Beatrix Martinez
Vice President, Investor Relations

Thank you for joining us on our second quarter and half year 2022 earnings conference call, with Pascal Daloz, Chief Operating Officer and Rouven Bergmann, Chief Financial Officer.

- Dassault Systèmes’ results are prepared in accordance with IFRS.
- Most of the financial figures discussed on this conference call are on a non-IFRS basis, with revenue growth rates in constant currencies unless otherwise noted.
- Some of our comments on this call contain forward-looking statements that could differ materially from actual results. Please refer to today’s press release and the Risk Factors section of our 2021 Universal Registration Document.

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

I would now like to introduce Pascal Daloz.
PASCAL DALOZ, CHIEF OPERATING OFFICER

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

Bernard will not be joining us for our second quarter announcement today. He was recently presenting at our Capital Markets Day and attending our governance roadshow. He will be back with us to share his visions and perspectives on the industry in the future.

SECOND QUARTER 2022 HIGHLIGHTS

We delivered strong second quarter and half-year results, putting us on the trajectory to achieve our 2022 objectives. Our good performance was driven by broad-based growth across geographies, product lines and industries. We have demonstrated, once again, the resilience of our strategy against a challenging macroeconomic and geopolitical backdrop, with an impact from Russia and China.

Second quarter 2022:

- **Non-IFRS Total revenue** grew organically 11%, in constant currencies, with both Subscription and Support and Licenses up double-digits.

- **Earnings per share** increased 21% to €0.26, as reported, outperforming our objective.

- We continued to support our long term growth initiatives with headcount increasing 8% overall, and 10% in research and development.

- **For our full year 2022 objectives**, we are reaffirming our revenue growth target of 9-10% at constant currencies, factoring in some volatility in licences revenue,
driven by China. We increased our EPS objective to 14-16% growth, from 9% - 11% previously.

It’s clear from our results: our clients continue to invest in innovation both to address challenges posed by the current environment, as well as prepare for the future. Our industry solutions are mission critical.

Rouven will discuss our financial results in more detail.

Now, I’d like to share some perspectives on our strategy as well as review our operating performance.

**AN AMBITIOUS PLAN: 2040 IS TOMORROW**

As you know from our recent capital markets day, we have significant ambitions for our next horizon, 2040. As in the past, when we look to the future, we begin laying the foundation for our success:

- In 2012, we unveiled our vision for the experience economy and shift from products to experiences. You’ve seen this validated with the transition to sustainable mobility experiences, for example. We also introduced our 3DEXPERIENCE platform to start preparing then to support our clients with differentiated technologies today.

- In 2020, following the Medidata acquisition, we repositioned the company along three sectors of the economy: Manufacturing Industries, Life Sciences & Healthcare and Infrastructure & Cities. We also announced our extension of the Virtual Twin from Things to Life.

**FROM LINEAR TO CIRCULAR – IF WE LOOP**
In 2022, we are introducing the circularity within our 3DEXPERIENCE platform: we call it the IFWE Loop model. It represents a true paradigm shift in our strategy.

And why now?

The experience economy and the circular economy are converging: this will mark the coming decades. As we look to our next horizon, 2040, industries will no longer develop products but sustainable experiences centered around the consumer, patient and citizen.

The experience economy goes hand in hand with circularity as it requires designing the entire experience life cycle upstream, integrating use with end of life. Circularity is about frugality – using only what’s necessary – and appreciating all things created by humankind will have an end: the raw materials that compose them can be repurposed, reused and recycled. This will revolutionize design and open up significant new possibilities we can’t yet imagine.

Our 3DEXPERIENCE IFWE Loop connects value creation with value experienced, to cover the full experience lifecycle. This allows innovators to anticipate the recycling of products from their design and manufacturing to quantify the environmental impacts and optimize circularity.

As a consequence, our 3DEXPERIENCE platform is not only a way to be a game-changer and displace the competitive landscape, it’s also a multiplier.

It’s a multiplier to expand the value proposals and to expand the audience, by connecting people, data and ideas - from industry professionals – the ones we have been serving for the last forty years, to all business communities, and ultimately, to the consumer, patient and citizen.

This will be our next frontier.
Now, we’ve been talking about the next 20 years, let’s come back to how we’re helping clients in the present.

**GAME CHANGER IN THREE SECTORS**

Today’s challenging environment - from inflation to raw material shortages and meeting sustainability imperatives - reveals the value and mission critical nature of our industry solutions.

Our strong customer adoption, across all three sectors of the economy, offers many proof points this quarter. Let’s look at a few examples.

**CONSUMER INDUSTRY - ASDA**

In the consumer industry, we are expanding our value proposition to new audiences, reaching the business community. With virtual twin experiences as a means of operations, we are helping retailers increase efficiency, resiliency and meet sustainability imperatives.

This quarter, we established a new partnership with ASDA - one of Britain’s largest retailers, serving 18 million people and 98% of UK homes every week.

ASDA has chosen to utilize DELMIA Quintiq to rethink its value network:

- to increase operational efficiencies, saving millions,
- capitalize on those efficiency gains to offset inflation and lower consumer prices,
- improve customer experiences with last-mile delivery,
- and to advance its sustainability goals by reducing empty mileage.

We’re very pleased to support ASDA as it continues to build upon its significant legacy.
LIFE SCIENCES – SANOFI

In life sciences, we have been pioneering incredible innovation, changing the game for our clients. Medidata is the #1 trusted partner and gold standard in clinical trials.

Without our investments, we would not have electronic data capture as a standard for all clinical trials, with decentralized trials becoming the new best practice. We would not have synthetic control arms as a ground-breaking way to speed up evidence generation and time to market. Without these innovations, our clients would not have been able to develop the Covid vaccine in record time.

However, the pandemic exposed many vulnerabilities within the industry. Remember, it took one year to develop the vaccine; it took two years to manufacture it at scale. The industry was not capable of producing different therapeutics in a short time horizon.

Addressing these issues is paramount and will require significant reconfigurations and investment in the coming decades.

This quarter, we expanded our long standing partnership with Sanofi.

The company has adopted 3DEXPERIENCE and our Made To Cure for Biopharma solution to enable modular and more flexible manufacturing. Our technologies will help Sanofi develop and deliver vaccines at pandemic speed. It will also accelerate new facility and drug launches, enabling the production of multiple vaccines concurrently.

In addition, Sanofi will leverage our technologies to reduce water consumption, supporting its Net Zero Carbon objective.

We look forward to continuing to support Sanofi’s efforts to improve patient outcomes. Only Dassault Systemes has the innovation, technologies and scale to provide the life
sciences sector with end-to-end solutions. We hope our work with Sanofi serves as a catalyst to accelerate industry adoption and advance the patient journey.

**TRANSPORTATION & MOBILITY – HOPIUM**

Turning now to transportation and mobility, there is a rapid transformation to sustainable mobility experiences underway, requiring a tremendous amount of science across many disciplines – something only Dassault Systems can provide.

Hopium, a start-up founded by a professional race car driver, has designed innovative fuel cells that transform air and hydrogen into energy, emitting nothing but water. While, at the same time:

- Reaching a speed of 230 km/h (143 mph) – sports car performance
- Traveling for more than 1,000 km (620 miles) – similar to that of a long-haul truck
- Refilling: in three minutes – far less than your phone

Hopium has deployed our 3DEXPERIENCE solution on the cloud and created its first prototype in only eight months.

These examples are testimony of the **mission critical** nature of our industry solutions in addressing resiliency and sustainability as well as the value we bring to our relationships.

**OPERATIONAL PERFORMANCE**

Now, shifting gears, let’s turn to the review of our operational performance.

**PERFORMANCE: GEOS, PRODUCT LINES**

Starting with second quarter, non-IFRS revenue by geography. And, these are year-over-year comparisons in constant currency growth rates:
Software revenue performance by Geography (ex FX):

- **The Americas** grew 8% during the quarter, driven by strong performance in subscription. From an industry perspective, Life Sciences and Industrial Equipment were key contributors to performance. The Americas represented 40% of software revenue year-to-date.

- **Europe** accelerated to 13% growth in Q2 and performance was broad-based. Northern Europe, France and Southern Europe delivered excellent results driven by Transportation & Mobility and Aerospace. Year-to-date, Europe represented 35% of software revenue.

- **Asia Pacific** rose 13% this quarter, showing strong resilience in the face of China’s Covid-19 restrictions. We were expecting lockdowns to last a few weeks but instead they’ve lasted months. Never-the-less, we have been able to largely offset this. Japan, South Asia Pacific and India grew double-digits. China grew low single-digits. Year-to-date, Asia represented 25% of software revenue.

Zooming in, now, on the **Second Quarter Product Line Performance**, and these figures are non-IFRS year-over-year comparisons with growth rates in constant currencies:

- **Industrial Innovation** software revenue rose 11% to €662.2 million, representing 53% of software revenue. Performance was broad-based across brands:
  - CATIA, ENOVIA, DELMIA and NETVIBES grew double-digits. CATIA cyber systems demonstrated excellent performance again this quarter, reflecting the differentiated value proposition of our technologies.
• DELMIA benefitted from strong interest in manufacturing transformation as clients seek to increase efficiency, resiliency and connect operations with a platform approach.

• In **Life Sciences**, revenue grew 13% in the second quarter to €275.2 million, and represented 22% of software revenue.
  o In Life Sciences, MEDIDATA maintained velocity, growing 15% and on the back of a high comparison base. MEDIDATA continues to experience strong momentum across its product portfolio including MEDIDATA Rave, MEDIDATA AI and MEDIDATA Patient Cloud, as well as across end markets including pharmaceutical and biotechnology companies and contract research organizations (CROs).
  o Medidata also experienced good traction in medical devices and in the mid-market in Europe, this quarter, demonstrating the durability of Medidata’s growth profile.
  o Our Life Sciences Engagement – integrating sales of our broader portfolio - continued to gain **3DEXPERIENCE** reference wins – Sanofi is a good example.

• Moving to **Mainstream Innovation**: software revenue increased 8% to €312.7 million, compared to 27% growth in 2Q of 2021, and representing 25% of software revenue.
  o SOLIDWORKS grew mid-single digits against a strong baseline effect of 25% growth last year. SOLIDWORKS was negatively impacted by China’s COVID-19 restrictions, which have lasted longer than expected. We view this
as a transitory issue and, when the situation normalizes, expect a return to trend-line growth.

- CENTRIC PLM continued to experience strong momentum with revenue increasing high double-digits.

**CENTRIC PLM OPPORTUNITY**

Centric PLM accelerates innovation and time to market by improving quality and optimization; this is mission critical for consumer companies. Looking forward, we have significant opportunities to leverage Centric’s strong momentum by reaching new audiences and providing new value propositions.

Centric started in the domains of fashion and retail and can expand to new industries such as food and beverage, cosmetics and personal care.

Centric’s clients were primarily large brands while today, the company is having good early success with retailers and SMBs.

Additionally, our strategy is to expand Centric’s value proposition beyond collection management to business planning and analytics as well as e-commerce.

Ultimately, there are numerous vectors of growth to drive significant expansion for Centric PLM and well into the future.

**M&A: DIOTA**

We are continuously investing in innovation for the benefit of our customers - both organically and though acquisitions.

During the quarter, we acquired a France-based, leading player in connecting “V+R” on the shop floor and in the field, to complement our DELMIA offering and accelerate an expansion into quality control, compliance and work instructions.
Diota combines advanced interactive 3D, Augmented Reality and AI technology with a data centric approach, incorporating real world evidence. The company’s solutions utilize virtual technology in the field – in an industrial metaverse - to maximize traceability and productivity throughout complex manufacturing, inspection, certification and maintenance processes.

While a small start-up with €2 million in revenue, Diota offers proven technology, a great team and an impressive customer roster.

We’re delighted to have Diota join us and welcome the team on board.

And, now, I’ll hand the presentation over to Rouven to discuss our financial performance and 2022 objectives. Rouven, the floor is yours.

**ROUVEN BERGMANN, CHIEF FINANCIAL OFFICER**

Thank you, Pascal. Hello, everyone, it’s great to speak to you today!

**2Q22 FINANCIAL PERFORMANCE: HIGHLIGHTS**

As you heard from Pascal, we had an excellent second quarter across the board. This demonstrates the strength and durability of our business model. It also gives us the confidence to reaffirm our 2022 objectives for the year, while at the same time we are acknowledging the macroeconomic uncertainty.

In the second quarter, we delivered on the key initiatives we communicated to you during our Capital Markets Day: we saw an acceleration in recurring revenue growth to double-digits, driving overall software revenue growth of 11% and we delivered strong earnings growth with EPS up over 20%, well supported by 32% operating margin, in the middle of our targeted range.
Now, let’s take a closer look at the proof points with the review of our Q2 non-IFRS results. Comparisons are year-over-year with growth rates in constant currencies:

**FINANCIAL PERFORMANCE: REVENUE**

Total revenue grew 11% year-over-year, 15 million above the mid-point of our guidance.

- This was driven by accelerating recurring revenue growth of 10%, above the high-end of our guidance. Recurring revenue represented 78% of software revenue during the period.
- License revenue increased solid double-digits at 14% this quarter. The License growth was negatively impacted by China’s covid-19 restrictions during the quarter. Coming into the quarter, we expected this confinement to last up to a few weeks, however the lockdown of over 2 months attributed about 3 percentage points of headwind to the license growth. Despite this, we delivered a good performance highlighting the resiliency of our business model.
- Contributing to the overall strong momentum, our services revenue rose 14%, also above our targeted corridor.

**3DEXPERIENCE, CLOUD**

Now, turning to our 3DEXPERIENCE and Cloud growth.

A growing list of customers – both new entrants and incumbents - are expanding their relationships with Dassault Systemes. 3DEXPERIENCE and Cloud are critical for enabling resiliency and for helping clients to scale rapidly as they capitalize on the benefits of adopting all our domains.

This is reflected in our second quarter non-IFRS results:
• We continued to see very good 3DEXPERIENCE momentum, with revenue growing 30% to now account for 33% of software revenue, an increase of 4 points relative to last year.

• Cloud revenue rose 23%, driven by continued strength in Life Sciences and 3DEXPERIENCE. Cloud now accounts for 22% of our software revenue, up over 2 points versus last year as we see large customers in core industries such as Aero, Transportation & Mobility and Industrial Equipment deploying 3DEXPERIENCE cloud solutions.

FINANCIAL PERFORMANCE: PROFITABILITY

We reported an operating margin of 32%, as mentioned, in the center of our target range. When factoring in the over-achievement in revenue, the net impact of higher expenses versus guidance was only 10 basis points.

Relative to last year, expenses were up by 12%, reflecting our confidence to continue to invest in our long-term growth strategy.

Indeed, we hired over 1,200 people during the quarter representing more than 420 net new team members. We grew headcount by 8% overall, and 10% within R&D versus last year. These investments will allow us to further expand our reach and capabilities from managing transactions to driving transformations with our clients when engaging with MEDIDATA, CENTRIC PLM and the 3DEXPERIENCE Platform.

We also saw more active travel and marketing activity, on a low 2021 base, which accounted for about 20% of the increase.

So, as you can see, we are investing in growth, our subscription and cloud revenue are growing at the highest rate, and we are not compromising our profitability.
Now, turning to EPS… for the second quarter, we delivered strong earnings per share growth of 21% to €0.26, as reported, above the objective range of 11-16%. The growth in EPS benefited this quarter from:

- a more favorable FX conversion driven by the strengthening of the USD versus Euro with an impact of €1.1 cent.
- a higher operating income contributing €0.2 cent, and
- a lower tax rate contributing €0.2 cent.

Let me briefly comment on the non-IFRS tax rate for the quarter of 20.8% vs. our guidance of ~ 21.2% highlighting that we continue to benefit from higher FDII tax deduction in the US.

I’d like to comment also on the reconciliation to IFRS EPS. As you know, at the end of May this year, the long-standing tax dispute covering the fiscal years 2008-2013 was concluded by the ruling of the French high court resulting in a one-time tax charge of EUR 145 million. There was no cash impact this quarter or will be in 2022 as all payments were made between the years 2014 and 2020. This dispute has been reported in our financial statements since 2014 and is now closed.

**CASH FLOW AND BALANCE SHEET (1H22, IFRS)**

Turning now to cash flow and balance sheet items:

Cash and cash equivalents totaled €3.157 billion, compared to €2.979 at the end of last year, an increase of €178 million.

Our net financial debt at June 30, 2022 decreased by €405 million to €485 million, compared to €889 million at December 31, 2021. This puts us well ahead of schedule on our deleveraging objective.
Now let me provide some additional color on what is driving our cash position this quarter:

First, Cash from Operations totaled €1.048 billion for the first six months, an increase of 1% relative to last year on the back of a strong comparison base. Last year was up 21%. Just looking at Q2 Operating Cash Flow was up 7% year-over-year.

This quarter, cash from operations was used for treasury stock repurchases of €75 million contributing to €378 million for the first six months. And we paid the dividend to our shareholders of €224 million. Lastly, we had a benefit of €116 million from FX with €90 million coming from Q2 only.

Now let me transition to some key drivers of the second quarter operating cash flow performance:

- Net income adjusted for non-cash items is up 32%
- The increase in contract liability reflects our business activity, in line with recurring revenue growth of 10% constant currency.
- The decrease in income tax payable is driven by higher tax payments in the US related to the mandatory capitalization of R&D expenses for tax purposes only. Consequently, the deductibility of these expenses will be delayed resulting in an increase of cash taxes we pay.
- Lastly, the decrease in accrued compensation is due to lower social charges on stock-based compensation expenses from a lower share price in Q2 2022 versus the same period last year.

**OBJECTIVES: FISCAL 2022**

Now, let’s turn to our fiscal 2022 objectives.
As we look to the remainder of the year, we feel optimistic about our business momentum. At the same time, we are mindful of the macro-economic backdrop characterized by mixed sentiments. In this context, it is important to highlight that within our FY objectives we already offset the revenue impact from the wind down of operations in Russia for around €20 million for the year. This we discussed in Q1.

Taking all that into account, we are reaffirming our 2022 Total Revenue growth objective of 9-10% and now reflect a higher absolute range of €5.485 to €5.535 (vs €5.355 to €5.405 previously), incorporating an update to the US Dollar rate from €1.14 to €1.10 for the remainder of 2022. This adjustment to our currency assumptions, along with a second quarter FX benefit, has a €123m impact on our total revenue objective.

In addition, we are reflecting half of the Q2 over performance. The remainder is contributing to de-risk the rest of the year, marked by increasing uncertainty, more specifically in China. We are reflecting this adjustment mainly in the outlook in license growth of now 9-11% for the full year.

Next, let me turn to the Operating Margin: we are reconfirming our full year objective of 33.4% – 33.7% reflecting our continued investments in our long-term growth initiatives, including maintaining momentum in achieving our hiring targets.

Turning now to EPS: we are raising our 2022 diluted EPS objective to 14-16% growth as reported, reaching €1.08 to €1.10. This compares to 9-11% growth reaching €1.04 to €1.06 previously. The delta versus our previous target is driven by:

- A €2.6 cents FX benefit
- €0.4 cent revenue impact offset by €0.7 cents from an increase in operating expenditures
• And a €2.1 cents benefit from a lower tax rate. The updated tax rate reflects higher FDII tax deduction for second half of the year in the US and a lower tax rate in France each contributing at similar weight.

Now, let’s review our **2022 objectives by revenue type**:

• Software revenue growth reaffirmed at 9-10%
• Recurring revenue growth reaffirmed at ~9%
• As mentioned, Licenses and other software revenue growth is now at 9-11% from 10-12% previously
• Services revenue is targeted at 8-10% growth

**OBJECTIVES: THIRD QUARTER 2022**

Before closing, let me briefly share our objectives for the third quarter:

Total revenue and software revenue growth of 8%-10%, with recurring revenue at approximately 9%, license revenue in the range of 6-10%, and services revenue up 11-13%.

Operating margin of 31.1 -31.8% and diluted EPS growth of 6-11% to a range of €0.24 -€0.25.

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

**FINANCIAL PERFORMANCE CONCLUSION**

In conclusion, for the full year 2022 we reaffirm our growth objectives for total and software revenue of 9% to 10% ex fx driven by good momentum in subscription and
cloud revenue growth. We raise our outlook for total revenue reflecting half of the Q2 over performance in our full year objective, and de-risk some of the macro factors – specifically adjusting the license growth in China. Finally, we raise our EPS target to reach now 14-16% growth. We expect a solid third quarter and we look forward to keeping you apprised of our progress next quarter.

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

PASCAL DALOZ, CHIEF OPERATING OFFICER

Thank you, Rouven.

CONFERENCE CALL CONCLUSION

In conclusion:

- Clients continue to invest in innovation to both address today’s current challenges, as well as prepare for future growth: resiliency and sustainability are top priorities. Our industry solutions are mission critical.
- We have significant and durable competitive advantages to leverage in each of the three sectors of the economy we serve.
- We have a vision for 2040 and are laying the foundation for our success well in advance.
- Finally, I want to thank both our clients for their continued trust, and our teams around the world for their passion and dedication to our success.

IR TRANSITION
Before we conclude, I would like to congratulate both Francois-Jose on his retirement next year and Beatrix Martinez on her promotion to now lead our investor relations efforts.

- Francois, over the past thirteen years, you have shepherded our investor relations efforts with tremendous integrity – always maintaining “Investors’ Trust” as our North Star. And, you have done it with kindness and humor. It has truly been a pleasure working with you. Thank you for your leadership, hard work and dedication to the IR mission.

- Beatrix, no need to welcome you on board since you and Francois have been working together for several years. We’re thrilled to have you now spearheading investor relations -we have no doubt you will carry the torch well.

OPEN FOR Q&A

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

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