S&P Global
Market Intelligence

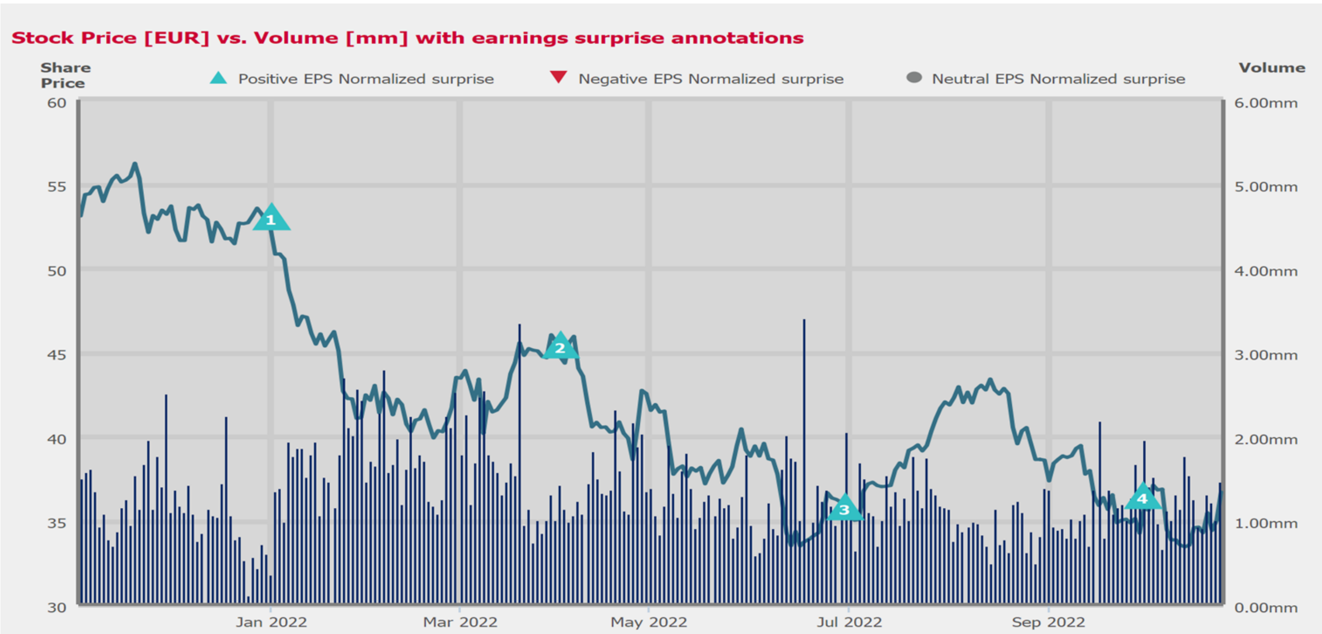
Dassault Systèmes SE ENXTPA:DSY
FQ3 2022 Earnings Call Transcripts

Wednesday, October 26, 2022 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.25	0.26	▲4.00	0.32	1.12	NA
Revenue (mm)	1332.83	1373.00	▲3.01	1581.90	5585.45	NA

Currency: EUR
Consensus as of Oct-26-2022 11:23 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	0.28	0.29	▲1 3.57 %
FQ1 2022	0.24	0.27	▲2 12.50 %
FQ2 2022	0.25	0.26	▲3 4.00 %
FQ3 2022	0.25	0.26	▲4 4.00 %

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Call Participants

EXECUTIVES

Beatrix Martinez
Vice President of Investor Relations

Bernard S. Charles
Vice Chairman & CEO

Pascal Daloz
COO & Director

Rouven Bergmann
CFO & Executive VP

ANALYSTS

Adam Dennis Wood
Morgan Stanley, Research Division

Amit B. Harchandani
Citigroup Inc., Research Division

Charles Brennan
Jefferies LLC, Research Division

James Arthur Goodman
Barclays Bank PLC, Research Division

Michael Briest
UBS Investment Bank, Research Division

Mohammed Essaji Moawalla
Goldman Sachs Group, Inc., Research Division

Nicolas David
ODDO BHF Corporate & Markets, Research Division

Presentation

Beatrix Martinez
Vice President of Investor Relations

Ladies and gentlemen, thank you for standing by, and welcome to Dassault Systèmes Third Quarter 2022 Analyst Meeting. Thank you for joining us on our third quarter 2022 presentation. Will be with us today, Bernard Charles, our Chief Executive Officer; Pascal Daloz, our Chief Operation Officer; and Rouven Bergmann, our Chief Financial Officer.

I'll remind you that 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 currency, unless otherwise noted. For an understanding of the differences between the IFRS and non-IFRS, please see the reconciliation tables included in our press release.

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 I would like now to hand over to Bernard Charles.

Bernard S. Charles
Vice Chairman & CEO

Thank you, Beatrix. Good morning, or good afternoon to all of you. And I'm missing the visit in London. I've been doing work to or visiting so many customers.

I would say, if we look at the Q3 2022 highlights, I would say the first thing that was really written in the press release, it's a solid quarter, a solid quarter with total revenue up 8%. The EPS, strong growth of 17%. And we continue to invest, and Pascal will come back on this and as well as Rouven, with the headcount up 10% on R&D. Especially, it's a strong investment to prepare the future.

The positioning we have really is really strengthening. We see it worldwide with our customer situations and really the number of wins and win back that we have and also the positioning with the expansion of the offer, applying science at scale, creating solutions for customers when we call industry solution experiences, and really leveraging data science in a very systematic way because, basically, what clients are creating the virtual twin experience can be exploited with data science.

So we continue to -- the number illustrates well that we continue to fully exploit the growth opportunities, both in Manufacturing Industries, Life Science & Healthcare, Infrastructure & Cities. The 2 first sector of the economy are really with a strong dynamic, and we have a very strong position. So Pascal will illustrate. The third is, for us, more game changer, selective large project and this is also going quite well.

And finally, on the highlights for the Q3 2022, we are reaffirming our total revenue growth double digit between 9% and 10% and raising the EPS growth at 18% to 19%. So as we said at the -- during the Investor Day, we are on good track to achieve the 2024 objectives.

Now if we look at the agenda, I'm going to briefly cover the vision and trends, and then there will be a review on the operational highlights and financial highlights and objectives, respectively, by Pascal and Rouven.

So let's start with how we are preparing the future or continuing to expand what we have in the portfolio. You are very familiar now on the -- on our heritage on the way we are exploiting that gigantic heritage of data environment with our clients. And we are also clarifying, of course, on preparing ourselves for the post-2024, next 5 years horizon.

And you have seen the steps to which we have been organizing the long-term strategy of Dassault Systèmes. That is no surprise to you here with the move from functionalities to digital mockup to product life cycle management, by the way, which is back now for the eco-bill with product life cycle management calling for all enterprises to have an eco-bill of how they operate.

The platform phenomenon with the 3DEXPERIENCE platform, which is on a strong double-digit growth this quarter on a very good position to be widely adopted by clients and small, midsized and large. You have been seeing the results on the Life Sciences & Healthcare, and we are preparing and we'll come back on this question mark that I put it here as a teaser for what's going to be the next big step that we will reveal a little bit more for the full year result in February.

Now we continue to invest on the science with science-based virtual twin experience. It's a very precise approach. It's not a fake virtual twin experience. It's really a virtual twin applied by clients in all sectors that we serve using really the multiphysics science on the data science to really better improve the portfolio they create, the services they create, but also better predict how they are going to design the future of the waste, not only design the product portfolio and solution product portfolio, but design the waste in such a way that they can create circularity.

Circularity in our mind is going to be a massive shaker for the 21st century because processes and material science will evolve and will need to evolve to create circularity in all industries and all sector of the economy, which echoes very well our purpose as we are in a good position, I think, with the virtual twin experience applied systematically to the physical goods humanity are producing, the infrastructure on the territory in which we live under -- better understanding of the life science world, we can create an environment to really better harmonize.

And this is why people are joining us. And we really are a very attractive company from that standpoint. And people -- the new generation are really excited to participate to this.

So there are multiple facets to it, which are related to creating a sustainable future, because it's both a tactical midterm and long-term approach. And you can see that on how we approach innovation for sustainable future. We have an expanding footprint in -- with the lab, with so many new start-ups joining this consortium worldwide.

We continue to expand with 3DEXPERIENCE education. This is a universe by itself to empower the workforce of the future and with a significant number of universities and school adopting our solution.

We also transform on that -- the other aspect -- our portfolio -- industry solution portfolio to integrate sustainability parameters to help drive decisions and use the virtual twin as a way to better predict what we call the eco-bill and optimize it.

And needless to mention, we are very active, extremely active with the new governance policy related to the European Green Digital Coalition. For example, the MSCI, we are very pleased to have reached the EEE note ranking with MSCI.

The Ellen MacArthur Foundation, of course, with -- because the idea here is to provide good visibility about what should be the KPIs used to really measure the improvement in sustainability and circularity. All clients I meet, all partners I meet, and I've been doing a work tour in Asia, Japan, Korea, India, U.S., recently in the last quarter -- in this quarter, they are all preoccupied to really establish the strategic plan for that. So we fit very well, and this is why it explains the accelerated adoption of the 3DEXPERIENCE platform.

A side note on the infrastructure of our platform. We are now with our brand OUTSCALE that was initially a [subsidiary] further integrated in the Dassault Systèmes cloud environment.

Why so? Because the more the 3DEXPERIENCE platform is used by clients, the more they use the 3DEXPERIENCE platform to create not only the virtual twin of their -- of the products, of the way they produce their products, the how -- so the what and the how, but also create the virtual twin of their enterprise.

When they do project management or collaborative infrastructure, it's the virtual twin of how your company is working. So we have created around OUTSCALE wide portfolio of business experiences that really covers the business experience, data science on SYSMANTEC. And we have significant decisions showing that our data is superior to some of the players that you may have heard about that are specialized in that sector.

Why so? Because the data are connected together, and we can do data science in a very, very differentiating way and, of course, exploiting process modeling as well as the virtual twin experience.

We have strengthened the leadership team with top executives coming as a matter of fact, from Atos. They left the company and joined us, and they have deep experience, like Arnaud Bertrand, our Head of R&D; Philippe Miltin, which is really, really very knowledgeable about that, to really support Laurent Seror, the founder of OUTSCALE, who is going to expand the portfolio for the future.

To be noticed, we have a clear unified cyber governance. We think that 3 types of clouds are needed, international collaboration cloud and meeting with global customers. And they say, "We want to have this environment, but we also want to have a private collaboration, trusted cloud environment," where we have elected a number of players in a hybridized space of clouds, to increase cyber security and want -- who want those environment to really collaborate together. And we want also for highly sensitive programs to have dedicated collaboration sovereign cloud.

So we are doing the 3 levers, and we have excellent illustration of that with OUTSCALE as we speak. This is not the future. This is how we are deploying OUTSCALE. For example, at the highest sovereignty level, we have cooperation with for military program. At the private collaboration trusted level, we have in -- within a geography, we have common laws and fiscal laws. We can connect players and isolate them from the rest of the world. And then, of course, international collaboration cloud.

This requires very sophisticated overall architecture to make it happen. That's why I think that our cloud is really a singular and creates an approach that, I believe, will become followed by many other players. You will notice also that the dedicated cloud provide a clear answer to what is called by certain players edge cloud, but not only.

One illustration, we are creating now local alliances around the world. The one announced today is in France and Europe for cybersecurity, sovereign cloud with really a joint venture that we are doing with Docaposte and also Bouygues becoming a founding member as well as La Banque des Territoires. And the objective of this joint venture is to become one element of a wider ecosystem to provide highly trusted sovereign services for citizens, for health, for administration in a space which can be deeply controlled and secured.

So we are very, very pleased to announce that. It shows that the private-public partnership in different regions of the world can work very well, and we are very excited with that approach. There is a good dynamic behind this, and I believe it's providing a very clear sovereignty answer for, especially, health data, also high mission critical data that could be applied, not only in France, but towards the European space.

And we are going to have the same approach with other countries through different type of alliances. So we are putting in action our belief that virtual worlds expand and improve real world. And the reason why I insist on that, and you have seen that before, is we are not creating a fake world, like certain tendency with metaverse and other kind of things like this. It's really done to improve people's life in the different area of the world.

With that, Pascal, you have the floor to talk about the next topic on the agenda, operational highlights.

Pascal Daloz
COO & Director

Thank you, Bernard. Thank you. Good pleasure to be with you today in London. As you can see, we are back on the road. Bernard is traveling around the world. Then us, we are physically with you in the same room in London. So a real pleasure.

So let's start with a few comments related to the customers. And more -- why I want to start with this because, more than ever, what we do is relevant and critical for many of our customers. And you will see we have a lot of showcase. I just make an extract of some of them.

But you cannot imagine how many diversified cases, type of company we touch, and it has been extremely visible this quarter. So -- and again, it's also on the core, but also new things, for example, like precision medicine, the new nuclear reactors, the battery domains. So they are very, very diversify activity we are touching more and more.

So let's zoom on a few of them, and I will start with the auto sector. Why so? Because I think it's one of the key questions all of you, you have about the resiliency of this sector. And I will start by making a bold comment. We are growing double digits since the beginning of the year in the auto sector.

And the growth is not only coming from the incumbents or the newcomers. It's coming from the entire chain, right? And the reason is because there are deep transformation happening. One of them is the electrification of the car, the new battery, the connected car also, and this is reshaping the entire landscape. That's really our point number one.

And I took the example of JLR. Why so? Because you are aware that JLR was one of the first automakers adopted the 3DEXPERIENCE platform at the early days. And now we are moving with them a step forward because they have decided to use the 3DEXPERIENCE platform to connect the entire value network.

And here, we are talking about 500 suppliers worldwide, using day-to-day the platform to do everything from the early designs, from the basically system designs, the architecture and more and more for the production side. So that's one of the topics, if you remember, I was discussing with you. This network effect with the platform is starting to happen, and JLR is one of the first, at least, moving at this scale. That's the story for the auto sector.

The second one is the Life Sciences. And I know, again, some of you believe that COVID has been a chance for us to accelerate the growth, and what I want to discuss with you today is, in fact, I think the growth is sustainable.

Why so? Because I think COVID helped us to reveal innovations using artificial intelligence to do synthetic control harm when you have no time to do -- I mean, you have to reduce time to do the trial. When no one is willing to go any more to the hospital to do the trial, so you need to do the trial from home. This is so-called decentralized clinical trial, just to name a few. So I think those pillars are becoming extremely important to continue to expand in what we do.

And last but not least, I think COVID was also a reveal for many of our customers that it's time to connect the dots between commercialization, research and discovery, manufacturing. Those things need to work together if you want to reduce the time cycle.

The second thing, I think, we are expanding far beyond, the biopharma, the biotech companies. Now we are touching the CROs. We are touching the med device. We are touching also not only the large company, but also the mid-market. So clearly, we are extremely diversified, and this is visible in our numbers.

BioNTech is a good example of this. If you remember, we started with them before a few days -- a few weeks before the COVID because they were using the MEDIDATA platform as a way to accelerate the development of the vaccine for the COVID. And they started small because it was a small customer for us. And now it's one of the largest, right?

And why it's one of the largest? It's because they are expanding significantly their portfolio in many new diseases. And here it's an example, they are using MEDIDATA AI, so the ability to leverage the artificial intelligence for the -- to design the cell and gene therapeutics, which is basically the next wave for them. And it's extremely important because we are really broadening the scope of what we do. So again, extremely pleased to do this.

If we move to Infrastructure & Cities at large, the topic I want to discuss with you is the supply chain. And why the supply chain? Because if you want to master this at the multiscale level, you have to take into account the companies, the networks, the territories. And you need to do this multiscale approach in order to optimize things. And this topic is extremely challenging right now because you have dislocation everywhere.

The material costing is skyrocketing. The accessibility to viably substitute, right, is becoming a topic because when you have a shortage, you need to replace some materials, some equipment, some parts. And this is what is at stake to increase the resiliency of the supply chain.

And here you have one example, this company is called Mammoet. It's leading in engineering and heavy lifting, and they do the transportation of these kind of things. And what they have decided is to use the DELMIA Quintiq to do the entire network optimizations.

And why so? Because we have this multiscale and multi-time if you want [reasons] of planning. And this is extremely important because it's not something you can do if you do not have a twin. The twin is giving to you the ability to do the what-if scenarios at the multiscale and then after you optimize the things. That's what we do. And this is really a game changer for this industry.

So again, those are only examples. But I think, trust me, we are really deepen our relationship with many of our customers, and we continue to expand and to win new submarket, subsegments.

If we zoom from a geo standpoint, what are the trends? So let's start with Americas growing at 7%, clearly driven by Life Sciences and the High Tech sector, and we had significant win in the High Tech. You remember, it was probably one of the disappointment I have in Q2. But Q3, we are back, especially in the semiconductor with NXP, with KLA, just to name a few.

But the most important is, really, the region of the world where the transitions from license model to the subscription is happening. We do more growth in subscription now than we do in license in Americas at large.

Europe, that's the proof of the resiliency, 9% growth, extremely consistent since the beginning of the year, right? And I think we have a double-digit growth in many countries, France, the North of Europe, the South of Europe. And EuroCentral, especially Germany, is also recovering compared to where we used to be because, again, the platform phenomenon is really starting to happen. And we had good showcase this quarter in EuroCentral, Volkswagen being one of them.

So Asia Pacific, this is growing 6%, 11% since the beginning of the year. And there are some good news, and there are some mixed news. The good news is, really, Korea and India are growing double digit. If you remember, Korea, we suffered a little bit the last few years, and we changed many things. And now we are back on track, and the growth is really sustainable in the auto sectors, but much more broadly.

India is really increasing a lot, and Bernard was visiting Indian customers a few weeks ago. And you cannot imagine how many innovations happening in this country. And you cannot imagine how far they go with the 3DEXPERIENCE platform in a domain where, us, we were not believing that was happening.

So China is really where we had some headwinds this quarter clearly due to the lockdown. We spoke about it. We were factoring some of the risk in the guidance. But I think we were expecting the Congress to happen and to ease a little bit the policy, but no COVID. This is not what is happening. So clearly, we will have to continue to be cautious for China for the second -- for Q4.

Japan, some softness. But again, we are growing double digits since the beginning of the year, so clearly relatively consistent with what we have seen.

If we move to the product line, again, some proof point about the resiliency. If you start by industrial innovation software, which is the largest piece still, CATIA, ENOVIA and DELMIA are growing double digits, right? By -- just by itself, it's a strong statement.

CATIA, why so? Because the CATIA cyber system is extremely, I mean, valuable for many of our customers, all the one doing electrification, all the one developing connected objects, all the one basically transforming in deep the engineering things. And we see more and more contribution of these product lines to CATIA. It's happening in the auto sectors, but also in aerospace and defense, in almost all the core CATIA businesses.

ENOVIA, ENOVIA is growing in conjunction with the 3DEXPERIENCE platform. Why so? Because people are using ENOVIA when, basically, they are deploying the platform at the enterprise level. And the fact that ENOVIA is growing really up double digit. It's close to 20%. It's again a proof point about the consistency about what we are telling you is really happening from a deployment standpoint, with a large account we won in the past.

DELMIA, we spoke about it. So clearly, the supply chain topic is a topic for many of our customers. How to improve the agility of the manufacturing production system is also another one, and we see a lot of good momentum happening.

Life Sciences and software revenue, extremely consistent, plus 13%, right, driven by MEDIDATA, up 17%. And again, I want probably to pause a little bit and step back because, almost day for day, we are celebrating the 3 years anniversary of the merge with MEDIDATA.

And if you remember at that time, we committed to you to deliver between 13% to 15% growth, right, and to improve by 200 basis points the operating profit every year. We are delivering 17% after 3 years in a difficult quarter, right? At least, the macro is not helping globally.

We have exceeded, by far, the contribution of the MEDIDATA to the profitability. We are expanding MEDIDATA outside of the Rave core products to MEDIDATA AI, to MEDIDATA Patient Cloud. We have expanded the coverage from a geography standpoint. We're enforcing significantly in Asia, in Europe, in the mid-markets.

We have reinforced our position on the CROs. Whatever the competitor can play, we double the revenue with the CROs in 3 years, right? And now we have basically -- and we have continued to invest significantly. We doubled the number of people at MEDIDATA since the merger. And we have, by far, the largest teams of experts in this industry to basically help our customers to deploy the solutions at scale.

So clearly, it has been a tremendous journey, and I think the future is even more excited. And we have built the foundations for MEDIDATA and the Life Sciences to become core for Dassault Systèmes.

And just as a side note, since the beginning of the year, it's our largest industry, guys. It's bigger than the auto sector and aerospace sectors.

So the third topic, the mainstream. So plus 5% this quarter compared to 6% to 8% -- sorry, since the beginning of the year. And again, SOLIDWORKS is up single digits. The vast majority of basically the slowdown or the headwind we have seen are coming from China. And to a certain extent, we are seeing some softness in the SMB market, and this is reflecting in the number. But we are convinced we will be able to return to the normal trend, which is 8%, right, 8% to 9%. That's the topic.

We continue to invest. I'm pleased to announce the small acquisitions we did for Centric PLM. And you remember, same thing since the acquisition for Centric, we are expanding significantly on multiple axis.

The first one is the diversifying industries. We are addressing the fashion industry. We're expanding the beauty care, in the food and beverage and more and more into consumer electronics because the collection management is meaningful for those industries.

We're expanding also from a geographic standpoint. When we acquired Centric, they were extremely strong in the U.S. and in Europe, but not too much in Asia. Now we are gaining a lot of market share.

We are expanding also from a target standpoint. They will use to serve the brands, and we are expanding to the retailers. And now we are expanding the solution scope because there is, we believe, the collection management is becoming the business platform for many of those customers because now they start to do business planning and e-commerce. Because if you want to sell online, you need to have the product set on show, and the platform is becoming the foundation to make it happen.

That's the reason why we have merged and acquired this small company, StyleSage. It's a start-up. And what they do, they are using artificial intelligence to do the analytics on the pricing and the optimization for the price. And why it's extremely important? Because when you are selling online, you need a lot of agility with your pricing mechanisms.

And what do they do? They basically are calling the -- all the website. They extract the information from the website. They have the ability to recognize the products based on the photo, which is extremely difficult to do, if you want to be extremely reliable. And they have this technology already working with some of the good reference, Zalando being the largest one.

So it's really a proof point. Again, it's a start-up, so the revenue is still modest, I would say. It's a little bit more than EUR 5 million, but the ability to accelerate the growth is there because they are serving basically the customers we already have.

So that's it for a quick overview on the market trend and the customer dynamics. Now it's time for you, Rouven, to say more about the financials, right?

Rouven Bergmann
CFO & Executive VP

Certainly. Thank you, Pascal, and welcome also. Happy to be with you this morning. Good morning to everybody. As you heard from Bernard and Pascal, we are quite pleased with the third quarter results. It was an exceptional quarter in terms of highlighting the resiliency of our business model and our financial model.

As you see, we grew total revenue by 18% as reported and at 8% at constant currency, with recurring revenue up 10%, which now represents 82% of the total software revenue. And this was driven by strong subscription growth, which is up 16% ex FX, as well as continued good momentum in cloud revenue, which is up 21% ex FX. Also service revenue increased by 16% at constant currency during this period. And we delivered all of this good performance on top of a strong first 6 months of the year already.

So what was different this quarter compared to the first 6 months is that there was a shift in our expected revenue mix with a higher contribution from subscription and lower CapEx-based purchases. So revenue from licenses was down by 2% at constant currency. This was driven by a preference for subscription as well as an absence of the recovery in China, and I will address this in greater detail in a moment.

So despite these shifts, as you can see in the numbers, we delivered on our profitability targets as promised. It reflects strong returns on the investments we've been making over the last few years in our product, in our infrastructure, in our go-to-market and sales organization.

The operating margin was 31.6%, and the earnings per share rose 17% to EUR 0.26 as reported.

Our growth drivers of 3DEXPERIENCE and cloud continue to be very resilient and continue to propel us forward. Clients from large established enterprises to new players and disruptors, they are all adopting the 3DEXPERIENCE platform and cloud. They're looking for platforms to accelerate innovation, they scale operations and drive growth. Again, this quarter, 3DEXPERIENCE was a key driver of large transformational client deals, as highlighted by Pascal.

3DEXPERIENCE revenue grew 15% and now accounts for 32% of the software revenue, which is an increase of 2 points year-over-year. Cloud, I mentioned, is 21% up ex FX. And it also is based on the continued strong momentum of MEDIDATA, as Pascal was highlighting. So it now accounts for 24% of software revenue, our cloud business, which is up 3 points versus last year.

Now let me turn to the financial results and highlight the performance relative to the objectives we set for the quarter. So total revenue was EUR 1.37 billion, up EUR 65 million higher than to the midpoint of our target range, which benefited from an FX impact, as you see here, which was EUR 74 million during the quarter. And excluding this currency, we landed between the lower and the midpoint of our range.

We reported recurring and service revenue, both above the midpoint, by EUR 10 million and EUR 4 million, respectively. This was partially offset, as mentioned, by the lower license contribution, which was EUR 23 million below the midpoint.

So this was driven by 2 factors. First, as mentioned, clients displayed a stronger preference for subscription, with an impact of approximately 4 points of growth on the license number. And this means that we had a few deals that shifted to subscription at the end of the quarter, which were forecasted as licenses before.

Second, we experienced continued softness in China, as already discussed, due to the extended shutdowns and the restrictions we experienced. This also affected our SOLIDWORKS sales in China. And as you know, China is a key market for our license business. It actually accounts for more than 50%. So more than 50% of the total software revenue in China are license based.

And so we had factored in some of the weakness in Q3 already, but the impact was higher than expected. And this, plus some additional software in the SMB market, accounted for an additional negative impact of 4 to 5 points on the license growth. So when you reconcile this to the midpoint, there's 8 to 9 points of difference that we had in terms of where we landed compared to what the midpoint of our guidance range was.

Now let me step back the bottom line of all of this. When you look at the total revenue mix is that we accelerated the growth in subscription revenue, and this transition is well underway.

We are well prepared. As you can see, we are progressively increasing the share of recurring revenue, while we continue to deliver the top line revenue and profitability objectives, despite the lower growth contribution from the licenses. This highlights the excellent resiliency of our model and we will continue to support our clients with the optionality that meets their needs.

We reported operating margin at 31.6%, as mentioned, in line with the objectives, while we were hiring 800 net new team members during the quarter. We grew headcount by 10% year-over-year over, overall.

Strategy, we remain committed to our plan, to make the critical investments in support of our long-term growth objectives. Also important to highlight is that more than 50% of the hires in R&D, and they are based in India, of which a good portion also fuels the continued momentum of MEDIDATA.

So compared to our objectives for the quarter, operating margin benefited 10 points from a positive FX impact and 50 basis points from lower expenses, offsetting the negative impact from the slightly lower revenue we delivered.

Now turning to our EPS. We delivered strong growth of 17% or EUR 0.26 as reported, above the objective range of 6% to 11%. And the EPS growth benefited this quarter from a favorable FX conversion driven by the strengthening of the U.S. dollar, which impacted by EUR 0.013 positively and the lower tax rate and higher financial income contributing EUR 0.07 to the improved EPS.

Finally, our non-IFRS tax rate for the quarter was 20.7%, with a guidance of 21.6%, which was driven by a lower tax rate in France and continued benefit from higher fee tax deductions in the United States.

Now turning to cash flow and our balance sheet items. The cash flow -- the cash and cash equivalents totaled EUR 2,787 million compared to EUR 2,979 million at the end of last year, a decrease of EUR 192 million. Our net financial debt on September 30, 2022, decreased by EUR 681 million to EUR 208 million compared to EUR 889 million at the end of last year. This keeps us well ahead of schedule on our deleveraging objective.

Now let's look at what is driving our cash position this quarter. First, cash from operations totaled EUR 1,281 million for the first 9 months, an increase of 2% relative to last year on the back of a strong comparison base, which was up 24.5% last year.

By far, the largest impact on the operating cash flow performance year-to-date comes from the change in nonoperating working capital. There are 2 distinct effects related to an increase in income tax payable. First, higher tax payments in the United States in 2022 due to the mandatory capitalization of R&D expenses for tax purposes. And consequently, the deductibility of these expenses is delayed, resulting in an increase of cash taxes we pay.

Second, we reported in 2021 a benefit from a sizable withholding tax reimbursement.

So both effects together account for EUR 92 million negative impact versus last year. If we were adjusting for this, our cash from operations would have been up by 10% year-to-date.

As we said before, we are committed to returning value to our shareholders through technical innovation, strategic acquisitions, stock repurchases and prudent use of debt and our dividend policy. So consequently, in the first 9 months of this year, we used operating cash for share buybacks, net of proceeds from stock options exercises at a total of EUR 359 million. We paid our dividends of EUR

224 million and repaid debt at the level of EUR 885 million, net of proceeds from a EUR 250 million commercial paper. Which we issued this year.

Lastly, of note, we also benefited of EUR 218 million from FX, with EUR 203 million coming from Q3 only.

Now let's move to the objectives for 2022. So as we look to the fourth quarter, we feel confident about our business momentum, as we continue to refine our model towards resiliency and predictability with an increasing share of recurring revenue as a percent of total revenue.

First important message is we are reaffirming our 2022 total revenue growth objectives at the range of 9% to 10%, but we are increasing it to a higher absolute range of EUR 5,610 million to EUR 5,650 million, which was EUR 5,485 million to EUR 5, 535 million previously, which now incorporates an update on the U.S. dollar from [EUR 110] to [EUR 105] for the remainder of 2022.

This adjustment of our currency assumption, along with the third quarter FX benefit, has a positive impact of EUR 114 million to our total revenue objective, reflecting the resilient growth in subscription and support revenue throughout this year.

We are also confidently adjusting our recurring revenue growth target to a range of 9% to 10%, which was previously 9%. At the same time, we are reflecting the increase in volatility of the license sales to a range of 5% to 7% from 9% to 11% previously. This reflects lower performance of Q3 as well as returning to low to mid-single-digit growth in Q4.

Second, the operating margin. We are reaffirming our full year objective of 33.4% to 33.7%, reflecting the continued investment in our future growth initiatives.

EPS, we are raising our 2022 EPS -- diluted EPS objective to a growth of 18% to 19%, reaching EUR 1.12 to EUR 1.14 from EUR 1.08 to EUR 1.10 or 14% to 16% growth previously.

Now before closing, let me also briefly share with you our objectives for the fourth quarter. So total revenue growth of 8% to 10% ex FX, with software revenue growing 8% to 10%. We are targeting recurring revenue growth of 10% to 11%, with licenses growing in the range of 2% to 7%, and services up 6% to 11%, operating margin of 34.9% to 35.9% and diluted EPS growth of 12% to 18% to EUR 0.32 to EUR 0.34 for EPS.

Now let me conclude. As I said, this was an excellent quarter, highlighting the resiliency of our business model in terms of accelerating subscription revenue and delivering on the operating margin objectives with EPS up 17%. But what I want you to take away from this quarter is that we are well prepared for the progressive acceleration in subscription growth, while continue to support our clients with the optionality that meets their needs.

Our key growth drivers of 3DEXPERIENCE and cloud continue to build the momentum. And you see in our updated guidance, we adjusted our revenue mix with lower contribution from license and revenue -- from license revenue to address the continued volatility in China and the SMB customer segment. At the same time, we are increasing the share of recurring revenue, offsetting the lower licenses.

So in conclusion, we are -- total revenue growth of 9% to 10% ex FX, to the higher absolute range, incorporating the full benefit from currency, and we are raising our EPS objectives to 18% to 19% year-over-year growth for the full year.

And now with this, I'd like to conclude this session and transition over to Q&A. Beatrix, do we have the moderator?

Beatrix Martinez
Vice President of Investor Relations
Yes, we have the moderator. I suggest that we start with 2 questions from the room. And then...

Question and Answer

Adam Dennis Wood
Morgan Stanley, Research Division

Adam Wood from Morgan Stanley. I've got 2, please. Just first of all, there's obviously a difference on how you bring new business in on the financials, whether it comes in on licenses or on subscription. But obviously, what I suppose is more interesting is whether the new business closes or not.

Could you just talk about in the round whether you closed the new business broadly that you expected in the third quarter and how the pipeline for new business looks going into the fourth quarter versus a normal fourth quarter?

And then secondly, when you talk about OUTSCALE, I think a lot of people think about infrastructure, and investors will push back to us that, that comes with a lot of competition from hyperscalers. It comes with lower gross margins, and it requires a lot of CapEx.

Could you just talk a little bit about what you're doing differently around the OUTSCALE platform that differentiates you in that market and won't lead to those investor concerns being realized?

Pascal Daloz
COO & Director

Thank you, Adam. If you -- I can take the first one. And Bernard, you want to take the one related to OUTSCALE?

Bernard S. Charles
Vice Chairman & CEO

With great pleasure, Pascal.

Pascal Daloz
COO & Director

Okay. Excellent. So the first one, yes, you're right. I mean, the pipeline was interesting in Q3 compared to Q4. Rouven said a few words about it. It was not weighted by large transactions. It was really driven by a lot of midsized transactions, the largest one being around a little bit more than [EUR 5 billion], which usually in our pipeline for one given quarter, we always have several transactions exceeding EUR 10 million, right?

But for Q4, it's a different story. I think we have a -- relatively, we have really identified large opportunities. Some of them are relatively advanced in the negotiations. And they have good reason for that because we have many customers, they want to invest this year because they don't know yet what will be the ability for them to do it next year.

So to a certain extent, I think the large deals we have in the pipeline, which is again normal, usually, we are backloaded, are extremely relatively well advanced for many of them. So that's the reason why we have a certain level of confidence for Q4.

We didn't have an opportunity postponing, right? At least, we have the same level of magnitude, and usually we have. And the one usually which are postponing is because we do not want to conclude on the wrong basis. As you may know, we still have customers using the end of the quarter as a lever on us. And we still have the discipline to stick to the value we believe our solution is bringing to them and not to compromise on the prices in order to bridge the gap.

To a certain extent, we could have done this to bridge the license gap, but it's not something neither Rouven and I and, obviously, Bernard, we compromise. So that's what we can say.

From an industry standpoint, again, the momentum is still good in the auto sector, believe it or not. And it's global. It's not only in Europe. It's the aerospace and defense, also the cycle is strong, despite the fact that we had an outstanding year last year, but still we see traction. And why so? Because we have the ramp-up of production. And Life Sciences, we spoke about it. So those are really the fundamental of the pipeline for Q4.

Bernard, do you want to say a few words about OUTSCALE?

Bernard S. Charles
Vice Chairman & CEO

Yes, yes, OUTSCALE. OUTSCALE, to understand it, OUTSCALE is our infrastructure. It's a virtualization of clouds, number one. Therefore, it offers operated services such as operating the 3DEXPERIENCE, the -- owned by me or future services for data science, same goes with MEDIDATA.

As a consequence, OUTSCALE does support multi-cloud. Today, it's our own and AWS, well known. And tomorrow, we can have a single view of other hyperscalers. So what's -- why that? Simply because we want and our customers require to have 3 types of level of security, and I don't think it will be resolved in a cyber governance with one set of solutions.

One is what we call international cloud that go -- goes cross-border. Second is a geospace, highly trusted cloud environment, where there is commonality in law on fiscal -- both laws on fiscal conditions. On the third level, which is even more restricted, more highly hyper-secure is for [highly sensitive], and we call it dedicated cloud, which, by the way, provides a similar answer to what is called edge cloud.

And on the value of OUTSCALE is to provide a consistent environment, so those can be operated seamlessly, complying with cyber governance. In this context, the value of having this approach is we can build ecosystems of additional service providers on our OUTSCALE cloud environment.

The one we have announced today is with La Poste in France. They have a very large market share in the administration on sensitive health services -- set of services. And as you know, those infrastructure needs to go to hyper-secured cloud, which is not the case today. Most of them are still on-premise old architecture, which creates several issues.

And this architecture is compliant with the European sovereignty new rules being defined. And this alliance is one of the first, one of many hopefully in different countries of the world and will help us to provide the experience platform and business experience services to highly sensitive administration on services in health and others.

So that's a concrete illustration of why this OUTSCALE architecture and virtualization of cloud is so important for us to provide answers that are not well addressed by anyone at this point in time for the sensitive customers we have.

Michael Briest
UBS Investment Bank, Research Division

Michael Briest, UBS. Two from me. Just firstly, on the sort of sales cadence or how are you predicting for Q4 the split between license and subscription. And is there any way you're looking backwards, you can anticipate that these deals would have moved to subscription? And then maybe for -- going forward, what are you assuming over the medium term? Is this going to be an accelerating trend?

And then just in terms of earnings per share, obviously, you got the 2024 target of [EUR 1.20]. If you -- when are you going to revisit that? Is it theoretically possible that you could guide for a higher earnings number in 2023 and leave it out there?

Pascal Daloz
COO & Director

You want to take the first one?

Rouven Bergmann
CFO & Executive VP

Happy to, yes. So maybe let's start with the visibility and predictability we have for the recurring, Michael, because when we build the guidance, of course, it's based on visibility. We have good visibility, of course, for our subscription. We understand our backlog, so we can assess and size this quarter out fairly precise.

That's why we also were confident to raise the objective in the recurring line item to 10% to 11% for Q4 in terms of the contribution for recurring revenue, which is based off support and subscription. Of course, MEDIDATA is an important contributor to this, and you see the performance is quite strong.

On the licenses, it's coming back to what Pascal described. It's always a question of the puts and takes, I would say. It's the regional performance. We talked about China, that we derisked China in our forecast. We did do an adjustment for Q3, but we realized the actual result was actually below what we predicted for Q3. So we took for Q4 further down to align with the Q3 performance, which we believe is realistic for license.

But we also have, in Q4, a different pipeline where we see larger deals more skewed towards Q4 than what we've seen it throughout the year so far. Q3, as Pascal said, lack of large transactions, so they're coming back in the fourth quarter. They are advanced. They are with existing clients. There are programs that are expanding. So we are part of those discussions with our customers.

Now the size of those transactions can always vary. But when we forecast, we typically take a conservative approach to the size. I see that we are derisked now for China. SOLIDWORKS, we discussed, I think we have also reached a baseline here in terms of contribution in Q3, which we factored into our Q4 guide.

So all of those puts and takes, we went through in detail. And so we also gave a bigger range for license, as you saw 2% to 7% for Q4. It is a larger range than what we typically would do to reflect some of those volatility. But for the software,of 9% to 10% growth for the year as well as total revenue, I think we are well in this corridor.

Pascal Daloz
COO & Director

Related to the EPS and the [EUR 1.20] objective we have for 2024, you're right, Michael. I mean, I just want to recall what Bernard said when he said, "We will deliver it, no matter what." And I think now you -- all of you, you are convinced because you asked the question if it is an objective for 2023.

I think it's a little bit early to speak about this. Why so? There are some currency effects. And we need probably to have more visibility on the currency before to say something about it. But what is sure is for 2023, we need so much investment from a headcount standpoint in this year that we want to capitalize on those investments.

So I think next year, we'll have the lever of the top line growth, plus probably some levers on the operating margin as well. So we'll have at least a choice to decide how far we go, depending on the economy.

Bernard S. Charles
Vice Chairman & CEO

Just one thing, if I may add to both of what Pascal and Rouven said.

Mohammed Essaji Moawalla
Goldman Sachs Group, Inc., Research Division

I have two questions as well. First one was, as you think about growth, and you talked about, it seems like you're still looking to grow next year. Maybe help us understand the category is obviously a lot more relevant. Perhaps, the cyclicality of some of your more industrial customers is becoming less as your software becomes a core part of the offering.

How should we think of the kind of growth evolution next year? Because in prior kind of recessionary periods, we've seen significant double-digit license declines. Is there a scenario where licenses will grow? Or how should we think of perhaps the relative resiliency?

And a point around operating margin that you just mentioned, maybe what sort of cost flexibility you still have to deliver that would be helpful.

The second question is on, obviously, the balance sheet is delevering. Just curious to get your perspectives on some of your kind of M&A pipeline, how discussions are evolving. Or have you seen sort of valuations reset sufficiently enough? And could you sort of become more active again on the M&A front?

Pascal Daloz
COO & Director

Thank you, Mo. Bernard, you want to take one of them or you want Rouven and me to address the 2 questions?

Bernard S. Charles
Vice Chairman & CEO

Go ahead, Pascal, take the 2. The only remark I wanted to do on the previous set of questions, and that I think also are well understood by Mo, is we prefer subscription. It has a lever on our midterm or long term. So there is no surprise on the fact that we will continue to push harder on the subscription model, of course, just a side note.

Back to you, Pascal. And I will -- I might mention a few remarks on the M&A, but I'll let you go.

Pascal Daloz
COO & Director

Okay. So you're right. I mean, we see more and more of the trends toward the subscriptions on behalf of the license. But I still believe we, at least I'm counting to do growth next year on the license.

Why so? Because whatever the willingness we have to accelerate these transitions, you still have certain country where it's a difficult model to put in place. China is one of them, right?

If you want to ensure the business continuity right now, if you come with the subscriptions and a cloud business model, you would have a hard time because they learn from what is happening in Russia that things could stop immediately. And what we do is extremely critical for many, many companies. So that's the reason why, again, the trend is really happening. We are accelerating. We are guiding the company along this way, but there are certain countries where -- and region of the world where it's still not possible to go full blast.

Related to, again, the EBIT margin and the operating margin, I think we have this flexibility. 2022 was a year for the catch-up. You remember, since COVID, we were having low net adding headcounts. And I think to continue to sustain the growth, to continue to fulfill the position we have in development and also on the sales side, we wanted 2022 to be the year where we do most of the catch-up, and it's done.

I think it's not completely done, but it's -- I think we did most of what we wanted to do.

And hiring 800 people net within the quarter, remember, we are 22,000 people, it's a lot within 1 quarter. So I think we have demonstrated still our ability to attract the talent to -- globally, and it's not only in one region of the world.

And now it's time also to capitalize. So clearly, Rouven and I, we will probably put some expectation on our teams for the productivity for next year. It does not mean we will cut the investment, right? But at least, we will take the benefit of the investment we did this year, to be precise.

Related to the balance sheet, you're right. We will be deleverage, right? So clearly, we have now the room not only to do the bolt-on acquisitions, but to do some large transactions. The market is, to some extent, helping us a little bit. Maybe still a little bit soon for some domains where you still have a hype. And frankly speaking, we saw the public company being under pressure. But the private company, the one being backed by large PE, still not yet the case.

So if the market conditions are still difficult, they will not be capable to exit through IPOs. Maybe I think this will open the room for interesting negotiations.

Rouven Bergmann
CFO & Executive VP

Thank you. We will now take 2 questions from the phone. Nadia?

Operator

[Operator Instructions] The first question comes from the line of James Goodman from Barclays.

James Arthur Goodman
Barclays Bank PLC, Research Division

Firstly, just digging into the SOLIDWORKS performance perhaps a little bit more. You were clear on the lack of a recovery in China, but also mentioned this general softness, I think, in the SMB market.

So can you just elaborate on that a little bit more, specifically what you are announcing regarding any sort of competitive position developments and maybe around the shape of the recovery? I think, Rouven, you mentioned

[Audio Gap]

What product areas are driving the service's strength?

Pascal Daloz
COO & Director

Thank you, Jim. So Rouven, you take the first question related to SOLIDWORKS.

Rouven Bergmann
CFO & Executive VP

Yes, happy to. Thanks, James, for the question. Yes, so China is, I think, we described that. It's something we started to see in the third quarter, and it's a continuation in the fourth quarter. Simply, just the ability to meet customers, the ability to travel has been really a big problem for the SMB market, and that has impaired the growth in China.

When we look more globally on the SOLIDWORKS performance, we have a region of the world where the performance was actually very decent, where we continue to see strong traction, but we also saw some slowdown. We talked a little bit about the softness in Q3 of Japan, which we mentioned, which also not have a good quarter for SOLIDWORKS.

But I don't think it's structural. It's more temporarily. We actually saw this very good performance, which Pascal highlighted, in EuroCentral, where we were concerned coming into the quarter, specifically in Germany. But here, we saw a resilient performance with the top clients. But also I think it was decent in the SMB market. So it shows resiliency.

But when you add it up, James, it's -- the comparison to last year where it was very strong, it's just not at the same level, right? So some of it, we don't know -- when we will be recovering in China, I don't -- we don't expect it in Q4. I think we'll have to assess it where we are in 2023, how that will continue to impact SOLIDWORKS business.

But for the other geos, I think some of the softness or pockets of softness we see is more temporary than structural, and we expect the recovery to occur soon.

Pascal Daloz
COO & Director

Okay. Thank you, Rouven, to complement on the competitive landscape because that was also the questions behind, clearly, we do not see the pressure. And why so? Because if you take the 2 product lines we have with SOLIDWORKS, the first one being the desktop, the version you know, it's extremely competitive products, extremely competitive. People like it, right? And to displace this installed base and to displace this momentum, you need to come with something extremely different.

And I think this is what we do with the WORKS family. Because the WORKS family, it's a different paradigm. And we have to reinvent what CAD is about. CAD used to mean computed aided design. Now we believe it's cognitive augmented design. Cognitive because I think the artificial intelligence can really help you to guide your design. But to do this, you need to have the data science within the platform. Most of the competitors, they do not have it, at least the one addressing this market.

Augmented because the virtual universe is a way to do an expansion of what you do. If you are designing connected products, not only you have to design the product itself, but you need to design also the infrastructure related to this. So the ability to do design in context of not only more the product itself, but the entire system is becoming extremely important.

And design, it's not anymore about designing the mechanical part of a shape. It's designing the experience. That's the motto for the last 12, if not 14 years for us. So -- and this is again happening.

So I think on the competitive landscape, no signal about the fact that we have been displaced by the new commerce or by existing competitors.

Related to services, I think we have the benefit of the hard work we did. You remember, when COVID happened, this activity was really under pressure. And we put a lot of disciplines in the way to manage the projects, the programs in order to do -- to use also the subcontractors. And I think now, we start to see the benefits about it.

And the growth is extremely driven. It's driven by 2 fronts or maybe third front. One is the deployment of the 3DEXPERIENCE platform in large programs. So this is driving incremental services, which is a good sign, again, and it's consistent with the ENOVIA performance.

The second one is MEDIDATA. MEDIDATA is going extremely well and the services attached to it also. And Centric PLM because we are -- I mean, Centric is still growing extremely well. And we need to deploy massively the platform, the PLM platform for Centric in many accounts. So that's where the growth is coming from. So it's not only one. We have different legs, and this is reflected into the number.

Operator

And the next question comes from the line of Amit Harchandani from Citi.

Amit B. Harchandani
Citigroup Inc., Research Division

Amit Harchandani from Citi. Two questions, if I may. My first question is going back to the topic of visibility, and visibility, particularly with regards to your customers who may be called as being in cyclical industries. On one hand, some of these customers are calling out the impact of macro into next year. On the other hand, there are secular trends such as decarbonization, which continue to move along.

So could you give us a sense for your conversations today, as you look towards next year, particularly talking to these customers, what's their level of confidence and visibility that some of these projects in the pipeline would convert and come through as anticipated next year? So that would be my first question.

And secondly, if I may, you touched upon the topic of competitiveness in the context of SOLIDWORKS. Could you also give us an idea of how the competitive picture is looking like more broadly across your portfolio? Do you believe you continue to gain market share? And are you starting to see any irrational behavior from any of your competitors with respect to the macro backdrop?

Pascal Daloz
COO & Director

Do you want to take the first one, Rouven, or you want me to take it? I'm okay to start. Feel free to add whatever you want. Again, that's -- Q4 is a good highlight, I think, for -- also for next year because the large deal we were -- we are referring to are coming from existing customers, the one expanding what we do.

And if you remember, pre-COVID, we signed a lot of large transactions, having a framework, which was a multiyear framework, structuring the deployment of the 3DEXPERIENCE platform across all the business streams, starting from design, expanding to manufacturing and expanding far beyond this. And that's again part of the visibility for 2023 coming from those projects, at least this is true for the direct sales.

The adoption by the supply chain is happening, right? I showcased JLR, but I could have showcased also what is happening in aerospace and defense. And that's the reason why, by the way, we are growing double digits almost true in aerospace for this year, but at least in the auto sectors, because there is a contribution coming from the supply chain.

So the supply chain is probably more dependent on the volumes. And if the volumes are dropping, they are probably the one could stop. But nevertheless, the change of the nature of the products, whatever, it's the EV or we start to see more and more projects, electrical airplanes. The hydrogen is also becoming a reality, industrial speaking. So this is also has some requirements on the supply chain to change the way they work.

And for the mainstream, I think innovation is everywhere. So maybe, I don't know, the industrial equipment segments will be more -- will have more pressure compared to what they used to have, but there are so much new things happening. I was mentioning, again, in Life Sciences, the new medical devices, equipments are coming on the market. It's a significant market for SOLIDWORKS.

So clearly, you do not see SOLIDWORKS only sticking to the car mechanical industries we used to serve. We are expanding far beyond this, and we are much more diversified compared to how we were 10 years ago. So that's the reason why the resiliency of our model has improved significantly as well.

Related to the competitive landscape, I think we are still gaining market share. This is obvious for CATIA, right, growing double digit when the market -- and you know the size of CATIA. This is also obvious for ENOVIA. You remember, I shared with you the win rates, and the win rates are exceeding 75% still for many of our competitors.

And by the way, an interesting thing, we start to replace Agile in the High Tech sector. You remember Agile being acquired by Oracle. They had a huge installed base in the High Tech. Now we are starting to displace them because it's a whole product and there is no anymore future.

So clearly, we continue to gain market share along the -- most of the core. The one where I think we could do better is still simulation, right? The competitor, and I do not want to name them, but there is one still a tough competitor. And I think the growth for them is coming much more from the EDA space than the traditional space where we are. But nevertheless, I think we could do much better, especially because we have the foundation with 3DEXPERIENCE platform, which is really making a big difference.

The simulations, it's not only used to do the engineering part and to use the optimizations at the design level. It's more and more used to do other things like certification, for example. And if you do not have the backbone, if you do not have the life cycle, if you do not have the ability also to do the data science in conjunction to the simulations, I mean, you do not have the complete story.

But I think it's probably a domain where convincing people is taking more time. That's for the competitive landscape. For -- in the Life Sciences, maybe Rouven, you can say a few words because you are coming from this.

Rouven Bergmann
CFO & Executive VP

Yes. I mean, in Life Sciences, I would say the competitive landscape has always been fragmented because you have partly different players. You -- we developed strong relationships to the CROs that you refer to, Pascal, right? I think some observers always believe that they were competitors to what we do, but they are not, right? They're complementary services that they offer.

However, they can do things that we also offer. But it's okay to compete in some areas, but to work together in other areas for the benefit of both our businesses. So that's the model that we've mastered. So that's not an area that is creating any change to what experiencing now to compare to what we've been seeing a few years ago.

I know that as we -- I do not mention the competitor, you didn't mention the competitor on simulation. I do not mention the competitor that MEDIDATA faces more and more. But they are not visible so much in the core areas where we are successful, right? As it relates to data management, data capture, the managing and operating the clinical trial, that's our core domain where we continue to win market share. That's what's behind the numbers, right? That's where you see the strong growth.

The strategy around decentralization of clinical trials is a true expansion and incremental growth opportunity where we are taking market share. And yes, on the other hand, there are areas where with some of their offerings where they are making progress where we are not so strong, right, where it's a picture. You know that it's shaping, I would say, the competitiveness.

And you saw -- you see our commitment. We are investing. We've doubled the size of the company since the acquisition. We continue to grow. We expand the number of customers we have. So we are very competitive, and we're winning the deals that we want to win. And you will see this and can expect this from us in the future. And we always said we welcome competition. It makes us stronger. And I think it's true for Life Sciences.

Charles Brennan
Jefferies LLC, Research Division

It's Charlie Brennan here from Jefferies. Just 2 questions. In the interest of time, I'll ask 2 number ones. Firstly, you called out capitalized R&D in the context of the cash flow. Can you just tell us what the benefit was through the P&L from capitalized R&D relative to last year? .

And then secondly, I appreciate your comments on the improving year-on-year growth in the recurring revenues. But if I think about the sequential growth in revenues, and I back out the benefit from FX, and I back out the growth in MEDIDATA, it probably implies that the rest of the recurring revenues were down sequentially. Against the softening macro, is there anything to call out there in terms of renewal rates?

Rouven Bergmann
CFO & Executive VP

So on the -- let's start with the cash one first. I think it's a simple answer. The capitalization, the mandatory capitalization for R&D expenses is for tax purposes only, so it is not something that is really going through the operating P&L. So it's really a tax mechanism in the United States, where we used to have the flexibility to choose between capitalization and expensing. That right has been -- doesn't exist since 2022.

So for tax purposes, you have to capitalize, which increases your cash payments for tax purposes, right? So it's not really something you see through the P&L. It doesn't impact our profitability, our operating income, operating margin. You see a part of that because we have a benefit from a lower tax rate, which I refer to as a PD impact because that -- there is a reverse impact on the tax rate.

Now related to your -- to the recurring part of our business, and let me break it down for you maybe a little bit better. So for sure, the sequential growth on MEDIDATA is very strong year-over-year as well as sequentially, and that is reflected in the broad-based performance of bookings across all the business segments we do.

So -- and you can expect from that angle also the cost to continue because it's backlog driven, and it will continue to deliver growth as long as we drive our bookings performance.

The support revenue continues to be very resilient, in line with Q3, right? We've seen the improvement from last year. You remember, we were more in the lower -- low-digit, single-digit support revenue contribution in 2021 and 2022. We started to see the uptake, which we mentioned to you throughout last year -- this year that we expected to this because of the stronger license performance. Those things are connected, as you know.

Now on the subscription line, there can be, from time to time, some volatility, right? And one of the volatile impact comes from SIMULIA. We mentioned SIMULIA was maybe one of the lower light performance from a brand standpoint. And it's a subscription business because it's token-based, it's consumption-based. So that has an impact on the subscription part.

But other than that, we continue to sign more subscriptions. We continue to see the growth in the subscription. That's what we expect to see. But the only thing I will really can point to is from a volatility standpoint is SIMULIA. All other aspects are building and growing.

And as Bernard said, I'm -- you heard it from him, this is our preferred model, and we are working -- we are educating more and more our customers around the favorability of the subscription model to land and expand and grow.

Bernard S. Charles
Vice Chairman & CEO

But Charlie, the rest outside of MEDIDATA, the rest of the subscriptions is growing at 15%, so which is good.

Rouven Bergmann
CFO & Executive VP

Year-over-year.

Bernard S. Charles
Vice Chairman & CEO

Year-over-year, of course.

Pascal Daloz
COO & Director

So clearly, there is no sign about a deceleration or whatever. I mean, it's on the opposite, in fact. The contribution outside of MEDIDATA is increasing more and more.

Operator

And the last question comes from the line of Nicolas David from ODDO BHF.

Nicolas David
ODDO BHF Corporate & Markets, Research Division

I have 2 questions. Actually, the first one is coming back on the SMB market, so regarding kind of weakness you saw. You elaborated well regarding the Chinese situation, but outside China is just a clarification. Did you also see some weakness outside China? And if so, you seem quite confident to see the situation normalize soon -- quite soon. So what is making you so confident?

And my second question is back on China. So again, you elaborated well on the mid-market. But could you share, based on your discussion with local clients, what's the current mindset of maybe larger clients you have here? And how you connect the current situation with the wait-and-see attitude in Q3 and maybe in Q4? And what is your scenario really for 2023 regarding their behavior and the need they have?

Pascal Daloz
COO & Director

Take the first one.

Rouven Bergmann
CFO & Executive VP

Yes. I mean, Nicolas, I think I can only repeat what I said before on the SMB market. It's more pockets of softness. It's not that we see temporary in their spread. They are not -- there's no consistency as it relates to that. And some of it can also be seasonal, yes. Let's not forget that Q3 is always a seasonal impact. We just see that in combination with China, where SOLIDWORKS numbers have suffered in the third quarter.

And we have -- and sometimes, it goes through the partner channel. And those partners, they have different economics than what we can offer when we go to our customers direct. So we have to factor that in.

There's a translation between partners and customers. It's smaller clients. They have different behaviors and cycles, which can turn very fast in times of upturn, right, but it can stall and go slower when things get a little uncertain, right?

And I think we've experienced it in years before as well. But again, it's not consistent. It's in certain parts, and some of it is also seasonal related. We'll expect some countries to rebound in the fourth quarter that had a softer Q3 and had a strong first 6 months. I gave Japan as an example.

Pascal Daloz
COO & Director

To complement what we see in China, it's not a wait-and-see position. I think that's -- it will -- you will be mistaken if you believe this is what is happening in China. The real issue we have is we are selling mainly indirect in China, which basically means we have a proximity business. And when the confinement is done at the city level, sometimes, you live in the same region, but you cannot travel in the same city.

So -- and this is really a road blocker for our resellers because they do not have the ability to travel the way they want and to visit the customers. And for many of them, they need to see their customers. That's basically the way they do business. So that's the reason why, in my opening comment, I was referring to really the lockdown being really the headwind because if we do not have the ability to travel easily, this is constraining the way we run the business.

At the point whereby, believe it or not, we took some measure to ask the retailers and also our own team to be relocated in different cities. Just in case of some lockdown is happening, we are still free to navigate within a certain parameter, within a certain geographical zone. That's what is happening.

On the rest, I will say, I know the economy is slowing down. But for the topic we are addressing in China, specifically the auto sectors, you have seen at the Paris show, I mean, most of the new cars, new programs being well priced are coming from China. So to a certain extent, they are betting on the fact that they will continue to conquest the rest of the world with the electrical cars, and they are not slowing down their investments.

The aerospace is also a domain where we have traction. The Marine & Offshore, which is also a large sector for us in China is also booming with basically all the logistics problem. So fundamentally speaking, that's really -- the growth is robust in China. The ability and [to diversify], to capture it by having the people visiting the customer is the real problem we need to fix.

Bernard, do you want to say a few words to conclude?

Bernard S. Charles
Vice Chairman & CEO

Yes. Thank you very much. Lastly, what I would do for Nicolas on the large client to confirm, what you said, Pascal, I met with a lot of them. There is no -- the slowdown for them is not on the agenda. They are really looking at accelerating their digital transformation on -- I don't -- I think we have good visibility with the large client engagement for -- not only for fourth quarter, but for next year.

Thank you very much for participating to the call. And we will be hosting an analyst call this afternoon for those who have been joining us at a later moment. And thank you very much. And of course, we'll keep in contact. We'll stay in touch to continue to give you the proper visibility, and have a good day.

Rouven Bergmann
CFO & Executive VP
Thank you.