S&P Global
Market Intelligence

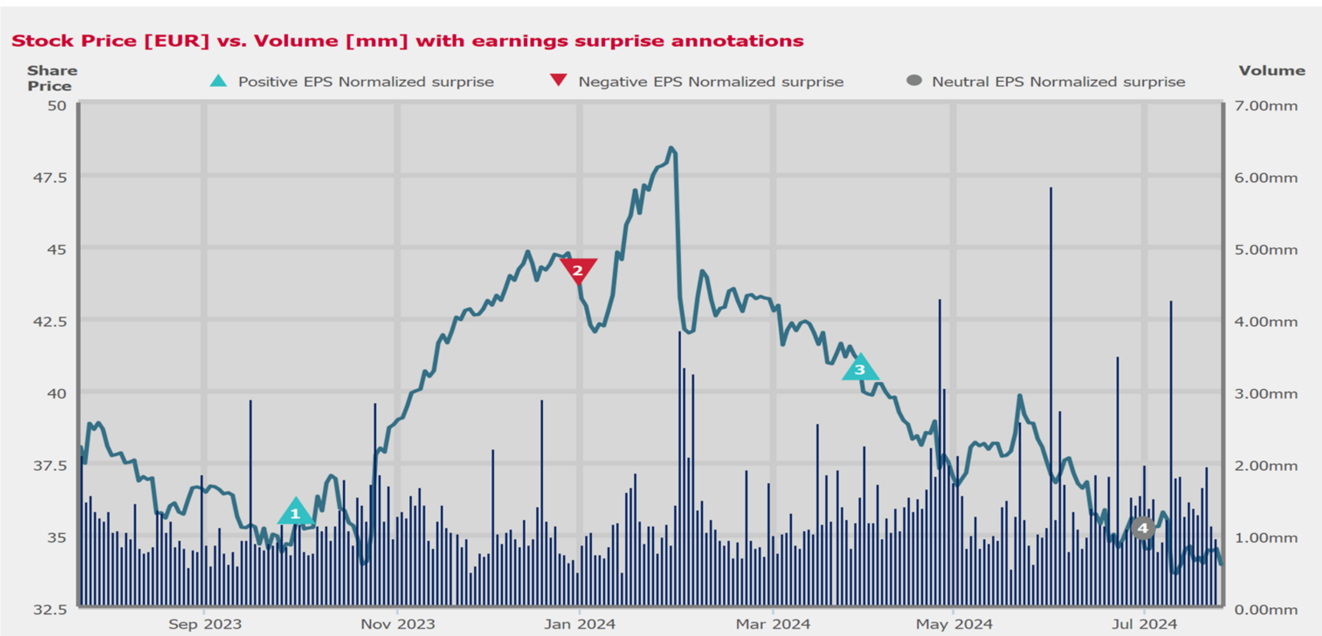
Dassault Systèmes SE ENXTPA:DSY
FQ2 2024 Earnings Call Transcripts

Thursday, July 25, 2024 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.30	0.30	0.00	0.30	1.29	NA
Revenue (mm)	1496.40	1495.80	(0.04 %)	1514.13	6314.88	NA

Currency: EUR
Consensus as of Jul-25-2024 7:39 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	0.27	0.28	3.70 %
FQ4 2023	0.37	0.36	(2.70 %)
FQ1 2024	0.29	0.30	3.45 %
FQ2 2024	0.30	0.30	0.00 %

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Call Participants

EXECUTIVES

Beatrix Martinez
Vice President of Investor Relations

Pascal Daloz
CEO & Director

Rouven Bergmann
CFO & Executive VP

ANALYSTS

Adam Dennis Wood
Morgan Stanley, Research Division

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Goldman Sachs Group, Inc., Research Division

Frederic Emile Alfred Boulan
BofA Securities, Research Division

Michael Briest
UBS Investment Bank, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Dassault Systèmes Second Quarter and First Half 2024 Earnings Presentation. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Beatrix Martinez, Vice President, Investor Relations. Please go ahead.

Beatrix Martinez
Vice President of Investor Relations

Thank you, Sonja. From the company, we have today Pascal Daloz, CEO; and Rouven Bergmann, CFO. I would like to welcome you to Dassault Systèmes second quarter and first half 2024 webcast presentation. At the end of the presentation, we will take questions from participants. And later today, we will also hold a conference call.

Dassault Systèmes results are prepared in accordance with IFRS. Most of the financial figures in this conference call are presented on a non-IFRS basis, with revenue growth rates in constant currencies, unless otherwise noted. For an understanding of the differences between the IFRS and the non-IFRS, please see the reconciliation tables included in our press release.

Some of the comments we will make during today's presentation will contain forward-looking statements, which could differ materially from actual results. Please refer to our risk factors in our 2023 Universal Registration Document published on March 18.

I will now hand over to Pascal Daloz.

Pascal Daloz
CEO & Director

Thank you, Beatrix. Good morning to everyone joining us on the call today. This morning, we issued our earnings press release confirming the information we shared 2 weeks ago during the primary release and the call.

So few message on those. Our second quarter total revenue increased by 4%, and earnings per share rose by 8%. What have we learned from that? First, the delay in customer decisions caught us by surprise in Q2. At the same time, looking ahead, we can confirm we have a robust pipeline, which is structurally stronger in the second half compared to the first one. Additionally, we remain on track to close this year the majority of the deal we have been delayed, and we see the maturity of opportunities as improving as we advance through the year.

From a profitability standpoint, we are taking the required measures to preserve our operational efficiency and the long-term investments. And therefore, we can confirm what we expect, which is an EPS up 8% to 11% this year.

Now let's discuss our business environment across the 3 sectors. If you can move to the next slide, please. In the Manufacturing Industry, despite the recent volatility in the customer decisions and particularly in Aerospace & Defense, the demand for 3DEXPERIENCE platforms remained extremely strong, plus 23% for the first semester with several deals, including extension and significant win backs. Our customers are still seeking innovative way to differentiate in the market and strengthen their customer relationships.

Now zooming in Aerospace & Defense, customers have a huge backlog in front of them due to the manufacturing ramp-up delays, which is caused by the supply bottlenecks. And these create cash flow issues and impacts their investment plan. However, despite their investment pause in the near term, I think we are extremely confident that our solutions can help them to address these current issues.

At the same time, we see Transportation & Mobility as very resilient and well represented in our second half pipeline as we are not subject to the volume of production. This move towards electrification is driving the momentum for us, and the coexistence between the thermal and electrical are creating, in fact, specific development environment where, I think, we are extremely well positioned.

Now zooming on consumer industries, we are growing strongly, and we expect this trend to continue in the second half. In addition, we have a much better pipeline in H2 compared to H1, and I think with the right mix of volume and large transactions.

Now a few words in Life Sciences. We believe we are at the moment at the turning point and that the market contraction is behind us. In other words, we have reached the bottom. At the same time, we have reinforced our position with increased market share and a new innovation cycle as an evidence by the launch of our new products, so-called MEDIDATA Clinical Data Studio.

We officially launched these products at the end of June, and we have already achieved remarkable successes, including win back clients. And this is -- we are using this as a competitive differentiator to expand our value proposal beyond the traditional EDC. We believe, with this, we are completely transforming the clinical trial in the years to come, and I will explain why in a moment.

In Infrastructure, the momentum continues, driven by the deployment of the 3DEXPERIENCE in our existing accounts.

Now I would like to highlight 3 major competitive wins this quarter, and if you can move to the next slide, please. Let's start with Mahindra & Mahindra first. They have selected the complete 3DEXPERIENCE portfolio for Transportation & Mobility and fully adopting it for all the future vehicle programs. And more importantly, we are displacing a competitor solutions.

Being 100% cloud-based, it provides an out-of-the-box industry solutions, and this will be used initially with the 3 vehicles programs, including their best sellers. And we will connect with the platform 3,500 users, including engineering services suppliers. In this specific process, the data centricity part of the platform was a key decision factor because they aim to reduce the cycle times and gain an edge against the increasing competition from China. And in this regard, the ability to source locally is extremely critical.

This is also the reason why they have chosen us, as we enable all the business decisions capability, if you want, to be integrated into the early design phases, thereby maintaining a low cost. Ultimately adopting our platform enables also Mahindra & Mahindra to gain unique competitive advantage and electrify most of their cars.

And finally, I think this win strategically reposition us in India, not only to use the India capacity we have built over the time to serve the rest of the world, but to expand and to accelerate the growth of these markets.

Now if we move to the next one, so please can move to the next slide. Bristol-Myers Squibb, which is BMS, they have renewed its partnership after a deep benchmarking exercise. And believe me, they have evaluated all the competitive product on the markets. And finally, they are reconfirming their collaboration with MEDIDATA, and we are expanding a successful 10-year partnership by an additional 5 years.

This new contract includes also access to MEDIDATA Rave, AI's capabilities and Clinical Data Studio, and it's driven by the MEDIDATA ability to effectively manage BMS' complex and diversified clinical trial portfolio, which also includes cells and gene therapies, which is pretty unique.

BMS has also adopted the Medidata Clinical Studio to integrate data from multiple sources, such as the traditional electric data capture, the EDC; the electronic health record, which is usually the system used at the hospital; and more and more of the sensors, while at the same time, we are maintaining a high standard of quality and integrity, which is related to the key points.

I think these expanded partnerships reflect the BMS' commitments to advancing clinical research processes and reinforce its dedication to improve patient outcomes and personalized health care.

Now if we move to the next one, to the next customer cases, it's also an interesting one. You are maybe not aware about this company called Marmon. It's a highly diversified company owned, by the way, by Berkshire Hathaway. And they are operating in industry like construction, energy, industrial equipment and transportation.

And they have chosen the 3DEXPERIENCE SOLIDWORKS on the cloud for an integrated approach. And this decision, in fact, involves replacing many, many legacy design and simulation point solutions, while incorporating advanced collaboration capability at the same time. And I think with the 3DEXPERIENCE WORKS family, we are offering unique solutions that deliver an unmatched return over investments compared to the traditional approach and demonstrating, I think, the relevance of the platform concept for the mainstream.

If we move to the next slide. So in parallel, you know we are also actively developing AI-driven use cases to accelerate the future growth across the 3 sectors of the economy we serve. And you know we are leveraging, in fact, our largest multi-industry data assets as most of the manufactured products, drugs, large infrastructural equipment, are created with our software to generate, if you want, those experiences. And here, I want to focus on 3 experiences available for our customers.

So if we move to the next slide. The first one is so-called system standard compliance by design. What does it do? It improve, in fact, the process of writing requirement by using AI to read, interpret all the relevant regulations and norms, which is increasing in the industry. And it then verifies that the design meets, if you want, the established performance criteria.

These solutions play a crucial role in helping specifically EV makers to address their current challenges and significantly reduce the time to market. It also ensure the accuracy the first time and enable the life cycle change for over-the-air updates.

I think this increasing level of autonomy of the smart and connected products implies a rigorous traceability along the entire design processes from the definition of the requirements to the end of the verification and validations process.

We are also collaborating with early adopters among the automotive OEMs and with the Tier 1 suppliers, and we plan to expand in Aerospace & Defense shortly. And I think following this initial engagement, we will scale our solutions to other players.

Now if I zoom to the second topic, which is the Clinical Data Studio. It's a data management solutions, as I was explaining, which provides a seamless access to integrate data from various sources. I was mentioning the electronic data capture, the electronic health record systems and more and more of the sensors.

Previously, the information was added manually to the EDC systems. But now with Clinical Data Studio, it simplifies the data aggregation, standardization and management workflows using AIs to do it. In fact, this is enabling multiple users to work at the same time with real-time data, reducing the workload, speeding up the reviews, improving the qualities, reducing the risk and enhancing ultimately the patient's safety. And this new approach is extremely critical. And this -- it will reshape the future of the clinical trial by providing a single source of tools for compliance and regulations.

Now if we move to the third topic, the perfect consumer products. I think it's enabled the creation of unique experiences for mass-personalization. And to serve a large number of customers quickly, those technology, AIs and automation, is at their crucial of leveraging the customer data to drive generative experience. And this quarter, we are partnering with ASICS, the well-known Japanese sportswear brand, to offer a personalized shoes capabilities.

And right now, building on the momentum of the Olympic games here in Paris, ASICS is opening several locations across the cities where people can scan their feet to create customized running shoes with unique sole tailored for each individuals. And these shoes can be manufactured on demand and locally, and this is also reducing the CO2 emission footprint.

For the one having the chance to come to visit us in the coming months, you will see this modular 3D printing manufacturing unit in action because we set up the facilities on our campus for the time of the Olympic games. But more than the long explanation, we have a short video to explain the concept. If you can run the video, please.

[Presentation]

Pascal Daloz
CEO & Director

We just issued the press release this morning, and I will have the pleasure to do the inauguration of this personal studio next Monday with Tominaga-san, who will be on site with me to do these openings.

If we can move to the next slide. I think after reviewing the business environment across the 3 main sectors and highlighting some new product cycle that will support the growth for the second half and the year and beyond, now I would like to conclude by providing an overview of the trends by regions.

Europe remains resilient and continues to be the key anchor for growth. There is a strong demand for transformation in -- of the European industry, particularly in Transportation & Mobility, Aerospace & Defense and Home & Lifestyle.

In North America, we expect accelerated growth in the second half of the year, in the core industry, with notable progress in Aerospace & Defense and ongoing contribution from Transportation & Mobility as well as in the Life Sciences.

In Asia, the growth dynamics are well balanced across countries. India represents a strong opportunity ahead, while Korea and Japan are expected to deliver consistent durable performance. And China is projected to grow, but remain subject to volatility.

So to wrap up, and before handing over to Rouven, I want to emphasize that we have achieved multiple win backs, and you have seen it through my customer example, meaning that not only we are competing successfully, but we are also displacing the competition.

More than ever, I'm convinced that the platform approach is a key differentiator and more relevant than ever for our customers. And this has given us the confidence in our growth potential for the second half of the year and beyond. While many experiences, we experienced short-term volatility, I think we are still game changing for our -- many of our customers, and they value the most our long-term approach.

And now, Rouven, the floor is yours.

Rouven Bergmann
CFO & Executive VP

Thank you, Pascal, and hello to you joining our call today. First, I want to confirm our results of Q2 are in accordance with the preliminary announcement from July 9.

Now let's review the performance of Q2 and the first 6 months in a bit more detail. Q2 software revenue was up 3%, with subscription revenue at 8%, and upfront license revenue down by 1%. As discussed, we closed fewer large deals as we experienced cautiousness in customer signings towards the very end of the quarter in a complex geopolitical environment.

The relative strength on the bottom line with an EPS at EUR 0.30 growing at 8% was driven by lower expense growth, strong interest income from cash invested and a lower tax rate. The operating margin was 29.9%.

Looking at the first 6 months, total revenue was EUR 2.995 billion, up 5%, with an operating margin of 30.5% and EPS growth of 10% versus H1 of last year. Subscription revenue was up 9%. However, when excluding MEDIDATA, subscription growth was up 20% in H1 and 29% on a trailing 12-month basis at the end of June.

Clearly, the momentum continues to be strong, reflecting our customers' appetite for 3DEXPERIENCE platform and cloud. Important to highlight, the MEDIDATA performance was largely in line with our expectations, which I will discuss in more detail shortly.

Now let me briefly review the deviations to the midpoint of our objectives of Q2. Total revenue came in at EUR 1.496 billion in the quarter, which was EUR 44 million below the midpoint and EUR 29 million below the low end of our objectives, including a positive currency impact.

This reflects the volatility in customer decision-making as mentioned. However, all important deals that have been delayed are still in our roadmap for future quarters. And when purchase decisions are made, our win rates remain very strong.

Operating margin was 29.9%, below the low end of guidance. OpEx growth in Q2 was 5% and offset approximately half the impact from the shortfall in revenue. Thanks to an effective hiring and expense policy, we reduced net headcount growth in the first 6 months of 2024 to 270 FTE. Additionally, Q2 OpEx growth included a onetime benefit of approximately 1 point.

Now going forward in H2, we will dial up the hiring to support our long-term growth strategy and that every year in Q3, we are onboarding interns and young graduates to fuel our talent pipeline.

As mentioned, EPS was EUR 0.30, in line with our objective. The combination of lower OpEx cost, very healthy financial income and a lower tax rate offset the mix in revenue. As you can see, we have taken a prudent approach to fill up our EPS objectives, while ensuring the necessary long-term investments.

Now turning to our growth drivers. Despite a more challenging business context in the second quarter, we saw sustainable growth in 3DEXPERIENCE revenue, up 18% in Q2 and 23% in H1, driving the share to 36% of software revenue. This quarter, over 2/3 of our 3DEXPERIENCE growth was driven by deals larger than EUR 3 million, with the remainder generated by midsized deals. Overall, this highlights the broad-based momentum and resilience of 3DEXPERIENCE growth, despite the elevated scrutiny in our sales cycles at the end of Q2.

Cloud revenue grew 10% in Q2 and 8% in H1. Excluding MEDIDATA, cloud growth rose around 70% in Q2 and 60% in H1, driven by strong momentum in the adoption of 3DEXPERIENCE cloud. In Q2, we had several large customers expanding their adoption of the 3DEXPERIENCE platform on the cloud such as Mahindra & Mahindra, Honda, Biogen and Safran.

Now let's review our performance for Q2 and the first half by product line. Software revenue of Industrial Innovation grew 6% for the first 6 months, led by strong growth in NETVIBES and data science, and the solid performance of ENOVIA and DELMIA growing at high single digits. CATIA and SIMULIA growth was particularly affected by the increased deal scrutiny and delay in decision-making, while the subscription run rate remains solid and embarks future growth.

Life Sciences' growth was minus 2% for H1, with MEDIDATA growth at minus 3%. This scenario was factored into our plan for the first half. As we now transition to the second half, we believe that the period of post-COVID market contraction is largely behind us. In Q2, we saw steady start volumes up sequentially for the first time since early 2022 after 2 years.

This -- the trend of progressive recovery continues in Q2. This is evident in the bookings performance, most notably in the study-based volume business, thanks to an increase in CRO partner consumption. Also Patient Cloud bookings were up.

While still early, we saw a good trend in bookings from new products launched in 2024. For the first time this quarter, we saw Clinical Data Studio adopted by several enterprise customers, as Pascal highlighted during his presentation. We also renewed with our largest sponsor, BMS, our multiyear contract. Importantly, BMS expanded the commitment, ramping up in 2025.

On the flip side, we saw fewer large deals in the quarter. However, we expect this trend to normalize as the share of large transactions will grow with upcoming renewals in the next quarters, including 2025.

To conclude on Life Sciences. It is clear that we are competing well in the market. We continue to expand our market share in Phase III trials by over 2 points and also in Phase I by over 0.5 point. All of the above contributes to the path of progressive recovery.

Moving on to Mainstream Innovation. We see continued strength mainly driven by Centric PLM and for SOLIDWORKS continued adoption of subscription contracts while -- with existing and new customers, more than offsetting the decline in upfront license revenue.

Now I'd like to briefly expand on the continued momentum of Centric PLM. This quarter, Centric PLM finds several large enterprise deals, with leading brands such as Lacoste, HUGO BOSS and Shopsense, a Reliance Industries company in retail tech in India. Many of those are displacements.

As evidenced by their track record, Centric PLM offers a highly integrated business platform for consumer-driven industries that encompasses all aspects of product development, planning, pricing, inventory, market intelligence and more.

By bringing together product developers, planners, quality and compliance teams, buyers, merchandisers and designers, Centric PLM optimizes every step of bringing a product to market. Consequently, we are well positioned to secure large-scale enterprise PLM contracts. It's a completely different game.

Now turning on to cash flow and balance sheet IFRS items. Cash and cash equivalents totaled EUR 4.031 billion compared to EUR 3.568 billion at the end of 2023, which is an increase of EUR 463 million. At the end of the quarter, our net cash position totaled EUR 1.036 billion, an increase of EUR 458 million versus net cash of EUR 578 million at December 31, 2023. This clearly highlights a disciplined and efficient capital allocation policy.

Now let's look at what drove our cash position at the end of the first half. We generated EUR 1.130 billion operating cash flow for the first 6 months versus EUR 1.026 billion last year or a growth of 10%. As highlighted already in Q1, we delivered a positive catch-up in the second quarter, thanks to strong collections and improvement in nonoperating working capital, mainly from lower tax payments and expected reimbursement.

For the first 6 months, cash conversion from non-IFRS net income improved to 1.42x versus 1.39x last year. For any additional information, you will find the operating cash flow reconciliation in our presentation, which we published also this month.

Now to sum up. Operating cash flow was mainly used for the net repurchase of treasury shares of EUR 273 million and a dividend payment of EUR 303 million.

In terms of CapEx, we invested EUR 106 million in property and equipment, which is around EUR 40 million above last year's level for H1. This is mainly due to global office expansions and IT-related CapEx to support our cloud cost.

We are investing in our operations in India. We are modernizing our DELMIA location in Detroit to strengthen our manufacturing presence in the U.S. and further expand at our headquarters in Paris. Evidently, we are investing long term to support our growth, and we are convinced that our workplaces are the foundation for collaboration, innovation and our strong culture.

Now let's transition to our full year outlook. Over the first 6 months, we made continuous progress in advancing our growth drivers of 3DEXPERIENCE and cloud. While we signed fewer large deals in H1, the number of midsized transactions is up 8% in the quarter and over 10% for H1.

At the same time, we experienced an elevated scrutiny in our sales cycles across major geos in Europe and NAM, North America, specifically in the Aero & Defense industry at the end of the second quarter.

Now as we look ahead to H2, we see -- we continue to see a healthy demand for our solutions and our customer base, primarily from platform adoption, the value network and domain expansion. Our pipeline coverage is well aligned with historical trends.

Taking all these factors into account, consistent with our preannouncement from July 9, we are updating our full year objectives with total revenue now in the range of EUR 6.260 billion to EUR 6.335 billion, representing a growth of now 6% to 8% versus the previous guidance of EUR 6.350 billion to EUR 6.425 billion or 8% to 10% growth.

For software revenue, we now expect 7% to 8% growth, driven by upfront license revenue in the range of 3% to 5% versus 2% to 5% previously and recurring revenue of 8% to 9% versus 10% to 11% previously.

Subscription revenue is now in the range of 13% to 15% previously versus 17% to 19%. This reflects the delay in customer signings, which impacted mainly large subscription contracts.

Finally, we expect services revenue in the range of 3% to 5% versus 8% to 9% previously.

From a bottom line perspective, we now expect an operating margin in the range of 32% to 32.4%, which is flat year-over-year at the midpoint, and an EPS in the range of 8% to 11% growth or EUR 1.27 to EUR 1.30. The tax rate is updated to 19.5% for the full year versus 20.5% previously.

Now I would like to share some additional points to help shape your models reflecting the Q3 outlook. The first comment is regarding the baseline comparison. Q3 2024, as you remember, is the anniversary of our JLR mega deal, which is creating a challenging year-over-year comp.

As such, we expect total revenue growth in the range of 4% to 7%, with software revenue of 3% to 6%, driven by a recurring revenue of 7% to 9%. Subscription revenue is estimated to grow between 12% to 17%. In this outlook, we expect MEDIDATA to improve sequentially and be flattish.

Operating margin is expected in the range of 29.4% to 30.2% and EPS between EUR 0.28 to EUR 0.29, which is up 1% to 6% year-over-year.

Now to keep in mind, the JLR effect is over 3 points on the revenue, visible in upfront license and about 120 basis points on the operating margin. And the EPS impact of JLR year-over-year is about EUR 0.03.

Now before I conclude, I would like to share a few remarks on the trajectory of the second half, for which we are now expecting 9% growth. This implies an increase of around EUR 300 million in revenue versus H1.

2/3 of this sequential growth is related to normal seasonality. The remaining 1/3 is roughly split between the slip deals that we are targeting to sign in H2 and the impact of the back-end loaded year, which also encompasses both 3DEXPERIENCE and MEDIDATA.

In conclusion, I want to reiterate our commitment to investing to support long term, while expanding our margins. We continue to see strong customer demand and engagement across our 3DEXPERIENCE portfolio, a Centric PLM platform and the MEDIDATA solutions, all supporting our financial objectives near and midterm.
Now Pascal and I would like to -- looking forward to your questions.

Question and Answer

Operator

[Operator Instructions] We will now take the first question from the line of Frederic Boulan from Bank of America.

Frederic Emile Alfred Boulan
BofA Securities, Research Division

So first of all, on MEDIDATA, would be interesting to spend a bit of time on strategy with new CEO, Anthony Costello, now driving the business. Coming back on the visibility you have, because you mentioned improving bookings, but that was already your message at the back end of last year and hasn't delivered revenue. So if you can explain a little bit what you see in terms of bookings, but also duration of those contracts and the lead time.

And then I think you saw clarification on the shape of this year, so you expect around flattish revenue in Q3. You keep the ambition to be around flat for the year because that implies a kind of more than 5% growth in Q4. So it would be interesting to understand whether that's realistic prospect for this year.

And then secondly, if I may, around the free cash flow. So any commentary there? Should we expect free cash flow to grow -- or cash flow from operations to grow in line with EBIT? Any specific working capital or other items you want to identify and site?

Pascal Daloz
CEO & Director

Rouven, can I take the first part of the question related to the new management, and then you will speak about the trajectory from MEDIDATA?

Rouven Bergmann
CFO & Executive VP

Yes, yes.

Pascal Daloz
CEO & Director

So you are right to highlight the fact that we have a new management team leading MEDIDATA. The name of the CEO is Anthony Costello, and he's really an innovator. He was the founder of Patient Cloud, which is extremely important because, as you may know, we are evolving the clinical trial towards the patient centricity, and he is the man behind this.

To say more, I encourage you to attend the next events that are going to take place in New York in the second half of the year because we will come back with a comprehensive strategy and give you many, many insight to how we are repositioning MEDIDATA for the future.

Maybe Rouven on the trajectory?

Rouven Bergmann
CFO & Executive VP

Yes. Frederic, thank you for your questions, and I'll address them in the order you spoke.

On the conversion of bookings, first, the bookings are converting to backlog and from backlog to revenue. I think in a normal market environment, you're right. Bookings, immediately as they transition to backlog, are recognized in the next quarter as revenue. But please keep in mind, in the last 12 months, we were operating in an environment where the market contracted year-over-year by 10% and over 2 years over 15%.

So this means that a lot of the trials that ended, didn't -- they didn't continue. And a number of large trials from the COVID period were creating a difficult comparison for us, as we were moving from -- over 2023 into 2024.

Remember, Q1 of 2023 was still a strong quarter. We are now 12 months later, 15 months later. It took us this time to offset the market compression of clinical trial starts in our backlog, to stabilize our backlog, to be now have the visibility to be back to sequential growth.

And this is EUR 1 billion business where about 35% is based on volume, where another 1/3 is related to the mid-market that has also shorter cycles to adjust. But the large enterprise market has been very stable. And we have been renewing with all of our large customers, and BMS is another example that we highlighted this quarter.

So I think this is an important context to keep the view on what it takes to digest this COVID bubble. It took us 1 year. And as we said, we are entering a new phase in H2, where we are back to sequential growth.

It will be progressive. We are focused on driving sustainable growth in our backlog to deliver this consistently. And we have now the visibility also given not only that the clinical trial starts have stabilized, but now we start to see them up sequentially.

And it's also visible in the bookings consumption of our partners, who consume more clinical trials. Patient Cloud continues to be a differentiator, and also we saw that in the second quarter. And now we're also entering a new cycle of innovation, while still early, but it starts to contribute and it's a build differentiator in enterprise renewals.

So on the year-over-year, what do we expect here for the year? We said we were going to be flattish for Q3. We are expecting growth for Q4. So all in all, we are targeting to be flat for the year. That's the objective.

To the free cash flow, operating cash flow, we -- as you heard from me, we are -- we have made good progress in the second quarter to rebalance the working capital movement from the first quarter. Now we are net positive, 10% growth. For the full year, we are expecting 8% to 10% growth for operating cash flow. This also implies an improvement in cash flow conversion from operating income. In 2023, we were at around 81% of conversion. We expect to be -- to improve that in the range of 84% to 85% for 2024.

And how are we doing that? We are managing our operating working capital. We are -- I think we collected extremely well in the second quarter, and we expect this trend to continue. At the same point in time, we have -- with the delay of some of the larger transactions will also have a muted impact in the second half of the year because those deals will be collected later. That will be moving into 2025, but that's factored into our objectives. So we have seen an improvement versus 2023, and it's in line with the growth in EPS.

Operator

We will now take the next question from the line of Christopher Tong from UBS.

Michael Briest
UBS Investment Bank, Research Division

It's Michael Briest. Just in terms of MEDIDATA continuing there, the ambition was to get to double-digit revenue growth at some point in 2025, given another quarter of visibility. Have you got any sense on whether that's achievable exiting H1 or maybe H2?

And then in terms of cloud, how does the lower growth of MEDIDATA today and for some quarters affect your outlook on that EUR 3 billion ambition in 2028? The core business has obviously contributed well. Do you think that can compensate over the medium term?

And then just a quick bit of housekeeping. I see the tax rates come down to 19.5%, Rouven. It was 20.5% previously in the guidance. Is that a sustainable level going forward or just something to do with the shifting in profits this year?

Rouven Bergmann
CFO & Executive VP

Okay. Let's start with MEDIDATA, Michael. I'm going through your laundry list. The answer is, yes, H2 is the target to be achieving double-digit growth in 2025. As I said, we are focused on building sustainable growth, which will be reflected on our backlog growth going forward with sequential improvement. And that should lead us to double-digit growth in the back half of 2025.

On the cloud, you are right. We are -- we see strong progress on the 3DEXPERIENCE cloud adoption. Mahindra & Mahindra is a fantastic example, as Pascal mentioned. It is an adoption of the entire full portfolio. It reflects the strong investments we have made over the years in R&D. And now with the data centricity and AI, we have a real advantage in the market. And our customers, they realize and see that. So it becomes a competitive edge for us.

Despite the MEDIDATA's lower contribution, which will pick up in 2025, we are confident in our cloud target of EUR 3 billion. And 70% growth, it is a very strong example -- it's a very strong performance. And the base is starting to be becoming large. So it's a big growth on an increasing basis.

On the tax -- for the tax, we had a few adjustments in the quarter. You're right. The first adjustment -- there are two things that need to be understood. The first is a successful completion of an ongoing order that completed in Q2. That has brought around 30% of the improvement. So that's more of a onetime effect.

The second element is a risk assessment that we took on our tax provisions related to the U.S., where we've made some adjustments that we are now projecting going forward to be the case. So there is a positive impact from that going forward, and that's about 50% of the data versus guidance and Q2 actual.

And then there's another piece, which is related to an annual assessment that we do every time in Q2 based on the tax credits we receive for R&D investments in France. And as we are conservative in the way we reflect that, typically, we always true this up once we have the final results, which is typically in Q2.

So this in aggregate makes the 3 points, of which half of it is a favorable impact going forward. But there can be discrete items that come on top of that to reduce this effect in upcoming -- in 2025. So we'll have to assess that carefully in 2025.

But overall, there are some onetime elements. There are some elements that will trail into 2025. But this needs to be taken with some caution -- cautiousness because there can be other elements that can offset that, that we'll need to assess the future.

Operator

We will now take the next question from the line of Adam Wood from Morgan Stanley.

Adam Dennis Wood
Morgan Stanley, Research Division

I've got two, please. The first one is just looking into the second half of the year. Obviously, some of the benefits you expect in H2 is from the delayed deals getting signed. I would say in the past, if the background environment doesn't change, if deals have slipped Q2, it wouldn't be a surprise to see deals slip Q3 and Q4. So what you get back, you might lose.

Could you just talk a little bit around how you think about that risk, how dependent on mega deals you are? And is there anything that you're doing to try to mitigate that risk in terms of getting part of them to close, focusing on cutting them into smaller pieces, whatever it is to lower those risks around big deals and continuing to see deals slip through the second half?

And then secondly, again, coming back to MEDIDATA. Could you give us a little bit of an idea of what the upsell potential is of the new products that you're launching? I know Patient has new with the Clinical Data Studio is. You're just an idea of size, 100%. Where could we get to? And are we seeing those coming through kind of now in renewals? Or is that something that we should expect more for 2025?

Pascal Daloz
CEO & Director

Thank you, Adam. I will take the first one, and I will make a very short answer. If you look at the guidance, the low end and the midpoint are not requesting to have mega deals. The high end need them. And if we are capable to conclude all of them, we could outperform. That's how we have built the guidance.

MEDIDATA?

Rouven Bergmann
CFO & Executive VP

MEDIDATA, sure, I'll make it short as well. The new innovation has been received extremely well by our customers. In fact, we have already 3 large enterprise customers who are adopting it. And these are not proof of concept. They are real value and paying. It's in the millions.

But I also want to caution and say it's early days. We want to ramp this up carefully, and the references is everything at this point in time that matters. But it's already contributing to our recovery. And it's a major part of our positioning going forward.

Pascal Daloz
CEO & Director

Just to complement what you say, Rouven. You are right, Adam. This product -- this new product is automatically part of the renewal. And it's a way for us not to renew at parity, but to renew in the norm we used to have, which is 20-plus.

Operator

We will now take the next question from the line of Deepshikha Agarwal from Goldman Sachs.

Deepshikha Agarwal
Goldman Sachs Group, Inc., Research Division

I think a lot of them have been answered, but just two. One is, basically, can you just give some color? I know on SOLIDWORKS, the subscription transition, as you said, has been going well. So how do we see that tracking and especially in terms of from here to the high single-digit, low double-digit growth in that product line?

And then second is your guidance implies roughly 7% growth in OpEx. So how should we think about the puts and takes of the cost development in the second half? And anything on investments in the second half and even 2025 for that matter?

Pascal Daloz
CEO & Director

Okay. So I will take the first one, Rouven. Again, if we go straight to the point, the goal for us this year with SOLIDWORKS is to definitively accelerate the subscriptions and being in a position to offset the decrease of the upfront license. And I think we are achieving this goal. And this is an important one because next year, we will not have any more of the base effects on the upfront license we have this year.

So automatically, we are recreating more than a high single-digit growth, if not double-digit growth for 2025. And I think we are extremely pleased with the momentum. We see the adoption of the subscriptions going extremely well across all the regions of the world, except China for obvious reasons. So that's what I can say.

Rouven, for...

Rouven Bergmann
CFO & Executive VP

On the OpEx, Deepshikha, the OpEx is, you're right, 7%-ish growth for the full year. Q2 was much lower at around 5%. With the 7% and the work that we have done coming into the year to manage the costs tightly, we have created a room for making investments in the second half. And that corresponds to my comment that we are going to dial up the hiring in the second half, of course, in a controlled way.

We will be starting in Q3 with the young graduates and young talent program to bring them on -- into the company. And we will see in Q3 a step-up in headcount -- net headcount cost in Q3. And then in Q4, we are working on our pipeline and prioritization. Not much more to say.

Operator

That is all the time we have for questions this morning. I would like to hand back over to the speakers for closing remarks.

Beatrix Martinez
Vice President of Investor Relations

Okay.

Pascal Daloz
CEO & Director

So I would like to thank you for you attending this call. And again, few takeaway for you. I think our fundamental are extremely solid. Our offer are clearly differentiated on the markets, and you can witness this with the competitive displacements we are doing.

If you look at, we have a robust pipeline ahead, which is structurally stronger than in second half compared to the first one. And we remain on track to close this year the majority of the large deals, which have been delayed.

Third, I think you hear me clearly stating this. I think we have derisked the guidance.

And finally, I'm still convinced we are well positioned to deliver the sustainable double-digit EPS growth for the future. So I think that's what you should remind from this call.

I wish you a good vacation for the one having the pleasure to take them in the coming days. If not, we will be maybe see you in person in the coming days. Thank you very much, and see you in October.

Beatrix Martinez
Vice President of Investor Relations

Yes. And we have the call this afternoon. So thank you.

Rouven Bergmann
CFO & Executive VP

Thank you.

Beatrix Martinez
Vice President of Investor Relations

Bye.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.