

DASSAULT SYSTEMES
2017 Fourth Quarter and Full Year Conference Call
Thursday, February 1, 2018
Final

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Vice President, Investor Relations

Thank you for joining us on our fourth quarter and year-end earnings conference call. Presenting today are Bernard Charles, Vice Chairman and Chief Executive Officer, with Thibault de Tersant, Senior EVP and General Secretary, and Pascal Daloz, our new CFO and Corporate Strategy Officer.

Some brief reminders:

- Dassault Systèmes' financial results are prepared in accordance with IFRS. All figures on this call are on a non-IFRS basis. We have provided supplemental, non-IFRS financial information and IFRS-non-IFRS reconciliation schedules in our earnings press release.
- Some of the comments on this call will contain forward-looking statements that could differ materially from actual results. Please refer to today's press release and to the Risk Factors section of our 2016 *Document de référence*.
- Revenue growth figures are in constant currencies, unless otherwise noted.

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

I would now like to introduce Bernard Charles.

Bernard Charles
Vice Chairman and Chief Executive Officer

Good morning and good afternoon. On our call today, I will discuss our strategy at work, Thibault will review our financial model at work, and then Pascal will review our growth drivers and 2018 financial objectives, so let's begin.

DELIVERING ON OUR COMMITMENTS

Our results illustrate that we are well delivering on the commitments we have given.

- We set a 2017 new licenses revenue growth target of 8 to 10% at constant currency. And we reported 11% growth in total and 10% on an organic basis.
- We have a continual focus on operational improvement and delivered organic operating margin improvement of 100 basis points, a double of our target of 50 basis points.
- At the EPS level, we outlined 6 to 8% growth, and we came in at the high end despite strong currency headwinds. In fact, at constant currency EPS grew 10%.

STRATEGY AT WORK

2017 was a very good illustration of the value of our strategy with companies adopting our Industry Solution Experiences and the 3DEXPERIENCE platform to innovate and create new categories of Customer Experiences. This new approach to innovation goes beyond digitalization. It will help enable the transformations driving Industrial Renaissance of the 21st century.

1. We were honored to have Dassault Systèmes ranked **FIRST among the 2018 Top 100 Most Sustainable Corporations by Corporate Knights*** for our

vision of harmonizing product, nature and life and for implementing this vision in everything that we do. Empowering industry and people to create 3DEXPERIENCE universes to imagine, invent, and deliver disruptive solutions that advance sustainability in domains as large as energy, mobility of the future, cities, life sciences and high-tech is at the core of our purpose and DNA and why people are joining Dassault Systèmes.

2. Our purpose translates into a strategy focused on **Social Industry Experiences**. During 2017 we made good progress on all fronts.

- **Social** is centered on online, mobile and ease of use, bringing 3D to consumers. Our **HomebyMe** solution offers significant potential for user growth as consumers all over the world can imagine, easily create and place furniture in rooms, and experience them in a virtual reality experience.
- **Industry** is about creating the know-how and knowledge needed to ensure that our solutions match closely the needs of the industries we address. We see with large clients a strong focus on deep transformations to adapt to the respective challenges of their industries. Furthermore, in all these industries, new entrants have appeared with small teams focusing on sub-segment of those markets and proposing high-value experiences with products. Our solutions appeal to both industry leaders and start-ups, some of whom are shaking up industries.
- **Experiences**: Being able to model experiences is truly the manner in which companies can innovate and create new categories of products and solutions that will drive new, better experiences for their consumers. Our work with Cities, with **3DEXPERIENCity**, demonstrates that we are able to do this at the most demanding level thanks to the 3DEXPERIENCE

platform enabling the modeling of city experiences to improve the lives of citizens.

3DEXPERIENCE PLATFORM

3. The 3DEXPERIENCE platform is how we implement our strategy and during 2017 we made good progress with highly visible wins.
 - a. In **Aerospace & Defense**, with Boeing's decision for the 3DEXPERIENCE Platform across all their programs and the selection of our Manufacturing Operations Management solutions for production performance.
 - b. In **Transportation & Mobility** with Scania's decision to adopt the 3DEXPERIENCE platform.
 - c. In **AEC**, where Bouygues Construction, with operations in more than 80 countries, is adopting the 3DEXPERIENCE platform, working with Accenture and us to help them accelerate the digital transformation of their construction projects.
 - d. In **Industrial Equipment**, Schindler is adopting the 3DEXPERIENCE platform for their escalator business. Our robust Cloud industry solutions were a critical enabler for their decision.

The newly introduced 3DEXPERIENCE 2018 release is extending the power of the 3DEXPERIENCE platform demonstrating its value both as an **operating system** POWERING OUR INDUSTRY SOLUTIONS EXPERIENCES WITH OUR BRAND APPLICATIONS and as a **business model** POWERING OUR MARKETPLACE services.

Two important developments in the 3DEXPERIENCE 2018x release include:

- The introduction of **POWER'BY** which will enable all customers to benefit from the 3DEXPERIENCE platform's value immediately without any need for migration of legacy data. There are three levels: to enable social collaboration; to leverage hybrid data for product configuration and bill of materials; or to use the full capabilities of the 3DEXPERIENCE platform.
 - We are also introducing '**3DEXPERIENCE Marketplace**' – here we are connecting buyers and sellers of design and manufacturing content as well as services. Our first two areas are: what we call 'Make' where buyers can find 3D printing suppliers who are connected to the Marketplace and 'Part Supply' where users can find the most comprehensive and intelligent catalog of sourceable 3D components.
4. A fourth area of strategy advancement was in Diversification. For 2017 **Diversification Industries** represented 32% of total software revenue, a new milestone. Pascal will discuss some of our progress here in greater detail.
 5. And fifth, we extended our **Footprint** reaching more than 15 million plus connected users with Netvibes, 3DVIA Home and HomebyMe and SOLIDWORKS 3DContent Central and MySOLIDWORKS.com.

Let me now turn the call to Thibault.

Thibault de Tersant
Senior EVP and CFO

Thank you, Bernard. Before beginning, just a brief reminder that all figures discussed are presented on a non-IFRS basis. Revenue growth figures are in constant currencies unless otherwise noted.

SUMMARY OF FOURTH QUARTER PERFORMANCE

This morning we announced fourth quarter above our guidance range with:

- New licenses revenue and other software up 16%, well above our 7 to 13% range;
- Software revenue up 10%;
- Operation margin of 38.6%;
- And EPS of 89 cents, up 14% or even 19% if it were at constant currencies;

In turn, we exceeded our 2017 financial objectives by €25 million, with €10 million in new licenses revenue, €10 million in recurring revenue and €5 million in services.

TOTAL REVENUE

In terms of total revenues, we achieved a new quarterly milestone with revenues crossing 900 million euros to 912.8 million. Fourth quarter revenues grew 8% and 7% on an organic basis. For the year, our organic growth was 5% on lower services and mixed rental dynamics, both of which will see improvements in 2018.

SOFTWARE REVENUE

Moving to our software performance, there are several key points to highlight:

- First, we had a record quarter for new licenses and other software revenue, with growth of 16% - this is also the organic growth figure. The high growth

was due to broad-based strength across multiple brands and a strong performance for our direct sales channel, with more deals above 1 million.

- Second, strong new licenses revenue drove total software revenue growth to 10% for the quarter and 9% on an organic basis.
- Third, 3DEXPERIENCE software represented about one-quarter of the related software revenue in the fourth quarter.
- Fourth, in terms of recurring software revenue, we saw an excellent performance on maintenance subscriptions across our three sales channels and regions. As outlined last quarter, we expect rental revenues to now improve in 2018 and even more so in 2019.

SERVICES REVENUE

The key news on services revenue is that 2017 represents a start-off point for growth over the next several years given the large increase in committed services engagements that we have. We will continue our strategy of working with system integrators but in absolute terms we will also see growth in services in 2018.

REGIONAL REVIEW

Moving to a regional review, the outstanding contributor to the fourth quarter was Europe with software revenue growth of 13% – this result was broad-based. For the year, Europe grew 10%. We saw notable performances by France, Germany, Southern Europe and Russia.

In the Americas, software revenue increased 5% in the quarter and 7% for the year led by North America with key contributions from SOLIDWORKS, CATIA and also SIMULIA.

In Asia, software revenue increased 8% in the fourth quarter with a return to better growth in China. For the year software revenue grew 6% with double-digit growth in Korea, India and South-East Asia and this was offset in part by mixed performances in Japan and also in China.

High Growth countries software revenue grew 11% in constant currencies with double-digit growth in most of them. Altogether they represented 17% of total software revenue in 2017.

SOFTWARE REVENUE BY BRAND

Moving to results by brand, there is no other way to say it – our largest brand, CATIA, had a huge quarter, a record quarter and for the year passed a key milestone of more than 1 billion euros in total software revenue.

To give you more color, CATIA new licenses revenue was up double-digits at 29% on record activity with large customers in Europe and the Americas, and improved activity in China, driving CATIA's total software up 10% in Q4. On an industry basis, the top deals of the fourth quarter were in Transportation & Mobility, Aerospace & Defense and Marine & Offshore and also 3DEXPERIENCE sales were up sharply.

SOLIDWORKS had a record year on strong new licenses revenue growth and a very good recurring software revenue performance. Pascal will discuss the brand in more detail shortly.

ENOVIA grew 2% this past year.

Other Software increased 11% in the fourth quarter with multiple brands growing double-digits including SIMULIA, DELMIA, QUINTIQ and also EXALEAD.

For the year, Other Software increased 11%, led by SIMULIA on solid growth and also acquisitions, and double-digit growth for QUINTIQ and EXALEAD. 2017 also brought an improving environment for GEOVIA in mining as well as future diversification opportunities leveraging its core capabilities for potential applications in Architecture, Engineering & Construction and also in Energy, Process & Utilities. In addition, the highlight of the year was the decision by Boeing which will be an important driver for DELMIA and ENOVIA in the coming years.

OPERATING MARGIN

Our 2017 operating margin of 32% came in above our objective of 31 to 31.5% on the strength of the fourth quarter and came in above the 2016 operating margin of 31.2%.

At the start of 2017 we had outlined our objective of underlying organic improvement of about 50 basis points but in fact we delivered 100 basis points for the year. Acquisition dilution had a net negative impact of 20 basis points.

EARNINGS PER SHARE

Our fourth quarter earnings per share came in ahead of our objectives at 89 cents, up 14%, despite significant headwinds. Excluding currency effects, our EPS would have increased by 19%.

During the fourth quarter we had a one-time benefit from the recently passed US Tax Reform Act. This benefit was recorded in our IFRS financial results, while on a non-IFRS basis we have excluded this 8 to 9 cents positive benefit.

For 2017 EPS increased 8% and 10% at constant currency.

CASH FLOW & BALANCE SHEET

Turning to our cash flow and balance sheet, let me share some key figures. 2017 Cash flow from operations increased 20% to €745 million thanks to a strong improvement in working capital and essentially thanks to the growth in net income.

Our key usages of cash were for acquisitions and investments of €372 million, share repurchases of €133 million and cash dividends of €51 million based on election of cash versus stock – these three usages add up to €556 million, plus capex of €84 million.

Unearned revenue at year-end was higher by 9% excluding both currency impacts and change in scope from acquisitions. Of course, with recurring revenue of over 2 billion euros on an annual basis, our visibility clearly extends beyond our unearned revenue balance of €876 million at year-end.

IFRS 15

Let me update you on IFRS 15, which we are implementing effective January 1, 2018.

- IFRS 15 will have an effect on the timing of our quarterly recognition of rental revenue (periodic) but on a full year basis there is essentially no

difference between IAS 18 and IFRS 15 except when we have multi-year agreements with customers. Previously, under IAS 18, we showed a ratable quarterly amount based upon the annual contract level. Under IFRS 15, we now will take the full amount of the contract, on the one side assign an upfront, license value and on the other side a subscription value of 20% of the license value which will be recognized ratably during the four quarters. We will continue to report both of these amounts within our Periodic revenue line item.

- Since a higher proportion of our rental contracts renew on January 1st and are for an annual period, we will record a higher percentage in the first quarter, leading to a different seasonality pattern for recurring software revenue. We ran a simulation to see what would have been our 2017 estimated impact: the weighting is essentially about 2 pts higher for recurring revenue in Q1 at 27% of the total, no change for Q2 and 1 point lower in Q3 to about 23% of the total and also 1 point lower in Q4 to 25% of the total recurring revenue for the year.
- Now we are applying IFRS 15 on a modified retrospective method, which means we are not restating prior years. To help investors and analysts, we will be giving our guidance for the four quarters of 2018 and the year in total on the basis of the prior revenue recognition with IAS 18. Our guidance for 2019 will only be given using IFRS 15, since we will then have four quarters of comparison in 2018.
- We will present financial results on both an IAS 18 basis and IFRS 15 at the time of each our quarterly earnings in 2018, both in IFRS and non-IFRS. Commencing in 2019 we will only present our financial results in accordance with IFRS 15.

- To begin the implementation of IFRS 15, we had to review all the contracts signed in 2017 and we had them restated on an IFRS 15 basis. The difference between the two revenue recognition standards on these contracts as of December 31, 2017 was accounted for in stockholders' equity as of January 1st, 2018, with an estimated amount of €110 million added to equity. Now, we also made a simulation of what could have been the difference between the 2 standards if we would have restated the 2017 and the 2016 contracts still having an impact on 2017 , and we would have had a difference of only €11 million on the full year 2017. This means that over a full year period, the change of rule should have a very limited impact actually on our recurring revenue and recurring revenue growth rate.
- Finally, let me also highlight that we will continue to fully expense sales commissions under the IFRS 15 standard.

Now let me turn the call to Pascal.

**Pascal Daloz,
EVP, CFO and Corporate Strategy Officer**

Thank you, Thibault.

I am happy to be here with all of you today and look forward to meeting with many of you at upcoming investor events in Europe and the United States with Thibault.

My presentation will focus on our growth drivers in action.

3DEXPERIENCE PERFORMANCE

Let's begin the business review with 3DEXPERIENCE. The fourth quarter was a very active period in terms of large transactions, with about 20 exceeding 1 million euros each.

INDUSTRIES PERFORMANCE

During the fourth quarter 7 of our 12 industries delivered double-digits software growth in constant currencies, including Transportation & Mobility and Industrial Equipment as well as Consumer Goods-Retail, Consumer Packaged Goods-Retail, Architecture, Engineering & Construction, Engineering Services and Natural Resources.

Two comments I would like to share on the year is that our largest industry, Transportation & Mobility, delivered high-single digits software revenue growth with new licenses revenue up double-digits in constant currencies. And we had notable new business signed in Aerospace & Defense which will benefit multiple years to come.

DIVERSIFICATION INDUSTRIES

Diversification Industries grew one percentage point in 2017 to represent 32% of total software revenue. The strongest growth for the year was recorded in High Tech, Consumer Goods-Retail and Consumer Packaged Goods-Retail.

- In High Tech, software revenue increased 11% in constant currencies in 2017 thanks to multi-million euro deals in Simulation, Manufacturing and Supply Chain Optimization. We are also expanding in semiconductors winning some key new accounts and growing our business with existing clients. High Tech is closing in on the 10% software revenue threshold.
- In Consumer Packaged Goods-Retail software revenue increased 17% at constant currency. We saw good traction with QUINTIQ for supply chain planning & optimization with key wins with food & beverage companies. And we expanded in Beauty & Personal Care with DELMIA as well. For example, **Grupo Boticário**, with locations throughout Brazil, produces 300 million products every year. It has adopted the 3DEXPERIENCE Platform and our Perfect Production industry solution to lower production costs and improve efficiency thanks to improvement in manufacturing operations and collaboration end to end.
- In Consumer Electronics, we signed an important reference with **Electrolux** who will use our DELMIA Manufacturing Operations Management software to improve the productivity and flexibility of its manufacturing facilities and to enhance its global visibility.

Now let me share some brand highlights complementing the information Thibault has shared.

BRAND HIGHLIGHTS

SOLIDWORKS

SOLIDWORKS had an outstanding finish to a record performance in 2017 driven by new licenses revenue growth up double-digits, led by Europe and the Americas with a good support from Asia.

SOLIDWORKS total software increased 13% in the fourth quarter and 14% for the year. It added over 20,000 new customers in 2017 and now has over 800,000 commercial users. We believe it is gaining market share given the level of activity we are seeing in different parts of the world and in terms of license seats.

At SOLIDWORKS World next week, it will be introducing new categories of web-based apps including POWER'BY and Marketplace for the SOLIDWORKS community. So stay tuned.

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BRAND HIGHLIGHTS QUINTIQ

QUINTIQ brings very clear and measurable advantages to a wide variety of use cases across industries. In addition, it has a number of natural synergies with DELMIA.

During 2017 QUINTIQ's software revenue increased over 20% at constant currency. For example, the second largest food retailer in the Netherlands, JUMBO Supermarkten selected QUINTIQ to help it build more flexibility and customer choice while also doing so in a cost effective manner.

BRAND HIGHLIGHTS EXALEAD – DATA ANALYTICS

EXALEAD, focused on helping our clients derive intelligence from data to improve business decisions, made good progress in 2017 with software revenue growing 19% in constant currencies. We believe EXALEAD brings significant value to companies in terms of improving sourcing and standardization to drive down costs and with its PLM Analytics to improve project and program management.

2017 ACQUISITIONS: - ENHANCING OUR OFFER AND CLOUD

Over the last two years we have significantly enhanced our multi-physics simulation capabilities. With the completion of the Exa acquisition in November of 2017, we now cover more than 70% of the core physics market with leading technology in structural, electromagnetic, in particular high frequency which is so critical to enable IoT for smart products, smart mobility and smart industry, and in advanced fluids simulation with next-generation Lattice-Boltzmann technology.

In systems engineering, we are targeting to complete the acquisition of No Magic at the end of the first quarter.

We also acquired a majority stake in Outscale during 2017 as we focus on increasing our Cloud offer and ensuring that our data centers around the world, through Outscale and other providers, meet our infrastructure needs for our clients and the local regulatory or governmental requirements.

FINANCIAL OBJECTIVES

Now, let's move to our 2018 financial objectives, beginning with the first quarter.

First Quarter 2018 Financial Objectives

As we step into the year, we do so with a very solid first quarter outlook, based not just on our pipeline but with a large portion of commitments in hand with respect to direct sales, leading to an expectation for new licenses revenue growth ranging from 9% to 15% in constant currencies. Recurring revenue is estimated to grow between 7 and 8% in constant currencies, and we see a return to growth for services of about 5 to 8% in constant currencies.

This leads us to a first quarter total revenue objective of about €750 to €770 million based upon the exchange rates assumptions we have given, growing about 7% to 10% in constant currencies; a non-IFRS operating margin of about 26% to 27%; and non-IFRS EPS of about €0.54 to €0.57, up 2 to 8% or 18 to 24% at constant currency evidencing the very heavy currency headwinds we are facing.

Full Year 2018 Financial Objectives

For 2018 we are targeting total revenue growth of 8 to 9% in constant currencies which translates to a range of 3.355 billion to 3.385 billion euros, an operating margin of 31 to 31.5% reflecting acquisition dilution and currency, and an earnings per share objective range of 2.83 to 2.88 euros, representing growth of 6% to 8%, or 11% to 13% at constant currency.

Our financial objectives are based upon a US dollar exchange rate of \$1.25 per euro for the first half and \$1.20 for the second half. With respect to the Japanese yen we are using an exchange rate of 135 yen per €1.00.

For your convenience, at financial analysts' consensus exchange rates, our 2018 guidance is above EPS consensus.

I would like to share some key points:

- We are targeting new licenses revenue growth of 8 to 10% in constant currencies for 2018, and expect the mix to shift, with an increased contribution from 3DEXPERIENCE. We are assuming good growth for SOLIDWORKS but moderating from the 2017 pace.
- We expect recurring revenue up 7 to 8% in constant currencies;
- And a return to growth for Services, up about 12% at constant currency
- Based upon our operating margin range, the high end would target a maximum 50 basis points organic improvement excluding currencies impact;
- Finally, we are estimating an effective tax rate of about 29.7% for 2018 compared to 33.2% in 2017;

Let me turn the call back to Bernard.

Bernard Charles
Vice Chairman and Chief Executive Officer

PREPARING THE FUTURE EXECUTIVE COMMITTEE EVOLUTIONS

As we prepare the future we are also evolving our Executive Committee.

- I would like to welcome a new member Florence Verzelen. She has been appointed Executive Vice President, Industry Solutions, Marketing, Global Affairs and Communication following the retirement of Philippe Forestier - one of the founding members of Dassault Systèmes. Florence brings a very solid background and will strengthen our team.
- Pascal Daloz is now assuming the position of CFO and Corporate Strategy Officer. With his strong knowledge of our brands, it was a natural fit to combine these two functions. Supporting Pascal are very talented leaders, including a strong head of finance, Valerie Raoul-Desprez who many of you know, and a talented recent hire as our head of strategy.
- Our global sales are led by three executives: for the Americas Bruno Latchague in Boston, for Europe Laurent Blanchard in Paris and for Asia Sylvain Laurent who is based in Shanghai.
- Dominique Florack leads a talented R&D team, second to none in the world.
- Laurence Barthes as our Chief People and Information Officer continues to strengthen our global organization.
- Now Thibault will spend more time with me as he takes on new responsibilities as our General Secretary to help me shape our corporate structure of the future. In addition, he will work on a few strategic initiatives including our business model strategy, Ethics & Compliance, and La Fondation Dassault Systèmes.

We would be happy to take your questions and we thank everyone for their participation at our earlier webcasted meeting and on this call.