DASSAULT SYSTEMES (DS)
2008 Fourth Quarter and Fiscal Year Conference Call
Wednesday, February 11, 2009
Final

Valerie Agathon
Head of Investor Relations

Thank you for joining us to review our 2008 fourth quarter and fiscal year financial and business performance.

On the conference call are Bernard Charles, our President and Chief Executive Officer, and Thibault de Tersant, our Senior EVP and CFO.

Our financial results are prepared in accordance with U.S. GAAP and IFRS. In addition, we believe it is helpful to provide you with supplemental non-GAAP and non-IFRS financial information. On this call, we will discuss our revenue, operating income, operating margin and EPS on a non-GAAP basis before deferred revenue write-downs, amortization of acquired intangibles, stock-based compensation expenses and other operating income and expense, net. For reconciliations of the differences between these figures and our U.S. GAAP figures, please see the reconciliation tables included in our earnings press release which has been posted on our website at 3ds.com.

Commencing with the 2009 first quarter, we will only present our results under IFRS and will provide supplemental non-IFRS financial information.

As a result, our financial objectives which we will discuss today are given on a non-IFRS basis.

Some of the comments we will make on this call, either as part of the prepared remarks or in response to questions, will contain forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Information about the principal factors that could cause actual results to differ materially from forward-looking statements can be found in today's earnings press release and in our *Document de référence*, as filed with the AMF in France on April 4, 2008.

If you have additional follow-up questions after the conference call, please do not hesitate to contact Beatrix Martinez or myself in Paris or Michele Katz in New York.

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

Bernard Charles
President and Chief Executive Officer

Thank you, Valerie.

Introduction

I would like to thank everyone for joining this call. We held a webcasted meeting in Paris just a few hours ago and are also holding this call as we usually do to answer any further questions people may have.

Today, I will begin with a financial and business review. Thibault will then cover some of the financials in further detail and will share our 2009 financial objectives with you. I will come back to cover our priorities for 2009 and we will then open the call to your questions. So, let's begin.

Summary Overview

The fourth quarter was significantly impacted by the sharp downturn in the global economy – clearly a recession in the major regions of the world – resulting in a significant slowdown in new business activity. For the quarter, total revenue declined 3 percent in constant currencies, with all three geographic regions impacted.

Thanks to our strong performance through the first nine months of the year, 2008 total revenue increased 8 percent on software growth of 10 percent, with both figures are in constant currencies.

As we enter 2009, it is apparent that the environment continues to be as challenging as what we saw at the end of 2008. And as you have seen from our financial outlook, we are basing our financial planning on the assumption that the macroeconomic environment will not improve during 2009.

But while we do not assume a better environment, we do enter 2009 with a number of strengths and a clear roadmap of our priorities.

PLM Market Leadership

First, we are positioned in an attractive market. The PLM end-user software market was sized at about 10 billion US dollars for 2008 and has clearly become an important sector of the software market.

Second, we have extended our leadership of this market. We estimate that we had a 26 percent share market share, with our next competitor a little more than half our size. We believe we added about one point during 2008 to our overall leadership of the PLM market with part of that growth coming from the more than 15,000 new customers in different industries and countries that we began working with during 2008.

And if you look underneath at our progress by major brands I think it is clear that we are extending our leadership with contributions from each of our major businesses.

- In Mainstream 3D, SolidWorks grew 11 percent on a constant currency basis during 2008. It had strong growth in subscription and strong sales of specialized products in analysis and product data management, both lines growing above 20 percent in constant currencies. Business came from a good mix of new and existing customers. Looking at new licenses sales, despite a marked slowdown in the second half of the year from the changing economic landscape, our Professional Channel sold nearly 50,000 seats during 2008, much more than its nearest competitor, and SolidWorks' average price per seat was stable.

- CATIA continues to bring additional value to customers and this is reflected in its 2008 results, with software revenue up 10 percent in constant currencies, and up 11 percent excluding the DSF spin-off. A key area of investment is in specialized products. ACT, a US composite supplier to major OEMs, is using CATIA Composite which has helped it reduce the time required for detail design and prototyping by 90 percent. In addition, I would like to highlight CATIA's increasing momentum in powertrain, an important area for the automotive market as propulsion technology is evolving dramatically.
- ENOVIA is a key driver of the expansion of our addressable market into new verticals and domains. Our specialized applications by industries bring faster realizable value for customers and they are an important driver of our progress into these new industries. Looking at 2008, ENOVIA software revenue increased 7 percent in constant currencies. In the mid-market we are seeing good traction with our ENOVIA SmarTeam product in combination with CATIA and in our PLM Business Transformation channel for large accounts a good level of sales of our ENOVIA VPM products. Recently, STX, a Korean shipbuilder, selected ENOVIA as its enterprise backbone and collaborative platform.
- And finally, SIMULIA had an outstanding year, continuing to strengthen its market position in simulation and expand its offering. Software revenue grew above 20 percent in constant currencies. Together with ENOVIA, SIMULIA is an important driver of our

industry diversification and this was evident in its sales for the year – with the growth coming from all eleven of our target industries. SIMULIA also advanced its product roadmap with the Engineous acquisition which was well integrated within a short period of time from both a sales and R&D development perspective. And SIMULIA is moving ahead with pilot PLM projects for the simulation market sector.

Richer Product Portfolio and Version 6 Launch

In addition to our stronger market position, we enter 2009 with a richer product portfolio, covering more processes that are critical to customers across the different industries we serve.

We first introduced Version 6 in May of last year and in November V6R2009x was launched. Version 6 truly brings much greater collaboration possibilities which are so important to customers and with its online features helps lower the cost of ownership. Secondly, it tremendously increases the number of industry processes we are able to cover.

This new product cycle in PLM brings additional flexibility and value to customers in new domains within the industries where we have a major presence and to new industries. We are seeing strong interest as we introduce these products and solutions.

Let me share some examples of how our strategy is working and illustrate what we can do. We are winning with our global sourcing product which has been selected by companies such as Pacific Brands in apparel and Bell Helicopter in aerospace. We are winning with IP lifecycle management with

Novero in automotive and with STX in shipbuilding as I highlighted earlier in my remarks on ENOVIA. And with our specialized shape product we are winning in electronics with Nikon.

And in Mainstream 3D we have also focused on developing a richer, broader portfolio which is clearly resonating with its market as it delivers high performance and continues to offer ease of use. We were pleased that Hitachi, a leading escalator and elevator company in Japan, selected SolidWorks.

Increasing Sales Channels Coverage

Through the improvements we have made in our sales channels, we reach more customers, have better coverage in the different geographic areas and increased resources to support our channel partners. In fact, the past two years have really been about making major enhancements to each of our channels and to ensuring that we are providing the right level of support to help each channel advance its priorities.

As a result, today we now have three strong channels with increased coverage and efficiency. By design we continue to maintain about two-thirds of our sales through indirect sales by partners. Looking at each of our channels:

- Our PLM Enterprise Business Transformation channel accounted for 54 percent of our sales in 2008 and it is comprised of our direct sales force and IBM PLM sales force.
- During 2008 we completed the transition of the PLM Value Selling channel on time and in just 1.5 years. It accounted for 25 percent of sales. Importantly, in the PLM value channel, we have a better business

model for our partners under the new structure than they had previously.

- And our DS Professional channel, already a very powerful channel, has also been strengthened and delivered 21 percent of our sales during 2008.

In summary, looking at this past year, our three channels had a solid performance with all channels delivering growth. Moreover, we increased our coverage of the markets with the addition of new VARS, adding over 65. And sales capacity was increased by at least 10 percent in each of our three channels.

Diversifying in New Industry Verticals

In 2008 we made visible progress in increasing our presence in new industries and becoming a provider of strategic solutions to these industries. During 2008 our customers in new industries represented about 15 percent of DS end-user software revenue.

If we look back at the year we worked:

- In Consumer and Consumer Packaged Goods with Barilla, Pacific Brands and P&G;
- In High Tech with STMicroelectronics, Lenovo, Leviton, L-3 Communications, Nikon, Nokia Siemens Network, Panasonic and Toshiba;
- In Business Services with Cambric, TUV Rheinland and American Bureau of Shipping;
- And in Energy and Construction with Arup, OKG and Skanska,

- among many others.

We are winning major key references in new industries with ENOVIA. Last quarter we spoke about P&G selecting DS for its enterprise PLM backbone and TUV Rheinland selecting DS for compliance.

In addition, we recently formed a strategic partnership with Chanel. The first project is based on the analysis of light, paving the way for innovative breakthroughs in skin biology and cosmetics.

Touching back to my point at the outset of my remarks, the PLM market is becoming an increasingly important software sector because more and more companies across diverse industries are making sustainable product development a core business priority.

Progressing in Higher Growth Countries

The final point I would like to make is that our work in developing our channels has enabled us to increase our market presence in higher growth countries. And we are seeing an increasing proportion of our revenue done in these countries compared to 2007. Non-GAAP revenue grew about 40 percent in constant currencies in this geographic group during 2008. During 2009 we will continue to increase our resources dedicated to these markets.

Within these higher growth countries, it is apparent that there is strong demand for PLM solutions from a number of industries including automotive, aerospace, industrial machinery, as well as shipbuilding, energy and high tech and infrastructure. In fact, I believe we are at the beginning of an important, unstoppable wave, as these companies look to design and create their own products in addition to being a source of manufacturing or design for companies in more mature markets. Even with the economic crisis, this trend will continue. These companies, for the most part, have the financial resources to continue to invest and it is clear that this initiative is an important strategic priority for these countries.

With this summary, let me turn the call over to Thibault now for his financial review and a discussion of our 2009 financial roadmap.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard.

GAAP/non-GAAP Differences

Before going into a detailed financial review, let me first do a brief review of our GAAP and non-GAAP reconciliation figures. For the 2008 fourth quarter and full year: we had deferred revenue write-downs of 1.5 million euros and 3.4 million euros; operating income, operating margin and earnings per share are before amortization expenses for acquired intangibles of 12.0 million euros and 44.9 million euros, stock-based compensation expense of 8.2 million euros and 22 million euros and they are also before 8.7 million and 200 thousand euros of other operating income.

Regional Performance

Turning to growth by region,

- In the fourth quarter, we saw weakness in all regions. The Americas were flat in constant currencies. Europe was lower by 4 percent, but looking more closely, it was down by 1% only adjusted for the divestiture of DSF. And in Asia revenue was lower by 4 percent in constant currencies where Japan was weak as we and other companies have been reporting.
- For the year, the Americas were up 11 percent in constant currencies thanks to our industry diversification, sales capacity increases and solid performance in consulting services. Europe increased 6 percent, with

Russia a particular bright spot. Revenue in Asia was up 6 percent in constant currencies with a good growth in China, India and Korea.

Software Review

- Total software revenue decreased 1 percent in constant currencies for the quarter. The sharp downturn in the economy in the fourth quarter negatively impacted new license activity which was down 22 percent in constant currencies. Recurring software revenue was up 17 percent in constant currencies.
- For the full year, software revenue increased 10 percent in constant currencies. New licenses revenue decreased 2 percent in constant currencies, while recurring software revenue increased 18 percent in constant currencies. Driving the increase in recurring revenue was growth in our installed base, SIMULIA growth and higher attachment and renewal rates for SolidWorks.
- Recurring revenue accounted for 64 percent of total software revenue in 2008. Both PLM and Mainstream 3D have a large base of recurring revenue, 68 percent and 53 percent, respectively, of their total software revenue.

Services and Other Revenue Review

Consulting services had a good quarter and year, showing its resiliency during this economic crisis. Excluding DSF, consulting revenue was up double-digits in the fourth quarter.

In total services and other revenue trends have, of course, been affected by changes in perimeter this year. This is the last quarter we will have any impact from the CMP fee wind-down. And excluding the DSF spin-off, service revenue decreased 6 percent in constant currencies in the fourth quarter - in line with our expectations.

Operating Income and Margin

Turning to our operating income and margin performance, the final results for the year were really disappointing given the progress we had made through the first nine months. 2008 was about moving forward with operating margin progression following the several years of investments we had made, expanding our addressable market with the MatrixOne acquisition among others, and investing and transforming our sales channels.

Currency

Turning to currency, historically our calculation of constant currency change has been based upon the US dollar and Japanese yen and the won. Of course, our results have also been affected by other currencies to a varying degree. Therefore, I believe our growth as measured on a constant currency basis has been underestimated in what we reported for 2008.

Currency has been a headwind for the last five years, but during the fourth quarter we got some relief, as both the dollar and yen strengthened significantly. We did observe some negative effects from the won given the magnitude of its drop in the quarter, but as a percentage of revenue in Asia, the yen has the greatest influence. This quarter’s presentation on our website gives a break-out of revenue and expenses for these three currencies.

From a hedging perspective, we do not hedge the dollar given the relative balance between revenue and expenses. With respect to the yen, we had hedged about 2 points of the estimated 14 points of yen-based revenue during 2008. Looking forward we have put in place more extensive hedges of our yen-based currency, in fact about one-third of our yen revenues.

IFRS Accounting

As we indicated mid-year we are now planning to report only under IFRS commencing with 2009. Our press release today included financial results under both US GAAP and IFRS and also included supplemental non-GAAP and non-IFRS financial information. As you noted from the information the non-GAAP and non-IFRS data were identical. We will be giving our 2009 financial objectives on a non-IFRS basis.

Financial Outlook

With that let's turn to 2009. We have some visibility on about 69 percent of our total non-IFRS revenue that we had in 2008, coming from recurring software revenue and services revenue as well. In assessing new license activity, the uncertainty around decision-making significantly reduces the value of looking at pipelines. We therefore are basing our assessment of new license activity on the assumption that the 2009 environment remains similar to the fourth quarter of 2008, taking this as the starting point for the first quarter and then applying historical quarterly new license revenue patterns for the rest of the year. Therefore for the first quarter we are assuming new licenses decline about 22 percent in constant currencies. For the full year our estimate is for a decrease in new licenses revenue of about 10 percent in constant currencies.

Now, let's look at costs and expenses and assumptions underlying their construction: based upon the investments made in 2008, the carry-forward impact is about 35 million euros. In 2009, based upon our business priorities, we plan to do some hiring in higher growth regions, investments related to industrial diversification, shared services project, corporate simplification and infrastructure investments, all of which will bring benefits down the road but will be higher costs for 2009. The aggregate investment here is about 30 million euros.

On the savings side of the column, we have total savings estimated at 35 million euros coming from our 2008 restructuring work and our 2009 savings initiatives encompassing purchasing policy, travel, subcontractors and professional fees.

The savings and productivity programs should begin to have some positive effects during 2009 and further as we move into 2010. In total, we expect that our initiatives will both help us during the downturn and better position DS when market conditions improve.

Based upon these factors and currency assumptions, leads us to target a non-IFRS revenue growth objective of about 1 to 3 percent in constant currencies for 2009; a stable non-IFRS operating margin of about 25.5 percent, and non-IFRS earnings per share of about 2.02 euros to 2.12 euros. If market conditions change we will update our financial objectives. Including currency exchange rate assumptions leads to a reported revenue range for 2009 of about 1.405 billion to 1.425 billion euros.

- Our outlook is based upon the following currency assumptions for the full year 2009: a U.S. dollar to euro exchange rate of $1.38 per euro and a Japanese Yen to euro exchange rate of JPY129 per euro. At the moment this may appear conservative, but given the volatility of currencies, we are not counting on any help from currencies and in fact, they could end up becoming a headwind again. For the first quarter we are assuming a US dollar to euro exchange rate of 1.30 and a Japanese yen to euro exchange rate of 125.

- Based upon our objectives for the full year, we have set a first quarter 2009 non-IFRS total revenue objective of about 325 to 335 million euros and a non-IFRS EPS objective of about 36 to 42 cents. In the press release we have outlined the IFRS items excluded from these objectives.

Now let me turn the call back to Bernard.

Bernard Charles
President and Chief Executive Officer

Thank you, Thibault.

At the outset of this call I gave you a picture of the current environment, Thibault has explained how we plan to navigate through it from a financial perspective and now I would like to spend the last few minutes explaining our priorities from a business perspective to round out the picture for you.

2009 Priorities

Just to underscore what Thibault has said, the current macro-economic environment is very challenging and while we look for signs, it is too early to foresee any improvement in the environment.

Within this environment, let me share some of our business priorities. First, even within the difficult economic climate, it is clear that there are more opportunities in the higher growth countries than in the rest of the world. And so we will continue to invest in growing our presence in these geographic areas.

Second, we are bringing more ready-to-use technologies to all market segments so we will continue to introduce specialized products and increase our coverage of industry processes. With companies looking to reduce costs, such as those from physical testing, simulation brings a quick return. There are also a number of ways our software can help companies reconfigure their manufacturing, realize cost savings and manage better their business processes. Our software can help them with today's high priority initiatives as well as for their product development needs over a long horizon. So our focus will be on some of these initiatives. We will also continue to advance our medium-term priorities with life-like experiences and our on-line efforts.

Third, we will continue our industry diversification. New industries can benefit significantly from the adoption of PLM business processes and for many of the companies the deployment can be done in a comparatively short period of time.

We will also continue to focus on ways to further improve the support we give to all our sales partners.

Summary

In summary, I believe we have the right assets to help us manage through the downturn. It is clear that PLM is an important market and that the need for what we do is becoming more visible to a number of industries and it will continue to grow over the longer-term. But even in a crisis, the need for sustainable product development is important as evident from our results and outlook.

And finally, just as our customers focus on innovation and operational excellence, so do we at Dassault Systemes. As a result, our goals are to make sure that we exit this downturn with the capacity to capitalize on better market conditions and with improved operational efficiency across the entire Company.

At this point Thibault and I will stop to take your questions.

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