim acquisition:

In early January we also acquired Argosim, a privately-held company based in France, with 12 employees. ARGOSIM bridges the gap between specifications and test by playing the requirements and the functional experience right the first time. This acquisition nicely complements CATIA's Systems portfolio.

COSMOlogic

In December we acquired COSMOlogic, a privately-held science based company, with 16 employees based in Germany. It is focused on the simulation of chemical processes for the prediction of fluid phase thermodynamics. COSMO*logic*'s technology has proven to be more accurate and 3 to 4 orders of magnitude faster compared with molecular dynamics calculations. It will reinforce several of our industry solution experiences, notably for CPG, Energy, Process & Utilities as well as Life Sciences.

SUMMARY OF FOURTH QUARTER FINANCIAL PERFORMANCE

Moving now to our financial results, let me recap briefly. Our fourth quarter came in at or above our guidance ranges:

- Total revenue was up 13% compared to our 9 to 11% constant currency range.
- Software revenue increased 11%, above the 8 to 10% range; with Licenses revenue up 13%, the high end of our range, and recurring software growing 10% compared to the 8 to 9% range.
- Services were up 33% at constant currency and in euros above by 20 million.
- Our operating margin was 37.4%, compared to our objective of 36.5%.
- EPS was 1.10 euros, up 24% as reported and at constant currency, and ahead of our 96 cents to 1euro target.

TOTAL REVENUE AND SOFTWARE REVENUE

Moving to a year over year comparison, in the fourth quarter total revenue increased 13% and 10% on an organic basis, so a strong quarter all around thanks to both software and services strength. For the year revenue increased 10% in total and 7% on an organic basis.

Similarly, software revenue grew 11% in Q4 and 10% for the year, and on an organic basis, increased 8% and 7%, respectively.

LICENSE REVENUE AND RECURRING SOFTWARE REVENUE

Zooming in on our licenses revenue, we had a very solid performance for both the fourth quarter and the year.

With respect to Q4, licenses revenue increased 13% in total, well supported with 11% growth on an organic basis. To give more context, let me remind you that Q417 was a very strong quarter. From a channel perspective, direct sales with our BT sales organization and the Professional Solutions channel led the quarter.

For the full year, licenses revenue increased 11% and 9% on an organic basis, so very solid results.

Recurring software revenue increased 10% in Q4, and 9% for 2018 on double-digit subscription growth and stable support renewal rates. On an organic basis, recurring revenue increased 6%, up 100 basis points from 2017 and more to come in 2019 as I will discuss shortly.

SERVICES REVENUE AND MARGIN

Moving to services, we had a strong fourth quarter, reflecting continued good performance for **3D**EXPERIENCE implementation activities. We also saw a catch-up from earlier in the year, in particular for QUINTIQ where the team did an outstanding job. On an organic basis services revenue increased 26% in the fourth quarter – so you can see the strong effort, and increased 8% in total for the year.

The fourth quarter performance enabled us to recover from a gross margin perspective and show a slight improvement for 2018, coming in at 12.9%, compared to 12.7% in 2017.

OPERATING PROFITABILITY AND MARGIN

For 2018 our operating profit increased 7% to 1.10 billion euros. The operating margin was 31.8%, and reflected an organic improvement of 70 basis points – largely offsetting 80 basis points of acquisition dilution. Currency had a negative impact of 10 basis points.

EARNINGS PER SHARE

Our EPS was up 24% in Q4, with a 4-point positive impact from the lower effective tax rate. For 2018 EPS increased 16% or 20% excluding currency, with a 5-point tax rate benefit to the growth rate. So for both the quarter and year our underlying performance was the principal driver of the strong earnings per share growth.

CASH FLOW & BALANCE SHEET

Our operating cash flow increased 21% to 899 million euros for 2018, on net income and non-cash elements.

Our unearned revenue totaled 1.01 billion euros at December 31 under IAS 18. This represents an increase of 10% at constant currency and perimeter impact, compared to our recurring revenue growth of 6% for the year.

IFRS 15 IMPLEMENTATION IN 2018 – Recap of Differences with IAS 18

The Company implemented IFRS 15 effective as of January 1, 2018. The implementation resulted in some quarterly variation in recurring software revenue recognition compared to under IAS 18, the prior standard. In the presentation we have outlined the quarterly timing differences for recurring software revenue under IFRS 15 compared to IAS 18 during 2018.

For the full year the revenue difference was very small, consistent with what we indicated at the outset of 2018. Specifically, total revenue and software revenue were each €3.1 million higher under IFRS 15 compared to IAS 18. For earnings per share this translated into essentially no difference on an IFRS basis between the two standards and a 1 cent difference on a non-IFRS basis.

IFRS 16 – IMPLEMENTATION IN 2019

Before moving to our financial objectives, just a few brief words on IFRS 16 Leases effective as of January 1, 2019. As many of you know, this new rule puts all type of leases on a similar footing: they move most leases onto the balance sheet.

We will be adopting IFRS 16 on a modified, retrospective basis and therefore will not be restating prior periods.

- From an income statement perspective, the implementation is expected to have an immaterial impact on the Company's 2019 earnings, with an estimated €11 million decrease in operating expenses, and hence improvement to the operating profitability and margin, and, an increase in interest-related financial expense estimated at €13 million, both of which are expected to be recorded on a linear quarterly basis.
- On the balance sheet, we will record new assets in the amount of €390 million, right of use assets, and liabilities in the amount of €470 million and will account for the transition effect of this accounting change in stockholders' equity with a pre-tax decrease estimated at €55 million. These are current estimates subject to final adjustments.

FINANCIAL OBJECTIVES UNDER IFRS 15 and IFRS 16

Now, let's move to our guidance, which was in this morning's earnings press release and is detailed in our presentation on the website.

Looking at our 2019 financial objectives, we expect a year of good growth: with total revenue and software revenue both up 10% to 11%, licenses revenue up 10% to 12%, recurring revenue up 9% to 10% and services revenue up about 14%, all at constant currencies, translating to a target revenue range of 3.81 to 3.84 billion euros.

We see solid support on an organic basis, thanks to an estimated 100 to 200 basis points increase in organic recurring software revenue growth to about 7% to 8% for 2019, from 6% in 2018. By the way, this represents a 200 to 300 basis point improvement from 5% in 2017. This is very positive since recurring software revenue represents 70% of our total software.

After taking into account dilution from acquisitions, we are targeting an operating margin of about 32 to 32.5%, compared to 31.8% reported this past year. Our goal is to deliver an organic operating margin increase of about 80 basis points – leaving aside the benefit of IFRS 16.

We are estimating our effective tax rate for the year at about 29%.

Altogether this translates to our earnings per share growth objective of about 7% to 9% for 2019. Based upon our currency assumptions we estimate a negative currency impact of 2 points of growth on EPS.

2019 represents the completion of our five-year plan. Our earnings per share objective range of 3.35 to 3.40 euros is consistent with our expectations shared at the 2018 Capital Markets Day. 2019 also represents the beginning of our Five year 2023 EPS Objective of about 6 euros.

For Q1, we are targeting a revenue range of about 925 to 945 million euros, an operating margin of about 31-31.5% and EPS of 78 to 82 cents. Our revenue range embeds a licenses growth rate range of 15% to 18% and recurring software growth rate of 8% to 9%.

Finally, just a further reminder that our financial objectives are presented under IFRS 15 and IFRS 16 and on a non-IFRS basis with revenue growth rates at constant currency. For purposes of our guidance, we are using a 1.16 US dollar rate per 1 euro in Q1, then a 1.20 rate for Q2 to Q4. For the Japanese yen, a 130 rate per 1 euro before hedging throughout the year.

SUMMARY CONCLUSION

In summary, the strategic drivers for sustainable growth we articulated at our Capital Markets Day last June demonstrated good traction during 2018: the **3D**EXPERIENCE platform, industry solution approach, geographic diversification and extension of our addressable market. Altogether, we believe these drivers position us well for 2019, representing the completion of our current five-year plan and the start of our 2023 plan targeting €6.00 non IFRS EPS.

We would now be happy to take your questions and thank you for your participation on this call and our earlier webcasted meeting held in Paris.