DASSAULT SYSTEMES
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Final

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Vice President, Investor Relations

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

Some brief reminders:

- Dassault Systèmes' financial results are prepared in accordance with IFRS. During 2018, the first year of implementation of IFRS 15, we are providing IFRS financial information on both an IFRS 15 and IAS 18 basis.
- All figures and comparisons on this call are presented under IAS 18 and are on a non-IFRS basis with revenue growth figures in constant currencies, unless otherwise noted. We have provided supplemental IFRS 15 and IAS 18 non-IFRS financial information and IFRS-non-IFRS reconciliation schedules in our earnings press release.
- 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.*

A copy of this morning's webcasted presentation is available on our website and these prepared remarks will be on our website shortly after the call.

I would now like to introduce Bernard Charles.

Bernard Charles
Vice Chairman and Chief Executive Officer

Thank you all for joining us today.

Summary Overview

To begin let me share my perspectives on our progress to date in 2018.

- As our discussions will illustrate, **our First Half performance demonstrates a good start to 2018**, confirming the expectations we shared with you in February.
- Our growth drivers confirm the importance of **digital continuity** for our clients. With the **3D**EXPERIENCE platform our clients can connect their extended value streams, across the domains of their company, externally with their value chains and with their end-consumers bringing them into their innovation framework. Importantly, the **3D**EXPERIENCE platform enables our clients to become platform companies.
- We are increasing our **market presence in our Core Industries**. At the same time, we are **expanding our footprint in Diversification Industries**. This is evident in our industry results and in our performances by geos and brands. For both we are also expanding our offer.
- We continue to invest in markets that are highly promising both in terms of digital maturity and our own growth potential. Companies focused on Collections in Fashion, Retail & the Consumers space are beginning their digital journey, and with **Centric Software** backed by Dassault Systèmes, our goal is to accelerate this sector's move.
- During the second quarter we also completed the **No Magic** acquisition, with its technology can help companies **design and test system of systems and enable connected experiences.**

- Finally, based upon our results and second half plans, **we are upgrading our full year objectives** for currencies and acquisitions. Pascal will discuss our financial perspectives.

SOLID FIRST HALF 2018 FINANCIAL PERFORMANCE

So let me begin our review with some of our performance figures for the 2018 First Half:

- New licenses and other software increased 10%, this growth rate is all organic. We benefited from double-digit growth in 7 out of 12 geos.
- We are seeing strong traction with **3D**EXPERIENCE, with new licenses revenue up 27% for the First Half.
- We are benefiting from increased breadth, CATIA, SOLIDWORKS, ENOVIA, SIMULIA, DELMIA, GEOVIA, all growing new licenses and other revenue double-digits in the First Half.
- Performance for High Growth Countries was strong in the First Half with software revenue up 21% on broad-based growth. By the way, 25% in Q2.
- Five of our industries posted double-digit software revenue growth during the First Half – among them our largest, Transportation & Mobility, and Architecture, Engineering & Construction, where our opportunities are very promising.
- Looking at our first half performance in total, we delivered solid growth at both the top-line with software revenue up 9% and bottom-line with earnings per share up 13% or up 23% at constant currency.

OUR STRATEGY IN BRIEF

As you know we held our Capital Markets Day on June 15th, our next one will be in two years from now. I would like to thank everyone for attending to the dinner and the full day presentations. For those of you who could not, I wanted to share some of my key messages with you today.

Industry Renaissance

There is a new world on the horizon, we are experiencing a global Industry Renaissance, bringing new ways, real and virtual, of inventing, learning, producing and trading. If you think about Industry 4.0, it is not about the future per se but it is about the past as in reality it started over the last 35 years, in fact with the Boeing 777 showcase. The second point is that Digitalization is only a part of the journey. Digitalization does not describe what is happening today at the most advanced companies – what we think accurately describes it - is an Industry Renaissance. So what does this mean?

This Industrial Renaissance is ushering in new categories of industrial companies, new categories of solutions and new categories of consumers. Very clearly, the leading businesses of tomorrow will be those that empower the workforce of the future and their value networks with knowledge and know-how to deliver new categories of sustainable solutions.

3DEXPERIENCE Platform

The **3D**EXPERIENCE platform is unique in terms of its focus. If you look at the consumer platforms, it is all about these large technology companies serving as platforms, making them the center - so to speak - of gravity.

In contrast, the **3D**EXPERIENCE platform is a catalyst and an enabler for our clients, themselves, to become platform companies. The **3D**EXPERIENCE platform powers **their** industry solution experiences and powers **their** value networks.

3DEXPERIENCE Innovation Centers

In addition to helping our clients become platform companies, in this new world of Industry Renaissance, one of our objectives is to help clients innovate in new experiences and new technologies as well as workforces of the future. It is for many countries a priority and most of them have launched initiatives. We are part of it with our **3D**EXPERIENCE Innovation Centers.

Our first is in the United States, opened in 2017 and offering one of the most, if not the most advanced centers for the aerospace industry. We are working in collaboration among Wichita State University and the National Institute of Aviation Research and Dassault Systèmes. In this morning's webcast we ran a short video where Airbus spoke about their ability to streamline tools, methods and processes in a very short period of time thanks to experimentation that they carried out at the center.

In China, to upgrade their industry positioning at large, our **3D**EXPERIENCE Innovation Center in Beijing is helping companies to prepare the workforce of the future to address the new challenges.

H1 3DEXPERIENCE PERFORMANCE

Moving now to our performance in greater details, we are seeing strong momentum with **3D**EXPERIENCE, with new licenses revenue up 27% in constant currencies and accounting for one-third of related sales of the 2018 First Half. Among the largest transactions were companies in Aerospace & Defense, High Tech, Transportation &

Mobility, Energy, Process & Utilities, Marine & Offshore as well as Consumer Packaged Goods. We also signed new agreements that are establishing long-term relationships with industries leading companies, which may not have resulted in revenue in the second quarter, but that are very strategic and illustrate very well our market position.

3DEXPERIENCE MOMENTUM IN ENERGY, PROCESS & UTILITIES

EDF Group

Let me begin with EDF Group. They have been using CATIA and DELMIA solutions. Now, we have entered into a 20-year partnership. They are adopting our **3D**EXPERIENCE platform and industry solution experiences for the nuclear industry with the creation of digital twins at the design, construction and operational phases of their business. Their key objectives are to strengthen EDF's plant performance and more broadly, the competitiveness of nuclear power.

EDF is one example of working with strategic CSI players as partners. Here we have a very strong partnership established with Capgemini.

ExxonMobil

The second client I would like to highlight is ExxonMobil, the largest oil & gas company in the world. The company has been a long-standing client and large SIMULIA user.

ExxonMobil is adopting the **3D**EXPERIENCE platform and our Capital Facilities Information Excellence industry solution experiences with ENOVIA as well as

EXALEAD applications as part of its Global Practices Transformation Initiatives. Here, Accenture will be involved in the implementation.

Energy, Process & Utilities

Looking at our Energy, Process & Utilities business more broadly, we are seeing good momentum. We are working in two principal areas: in capital project management and in capital assets management.

When you think about the industry, it is very closely linked to our purpose and also to key trends, such as urbanization driving convergence between and among industries. For example, increasing urbanization brings together three of our target industries, Transportation & Mobility, AEC and Energy, Process & Utilities.

SOLIDWORKS POWER'BY 3DEXPERIENCE

Now just a few words on SOLIDWORKS and **3D**EXPERIENCE. Thanks to what we call POWER'BY, the SOLIDWORKS offer to its clients is increasing immensely, no one else will have a comparable offer, which is a key competitive advantage for clients.

- For PLM, SOLIDWORKS users will be able to connect to PLM Collaboration services;
- To leverage data and intellectual property and interpret this information, they will have access to all analytics dash-boarding and more broadly to Artificial Intelligence services;
- SOLIDWORKS' users will be able to tap into comprehensive **3D**EXPERIENCE roles portfolio, especially in expanded simulation and global manufacturing operations; and

- Thanks to the **3D**EXPERIENCE platform, SOLIDWORKS' users are able to access to all Marketplace Services.

Centric Software Acquisition - To Accelerate the Digitalization of the Fashion, Retail and Consumer Sectors: Collections Companies

Now let's move to the Fashion, Retail and Consumer sector and Centric Software. If you look at this industry it is in the early phase of digitalization, much like what we have observed in the Construction sector. We have known and watched Centric Software for a long time now and talking together with senior management decided now was the right time to come together. Centric has established a number one position in the emerging PLM market for companies and industry segments run by Collections. Our goal is to help support Centric Software's mission to accelerate the digital transformation of the Fashion, Retail and Consumer sector. On the long run, we want to offer these companies an industry renaissance path as platform companies.

No Magic Acquisition Completed

Finally, let me say a few words on CATIA and the No Magic acquisition which we completed this quarter. This is a very strategic investment for CATIA, as No Magic technology makes it possible to design and test intelligent system of systems that we call the Internet of Experiences, the hyper-connected world we live in will need more of these solutions going forward. By combining these solutions with Dassault Systèmes' multi-scale and multi-physics capabilities, we will enable customers to design, simulate and operate in the virtual world the most complex systems of systems, such as usage scenarios of cities, or the behavior of living cells in Life Sciences. We believe that what we call a Cyber Physical Architecture is the right approach, bringing together a Multitude of software-intensive connected systems interacting together in an unpredictable world.

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.

Our second quarter performance was solid and well aligned with our key financial objectives. Looking at our results for both the second quarter and first half, they tracked each other pretty closely and position us very well to deliver strong earnings growth in 2018.

As a reminder, all figures are on an IAS 18 non-IFRS basis with revenue related growth rates at constant currency, unless otherwise noted.

SOFTWARE REVENUE BY REGION

Zooming in first on a regional review, in the **Americas**, software revenue increased 7% in Q2 reflecting a strong comparison base for North America. For the first half Americas posted software growth of 9%, on a solid contribution to growth from North America and strong growth in Latin America.

In **Europe**, the second quarter and first half software performance was led by Southern Europe and Russia. Software revenue increased 6% in both periods.

Asia was the most dynamic region this quarter, with software revenue up 14%. And for the First Half, software revenue increased 15% with double-digit growth across all five geos.

SOFTWARE REVENUE BY BRAND

From a brand perspective, we saw a very good licenses revenue performance in general.

CATIA licenses revenue were up double-digits for both the second quarter and first half, on good growth across all three regions. CATIA **3D**EXPERIENCE licenses revenue increased about 20% for the First Half.

For both Q2 and H1, ENOVIA's licenses revenue increased double-digits on a balanced performance for both Core and Diversification Industries. 3DEXPERIENCE sales represented over 70% of ENOVIA's license software and increased over 30% in the First Half.

SOLIDWORKS also had double-digit licenses revenue growth for both periods. Based upon bookings data we can confirm that we expect SOLIDWORKS software revenue growth rate in the third quarter to reflect a high comparison base and for this comparison base to moderate in the fourth quarter. Overall for the year, we expect SOLIDWORKS to deliver a good performance.

Other Software increased 11% in Q2 and 13% for H1. We are seeing a strong interest in DELMIA in manufacturing and good growth for SIMULIA in simulation and GEOVIA in mining.

The 3DEXPERIENCE platform and our industry solutions experiences are driving broader adoption of our software applications. A recent illustration is **Safran Electronics and Defense, who adopted the 3DEXPERIENCE Platform and several industry solution experiences leveraging our CATIA, DELMIA, ENOVIA and EXALEAD brands.**

DELMIA FOR GLOBAL INDUSTRIAL OPERATIONS

Diving briefly into DELMIA, our portfolio developments over the last years have created a very strong brand addressing global industrial operations. The win at Boeing in 2017 would not have been possible some years ago – first from a platform perspective and second from a portfolio perspective.

Today, we have a very competitive offer and it is continuing to create important opportunities for us. For the 2018 First Half we posted a strong performance in both Manufacturing Execution and in DELMIA Digital Manufacturing leading to organic software revenue growth of 17% for DELMIA.

We are also winning thanks to the complementary nature of our DELMIA offer with what QUINTIQ is providing. **Bridgestone Europe, a division of the largest tire and rubber company in the world**, has selected both DELMIA for Manufacturing Execution Systems and QUINTIQ for advanced planning & scheduling and optimization to support its Smart Factory concept. We competed against multiple parties in the MES sector and in the optimization area.

Software Revenue Growth

Moving to our financial results, our software revenue increased 9% at constant currency for both Q2 and H1.

Licenses and Other software revenue increased 8% in the quarter and 10% for the First Half. This is also the organic growth rates.

Recurring software revenue increased 9% in total and 6% on an organic basis for both Q2 and H1. Our Support revenue continued to demonstrate excellent renewal rates in all three regions.

SERVICES REVENUE

While services revenue grew in Q2 compared to Q1, performance remained mixed and came in below our expectations by about 6 million euros. **3D**EXPERIENCE services engagements and our core services business performed well. It was in our smaller brands where we have been hurt by some delays and some push-outs.

OPERATING MARGIN

We had a very good evolution of our operating margin in both Q1 and Q2, bringing us to an operating margin of 28.7% compared to 28.2% for last year, on underlying organic improvement of 160 basis points offset in part by currency impacts of 70 basis points and acquisition dilution of 40 basis points.

EARNINGS PER SHARE

Earnings per share was also well aligned with our objectives, up 22% in Q2 and 23% for H1 in constant currencies, benefiting from our revenue growth, operating margin performance and lower effective tax rates. EPS was 72 cents for Q2 and 1.30 euros for the first half of this year.

CASH FLOW & BALANCE SHEET

Operating cash flow increased 9% to €645.5 million for the First Half and was used principally for acquisitions and dividends.

Excluding currency effects and on a constant perimeter, unearned revenue under IAS 18 increased 8%, compared to the 6% organic growth for software.

Before moving to our financial objectives, let me share some further information on the Centric Software and No Magic acquisitions.

Centric Software Acquisition

The acquisition of Centric Software is taking place via a two-step process. We are presently acquiring 63% of the shares of the privately-held company for an aggregate amount of 350 million US dollars, which includes a payment in advance for shareholders keeping their shares. The acquisition of the remainder of the shares will take place in 2020 and 2021. The price will be determined based on the revenue growth and profitability of Centric Software in years 2019 and 2020 in average, and is expected to range between 3 to 6 times 2019 or 2020 revenues.

Centric Software's financial information will be included in Other Software at the present time. Our revenue assumption and expectation that it will be slightly dilutive to our non-IFRS earnings reflect the fact that January and July are the two most important months for Centric Software.

No Magic Acquisition

The No Magic acquisition was completed on June 20th. Headquartered in Texas, 170 people joined us. For the 2018 second half we are assuming revenues of about 6 million euros and that the acquisition will have a neutral impact on our 2018 non-IFRS earnings.

FINANCIAL OBJECTIVES UNDER IAS 18

Moving to our financial objectives, we are affirming our underlying growth expectations, with 2018 reflecting an acceleration in **3D**EXPERIENCE activity as our first half results demonstrated, and healthy software growth for SOLIDWORKS for the year. We are then updating our financial objectives for new acquisitions. As a reminder, our objectives are under IAS 18 and on a non-IFRS basis with revenue growth rates at constant currency.

- These assumptions aggregate to total revenue growth of 9% to 10% (from 8% to 9% previously) in constant currencies. On a reported basis, our new revenue range of €3.41 to €3.44 billion incorporates the second quarter currency upside of €21 million, acquisitions contributing €33 million and refinement of software (addition of €15 million in fact) and services (reduction for Q2 and H2 of €14 million).
- An operating margin of 31 to 31.5%, which embeds an acquisition dilution range of 80 to 100 basis points and negative currency impacts estimated at 30 basis points.
- In turn, we are upgrading our EPS objective, targeting non-IFRS earnings per share of €2.95 to €3.00, representing growth of about 10% to 12%. At constant currency, our EPS growth rate range would be about 5 percentage points higher – at about 15% to 17%. The bridge in our presentation on the website provides the path from our previous non-IFRS EPS to today's upgrade.

Underlying our 2018 full year objectives, let me provide key details:

- We are targeting licenses revenue growth of 9 to 11% in constant currencies for 2018; recurring revenue growth of about 9% in constant currencies, and for services we have adjusted our outlook as I just referenced;

- We are updating our effective tax rate, fine-tuning it to about 29.1% from 29.7% previously.

For the third quarter, our key assumptions are as follows and reflect a strong year over year comparison base for SOLIDWORKS:

- Licenses growth of 6 to 9%;
- Recurring software growth of about 10%;
- Operating margin of about 29-30%, lower year over year by about 2 to 3 points reflecting the following combination of factors:
  - In Q318, we anticipate some catchup in hiring and marketing actions,
  - Dilution from acquisitions,
  - We remind that in Q317, we paid a special attention to costs, resulting in an unfavorable comparison base.

This leads to a total revenue growth range of 8% to 11% in constant currencies or 805-825 million euros, and EPS of 64 to 68 cents for Q3. From an EPS growth perspective, that would be flat to up about 6% as reported.

Let me turn the call back to Bernard now.

Bernard Charles
Vice Chairman and CEO

Concluding Remarks

In summary, our results for the first six months of the year demonstrate that we are on a good track in terms of our strategy, its implementation and our financial results.

As always we continue to work to improve our execution and to adopt and replicate best practices across our organization and with our partners.

With that, Pascal and I would be happy to take your questions and thank you for your interest.