S&P Global
Market Intelligence

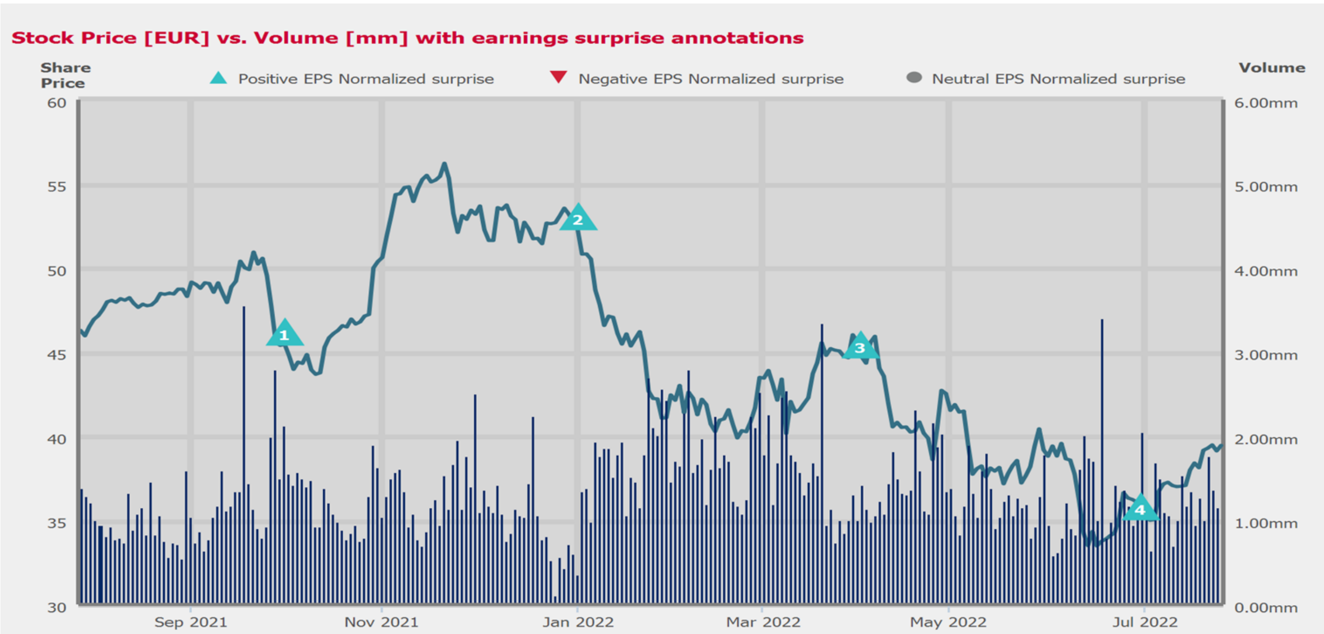
Dassault Systèmes SE ENXTPA:DSY
FQ2 2022 Earnings Call Transcripts

Tuesday, July 26, 2022 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.25	0.26	▲4.00	0.25	1.11	NA
Revenue (mm)	1332.54	1384.00	▲3.86	1339.90	5566.23	NA

Currency: EUR
Consensus as of Jul-27-2022 8:03 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.19	0.22	▲1 15.79 %
FQ4 2021	0.28	0.29	▲2 3.57 %
FQ1 2022	0.24	0.27	▲3 12.50 %
FQ2 2022	0.25	0.26	▲4 4.00 %

Table of Contents

Call Participants

EXECUTIVES

Beatrix Martinez
Vice President of Investor Relations

Pascal Daloz
COO & Director

Rouven Bergmann
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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Dassault Systèmes 2022 Q2 and First Half Earnings Presentation. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand over to your speaker, Beatrix Martinez, Vice President, Investor Relations. Please go ahead.

Beatrix Martinez
Vice President of Investor Relations

Thank you, Katya. Good morning, and thank you for joining us on our second quarter 2022 presentation. With me with us today are Pascal Daloz, our Chief Executive Officer; and Rouven Bergmann, our Chief Financial Officer.

I 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 currencies, 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.

I would like now to hand over to Pascal Daloz.

Pascal Daloz
COO & Director

Thank you, Beatrix. Good morning to all of you. And again, thank you for joining us. It's really a pleasure to be with you today. As you understood, Bernard will not be joining us for the second quarter announcement today. He was recently presenting our Capital Market Day and attending our governance road show, which is, for the one who know him, unusual, right? The last time he did it was at the time of the IPO. And it gave a rendezvous in the next 20 years so. But be sure he will be back with us to share his vision and perspective on the industry for the future.

Let's start. I think we are pleased with the Q2 results. We delivered a strong second quarter and half year results, putting us on the trajectory to achieve our 2022 objectives. Our good performance was driven by broad-based growth across geographies, product lines and industry. And I think we have demonstrated once again the resilience of our strategy against challenging macroeconomics and geopolitical backdrop with an impact from Russia and China.

For the second quarter 2022, total revenue grew organically 11%, with both subscriptions and support license up double digits. The earnings per share increased 21% to EUR 0.26, outperforming our objectives, and we continue to support our long-term growth initiative with the net count increase 8% overall and 10% in research and development specifically.

For our full year 2022 objective, we are reaffirming our revenue growth target of 9% to 10% at constant currency. However, we are factoring in some volatility in license revenue driven by China. And we have also increased our EPS objective to 14%, 16% growth from 9% to 11% previously. I think it is clear from our results that our clients continue to invest in both to address the challenge posed by the current environment as well as to prepare for the future. And I think our industry are considered being mission-critical for all of them.

So Rouven will discuss more the financial results in details after my quick presentation. Now I would like to share some perspective on our strategy as well as to review our operating performance for Q2. If you remember, during our recent Capital Market Day, we have a significant ambitions for our next horizon to 2040. As in the past, when we look at the future, we begin to lay out the foundation for our success.

In 2012, you remember, we unveiled our vision for the experience economy and shift from product to experiences. You have seen this validated with the transition to sustainable mobility experience, for example. We have also introduced our 3DEXPERIENCE platform to start preparing them to support our clients with a differentiated technology today.

In 2020, following the MEDIDATA acquisition, we repositioned the company, along the 3 sectors of the economy, Manufacturing Industries, Life Sciences & Healthcare and Infrastructure & Cities. And we also announced our extensions to the virtual twin from things to life.

In 2022, we are introducing the circularity concept within our 3DEXPERIENCE platform. We call it the IFWE Loop. It represents really a true paradigm shift in our strategy. Now, why now? I think the experience economy and the circular economy are really converging, and this will mark the coming decades.

As we look our next horizon to 2040, industry will no longer develop products, but sustainable experience centered around the consumer patients and citizens. And the experience economy goes hand by hand with circularity as it requires designing the entire life cycle experience upstream, integrating the use with the hand of life. I think circularity is also about frugality, using only what's necessary and appreciating all the things created by the humankind will have to hand. The raw materials that compose then can be repurposed, reused and recycled. And I think this will revolutionize design and open up significant new opportunity we cannot yet imagine.

Now if you look at our 3DEXPERIENCE, if we look, it connects value creations with value experience to cover the full experience life cycle. This allow innovator to anticipate the recycling of the product from their design and manufacturing to quantify the environment impact and optimize the circularity. As a consequence, our 3DEXPERIENCE platform is not only a way to be game changer and to displace the competitive landscape, but it's also a multiplier, a multiplier to expand our value proposal from linear to circular economy, converging sustainability and experience economy. And a multiplier to expand the audience by connecting people, data and IDs from industry professionals to all business communities and ultimately, the consumer, the patient and the citizens. And this will be our next frontier.

Now let's see our industry solutions are evolving to provide an accurate assessment of the environment footprint. Please launch the video.

[Presentation]

Pascal Daloz
COO & Director

Now we have been talking about the next 20 years. Let's come back on how we are helping the clients in the present. In today's challenging environment, from inflation to raw material shortage and meeting sustainability imperatives, I think we are rebuilding the value and the mission-critical nature of our industry solutions. And I think we are seeing a strong customer adoptions in this quarter across all the 3 sectors of the economy, and it offer many proof points. So let's look at few example.

In the consumer industry, we are expanding our value proposal to new audiences, reaching the business community I was mentioning previously. With the virtual twin experience at the means of operations, we are helping retailers increase efficiency, resiliency and mix sustainability imperatives. This quarter, for example, we have established a new partnership with Asda, one of the Britain's largest retailers, serving 18 million people and 98% of the U.K. homes every week. And Asda has chosen to utilize DELMIA Quintiq to rethink the entire value network, to increase operational efficiency, savings millions, to capitalize on those efficiency gains to offset inflation and lower consumer prices, improve the customer experience with the last-mile delivery and to advance sustainability goals by reducing the empty mileage. I think we are extremely pleased to support Asda, and we will continue to build upon its significant legacy.

If we zoom in life sciences, we have been pioneering incredible innovations during the last decades, challenging the game for our clients. And MEDIDATA is by far the #1 trusted partner and the gold standard in clinical trials. Without our investments, we will not have electronic data capture as the standard for all the clinical trials with decentralized trials becoming the new best practices. We will not have the synthetic control hub as a groundbreaking way to speed up evidence generation and time to market.

Without these innovations, our clients would not have been able to develop the COVID vaccine in record time. But the pandemic exposed many vulnerability within the industry. Remember, it took only 1 year to develop the vaccine, but it took more than 2 years to manufacture it at scale. So this industry was not really capable to producing different therapeutics in a short time of reasons. Addressing these issues is really becoming a must and will require significant reconfiguration and investment.

And this quarter, we are expanding our long-standing partnership with Sanofi. Sanofi has decided to adopt the 3DEXPERIENCE platform as well as the Made To Cure for biopharma solutions to enable them to develop a modular and more flexible manufacturing capabilities. Our technology will help Sanofi to develop and deliver vaccine at the pandemic speed, which is really something becoming a need for many of our customers. It also accelerates the new facility and drug launches, enabling the productions to multiple vaccine concurrently. And in addition, Sanofi will leverage our technology to reduce water consumption, supporting its net zero carbon objectives.

We look forward to continuing to support Sanofi effort to improve patient outcomes. And I think only Dassault Systèmes has the innovations, the technology and the scale to provide life sciences sector hand-to-hand solutions. We hope this work with Sanofi serve as a catalyst to accelerate industry adoptions for all the manufacturing things we do and advance the patient journey.

Now if we turn to Transportation & Mobility. There is a rapid transformation to sustainable mobility experience underway, requiring a tremendous amount of science across many disciplines. And once again, I think it's something only Dassault Systèmes can provide. Hopium, with a H, right, is a start-up founded by professional car racers, has designed an innovative fuel cell and transform air and hydrogen into energy emitting nothing but water, while at the same time reaching a speed of 230 kilometers per hour, which is almost a sport car performance, right, traveling for more than 1,000 kilometers, similar to a long-haul truck and refilling less than in 3 minutes, which is far less than your phone. So I think combining the challenge is requesting a lot of science to make it happen. And Hopium has deployed the 3DEXPERIENCE platform solution on the cloud and created its first prototype in only 8 months.

I think this example are a testimony of the mission-critical nature of our industry solutions in addressing resiliency, sustainability as well as the value we bring to our relationships.

Now shifting gears, let's turn to the review of our operational performance. Starting with the revenue by geographies. The Americas grew 8% during this quarter, driven by a strong performance in subscriptions. And from an industry perspective, Life Sciences and Industrial Equipment were key contributors to performance. Europe accelerated to 13% growth in Q2, and performance was really broad-based. Northern Europe, France, Southern of Europe delivered an excellent result driven by Transportation & Mobility and Aerospace.

Asia Pacific rose 13% this quarter, showing strong resilience in the face of the China COVID-19 restrictions. And we were expecting lockdown to last a few weeks, but instead, they have been lasted months. Nevertheless, I think we have been able to largely offset this with Japan, south of Asia Pacific, India growing double digits, and China grew low single digits as well.

Now zooming on the performance in the product line. Industrial Innovation software revenue rose 11%. And again, this performance was really broad-based across multiple brands, having CATIA, ENOVIA, DELMIA as well as NETVIBES growing double digits. And to be noticed, because for CATIA growing double digits is not an easy thing, it means that all the new specialized products we have related to CATIA Cyber Systems, the one used to design the architecture and the connected things, are demonstrating an excellent performance against this quarter, reflecting really the differentiated value of our technologies.

DELMIA to be noticed also. DELMIA benefited from a strong interest in manufacturing transportations as -- transformation, sorry, as clients seeks to increase efficiency, resiliency and connect operation with a platform approach.

Resuming Life Sciences, revenue grew 13%. And I think MEDIDATA maintained the velocity, growing 15% and on the back of a high comparison base, if you remember. MEDIDATA continues to experience strong momentum across its product portfolio, including MEDIDATA Rave, MEDIDATA AI and MEDIDATA Patient Cloud, as well as across end markets, including pharmaceutical, biotechno and contract research organizations. MEDIDATA also experienced a good traction in medical devices and in the mid-market in Europe, which, if you remember, was one of the point of synergy of the merger with MEDIDATA and Dassault Systèmes. And I think this quarter is demonstrating also the durability of the MEDIDATA growth profile.

To be noticed also, our life science engagement, which is the dedicated channel we have to serve the life science sectors, continue to gain also 3DEXPERIENCE platform reference wins, Sanofi being one of them.

Moving to the Mainstream Innovation software. Revenue increased 8%. And I think SOLIDWORKS grew mid-single digit against a strong baseline effect of 25% growth last year. And SOLIDWORKS was really the product line being impacted by the China COVID-19 restrictions, which have lasted longer than expected. I think we view this as transitory issues. And when the situation normalize, we expect a return to trend line growth, which is between 8% to 9%.

Centric PLM continue to experience strong momentum with revenue increase high double digits. But to be noticed also that Centric PLM accelerated innovation and time to market by improving the quality and the optimizations. And this is mission-critical for many consumer companies. And looking forward, we have a significant opportunity to leverage Centric's strong momentum by reaching new audiences and providing new value proposal. Centric PLM started in the domain of fashion and retail, and we are now expanding in new industries such as food and beverage, cosmetics and personal care.

Centric clients were also primarily large international brands. While today, the company is having a good success with retailers and SMBs. And additionally, the strategy is really to expand Centric value proposal beyond the collection management to business planning and analytics as well as e-commerce. So ultimately, there are a number of vectors for growth to continue to drive the expansion for Centric PLM well into the future.

Speaking about continuing to invest in innovations for the benefit of our customers, whatever is organically or through acquisitions. I'm pleased to announce a small acquisition, but very emblematic and maybe you can launch the video. It's a French-based start-up, leading players in the V+R on the shop floor and in the field complement our DELMIA offering and accelerate the expansion into quality control compliances and work instructions. The name of the company is Diota. it combines an advanced 3D interactive capabilities with augmented reality and AI technology. And it complements data-centric approach, incorporating the real-world dividends coming from machines, the shop floor or also from the field equipment.

This company solution utilize virtual technology in the field, a kind of metaverse if you want. And you remember, the metaverse is maybe a new concept for the industry, but it's something we started a long time ago. And this specific case is used to maximize the traceability and the productivity throughout the complex manufacturing, inspections, certification and maintenance processes. It's a small start-up, EUR 2 million revenue. But I think Diota offer a proven technology, a great team and an impressive customer roster also. So I think we are delighted to have Diota joining us, and we welcome the team on board.

I think now it's time for me to hand over the presentation over to Rouven to discuss the financial performance and 2022 objectives. Rouven, you have the floor.

Rouven Bergmann
CFO & Executive VP

Thank you, Pascal, and hello, everyone. It's great to speak to you today. As you heard from Pascal, we had an excellent second quarter across the board. This demonstrates the strength and the durability of our business model. It also gives us the confidence to reaffirm our 2022 objectives for the year. While at the same time, we are acknowledging some macroeconomic uncertainty.

In the second quarter, we delivered on the key initiatives we communicated to you during our Capital Market Day. We saw an acceleration in recurring revenue growth to double digits, driving overall software revenue growth to 11% and we delivered strong earnings growth with EPS up over 20%, well supported by 32% operating margin in the middle of our targeted range.

Now let's take a closer look at the proof points with a review of our Q2 non-IFRS results. Total revenue grew 11% year-over-year, EUR 15 million above the midpoint of our guidance. This was driven by accelerating recurring revenue growth of 10%, above the high end of our guidance. Recurring revenue represented 78% of software revenue during the period. License revenue increased solid double digits at 14% this quarter. The license growth, as you heard from Pascal, was negatively impacted by China's COVID-19 restrictions.

Coming into the quarter, we expected this to last up to a few weeks. However, the lockdown lasted over 2 months and it attributed about 3 percentage points of headwind to the license growth in the quarter. Despite this, we delivered a good performance and again, highlighting the resiliency of our model. Contributing to the overall strong momentum, our services revenue rose 14%, also above the targeted corridor.

Now let me comment on our business model evolution as reflected in 3DEXPERIENCE and cloud growth. A growing list of customers, both new entrants and incumbents, are expanding their relationships with Dassault Systèmes.

3DEXPERIENCE and cloud are critical for enabling resiliency and for helping clients to scale rapidly as they capitalize on the benefits of adopting all our domains. We continue to see very good 3DEXPERIENCE momentum with revenue growing 30% year-over-year to a share of 33% of software revenue, an increase of 4 points relative to last year.

Cloud revenue rose 23%, driven by continued strength in Life Sciences and 3DEXPERIENCE, Cloud now accounts for 22% of software revenue, up over 2 points versus last year, as we see large customers in our core industries such as Aero & Defense, Transportation & Mobility and Industrial Equipment deploying 3DEXPERIENCE cloud solutions.

Let's discuss our operating margin performance versus objectives. We reported an operating margin of 32%, in the center of our targeted range. And when factoring in the overachievement in revenue, the net impact of higher expenses versus guidance was only 10 basis points. Relative to last year, expenses were up 12% and this reflects our confidence to continue to invest in our long-term growth strategy. Indeed, we hired over 1,200 people during the quarter, representing more than 420 net new team members. We grew head count by 8% overall and 10% within R&D versus last year.

These investments will allow us to further expand our reach and capabilities from managing transactions to driving transformation when we lead with the 3DEXPERIENCE platform with our customers. We also saw more active travel and marketing activity compared to a lower 2021 base, which accounted for about 20% of the increase. So as you can see, we are investing in growth, our subscription and cloud revenue are growing at the highest rate, and we are not compromising our profitability.

Now turning to EPS. For the second quarter, we delivered strong earnings per share growth of 21% to EUR 0.26 as reported, above the objective range of 11% to 16%. The growth in EPS benefited this quarter from a more favorable FX conversion, driven by the strengthening of the U.S. dollar versus euro with an impact of EUR 0.011, a higher operating income contributing EUR 0.2 and a lower tax rate contributing EUR 0.2.

Let me briefly comment on the non-IFRS tax rate for the quarter of 20.8% versus our guidance of 21.2%, highlighting that we continue to benefit from higher FDII tax deductions in the U.S. I'd also like to comment briefly on the reconciliation to IFRS EPS. As you know, at the end of May this year, the long-standing tax dispute covering the fiscal years of 2008 to 2013 was concluded by the ruling of the French High Court, resulting in a onetime tax charge of EUR 145 million. There was no cash impact this quarter, and there will be no cash impact in 2022 as all payments were made between the years 2014 and 2020. This dispute has been reported in our financial statements since 2014 as pending and is now closed.

Turning now to cash flow and balance sheet items. Cash and cash equivalents totaled EUR 3.157 billion compared to EUR 2.979 billion at the end of last year, an increase of EUR 178 million. Our net financial debt ended June 30, 2022 decreased by EUR 405 million to now EUR 485 million compared to EUR 889 million at December 31, 2021. This puts us well ahead of the schedule on our deleveraging objective.

Now let me provide some additional color on what's driving our cash position this quarter. First, cash from operations totaled EUR 1.048 billion for the first 6 months, an increase of 1% relative to last year on the back of a strong comparison base. Last year was up 21%. And now just looking at Q2, operating cash flow was up a strong 7% year-over-year. This quarter, cash from operations was used for treasury stock repurchases of EUR 75 million, contributing to EUR 378 million for the first 6 months, and we paid the dividend to our shareholders of EUR 224 million. Lastly, we had a benefit of EUR 116 million from FX with EUR 90 million coming from Q2 only.

Now let me transition to some key drivers of the second quarter operating cash flow performance. Net income adjusted for noncash items is up 32%. The increase in contract liability reflects our business activity in line with recurring revenue growth of 10%. The decreased income tax payable is driven by higher tax payments in the U.S. related to the mandatory capitalization of R&D expenses for tax purposes only. Consequently, the deductibility of these expenses will be delayed, resulting in an increase of cash taxes we pay.

And then lastly, the decrease in accrued compensation is due to lower social charges on stock-based compensation from a lower share price in Q2 2022 versus the same period of last year.

Now let's turn to our fiscal year 2022 objectives. As we look to the remainder of the year, we feel optimistic about our business momentum. At the same time, we are mindful of the macroeconomic backdrop characterized by mixed sentiments. In this context, it's important to highlight that within our full year objectives, we already offset the revenue impact from the wind down of operations in Russia, which accounts for about EUR 21 million of revenue for the year. This, we discussed in Q1.

Taking all that into account, we are reaffirming our 2022 total revenue growth objective of 9% to 10% growth, now to a higher absolute range of EUR 5.485 billion to EUR 5.535 billion versus previously EUR 5.355 billion to EUR 5.405 billion previously. And this incorporates an update to the U.S. dollar rate from 1.14 to 1.10 for the remainder of 2022. This adjustment to our currency assumption, along with the second quarter FX benefit, has a EUR 123 million positive impact on our total revenue objectives.

Now in addition, we are also reflecting half of the Q2 overperformance and the remainder has contributed to derisk the rest of the year, marked by an increasing uncertainty, more specifically in China, as also Pascal alluded to. We are reflecting this adjustment mainly in the outlook in license growth, which is now projected to grow at 9% to 11% for the full year.

Now let me turn to the operating margin. We are reconfirming our full year operating margin objective of 33.4% to 33.7% and this reflects our continued commitment to invest in our long-term growth initiatives, including maintaining momentum and achieving our hiring targets.

Turning now to EPS. We are raising our 2022 diluted EPS objective to 14% to 16% growth as reported, reaching EUR 1.08 to EUR 1.10. This compares to 9% to 11% growth previously, which was EUR 1.04 to EUR 1.06 previously. The delta versus our previous target is driven by a EUR 0.026 FX benefit, EUR 0.004 revenue impact offset by EUR 0.007 from an increase in operating expenditures and a EUR 0.021 benefit from a lower tax rate. The updated tax rate reflects higher FDII tax deduction for the second half of the year in the U.S. and a lower tax rate in France, each contributing at similar weight.

Now let's review our 2022 objectives by revenue type. Software revenue growth is reaffirmed at 9% to 10%. Recurring revenue growth is reaffirmed at around 9%. And as mentioned, the licenses and other software revenue growth is now 9% to 11% from 10% to 12% previously for the reasons I outlined. Services revenue is targeted at 8% to 10% growth.

Now before closing, let me briefly also share our objectives for the third quarter. Total revenue and software revenue growth of 8% to 10% with recurring revenue at approximately 9%, license revenue in the range of 6% to 10%, and service revenues up 11% to 13%. The operating margin of 31.1% to 31.8% and diluted EPS growth of 6% to 11% to EUR 0.24 for -- to the range of EUR 0.24 to EUR 0.25.

So let me now conclude. In conclusion, for the full year 2022, we reaffirm our growth objectives for total and software revenue of 9% to 10%, ex FX, driven by good momentum in subscription and cloud revenue growth. We have raised our outlook for total revenue, reflecting half of the Q2 overperformance in our full year objective and at the same time, derisk some of the macro factors, specifically adjusting the license growth attributed to China.

Finally, we raised our EPS target to reach now 14% to 16% growth. We expect a solid third quarter, and we look forward to keeping you informed as we progress through the second half of the year. And now Pascal, back to you.

Pascal Daloz
COO & Director

Thank you, Rouven, for sharing with us the guidance for the full year. So you have seen the level of confidence we have. And I think if we step back a little bit, what could we say? We can say that our clients continue to invest in innovations to both address today current challenges they have as well as to prepare the future. Resiliency and sustainability are really the top priorities. And for all of them, what we do, our industry solutions are mission-critical.

The good thing is we know we have significant and durable competitive advantages to leverage each of the 3 sectors of the economy we serve. And I think it has been described and highlighted in the visions we shared with you during the Capital Market Day, the 2040 vision. I think you noticed that we have the foundation for the success.

And finally, I think I should thank our clients for their continued -- for their trust. It's a long-standing trust. We have been over the time with them. And also for the team, our teams, for the patience because they are working hardly, and they have a lot of dedication to our success.

Before to conclude, I want to say a few words. As you may know, we are a long-term company and usually we plan a little bit in advance. So I want to take the opportunity to congratulate both François-José on his retirement, even if it will be next year, right? And Beatrix Martinez for -- on her promotions to now lead our Investor Relations efforts.

I think François, over the last 13 years, you have shaped the Investor Relations effort with tremendous integrity, I think, always maintaining the investor trust as your north star. And I think you've done it with kindness, humor and a lot of discipline, a military discipline, I should say. And it was truly an honor and a pleasure to working with you. And thanks again for the leadership, the hard work and dedication to the IR team.
Beatrice (sic) [Beatrix], no need to welcome you on board. I think you joined or you joined Dassault Systèmes a long time ago. And I think you and François have been working together for several years. We are lucky to have you leading the Investor Relations and no doubt, you will carry out the torch extremely well. So I think now Rouven and I will be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] We are going to proceed with the first question. And the question comes from the line of Adam Wood from Morgan Stanley.

Adam Dennis Wood
Morgan Stanley, Research Division

I've got two, please. The first one, I hear the confidence on a macro and well, rather, your business position in the macro. I wonder if you could just talk a little bit about the environment. I think that's the question I get most from investors. I guess the auto supply chain, SOLIDWORKS, maybe Germany, given the situation in Europe is where people would naturally have concerns. Could you just talk a little bit about what you're seeing in those areas and whether you've seen any signs of sales cycles lengthening?

And then maybe secondly, we're in a, I suppose, a kind of a strange environment that you want to invest. There's probably some catch-up from last year to do on that side of things. But we do face the challenges of a slowing economy. Could you just talk a little bit about what the plans are for the second half of the year? Because that's the base you're going to be then working from in 2023. In terms of costs, are you planning to invest [totally as] normally? Is there any kind of caution that you have to prepare for a slower macro?

Pascal Daloz
COO & Director

Okay. Rouven, I take the first part of the question, and you will address the second one.

Rouven Bergmann
CFO & Executive VP

Yes, yes.

Pascal Daloz
COO & Director

So if we look at by sectors, I think you noticed the Aerospace & Defense cycle is going extremely well. Last week, we had a chance to attend the Farnborough exhibition, which is the U.K. air show, and we met a lot of customers. And what we can see is the cycle was driven by the defense and space, and we see also the commercial being back. So I think -- and it's not only true for the OEMs, but also for the supply chain.

So I think we have relatively good visibility for this sector. The Life Science sector, which is the second largest sector for us, is also -- I will not say completely muted, but not subject to the macro environment. And again, there is so much this industry needs to do to improve the efficiency, to also introduce new innovation that clearly the perspective are really good.

Related to the auto sector, I think something happened. This industry is having a lot of shortage. And we -- this is true, we are seeing some -- the volume dropping. But at the same time, we have seen the price increasing significantly on the new vehicles. So why it's important? Because it's a way for many of our OEMs to restore their margin and continue to invest in order to transition the entire product range to electrification and the autonomous car. And this is extremely important because, as you may know, the regulation is really imposing it to happen in many regions of the world. And it's something, any way, many of the OEMs need to do and accelerate.

So we do not see this activity slowing down. This is also true for the Tier 1 suppliers. Maybe for the Tier 2, Tier 3, there are some effects, but it's probably still a little bit early for us to see it, right?

As far as the industrial equipment market is concerned, and as you may know, it's really the largest market for SOLIDWORKS. Clearly, I confirm what Rouven say. It's going relatively well. I mean, the momentum is good, whatever it's Europe or North America and in Asia. The only backdrop we have is really the one we have seen coming from China because the lockdown was hurting earth. I mean the resellers, in a way, they were able to visit their customers. At the same time, right now, you do not have too much measure to help them. I mean, the government, the Chinese government is not helping too much this economy.

And for many small company restarting the activities is consuming a lot of the efforts and investments. And that's the reason why we saw some softness for the Q2. But again, the perspective are relatively good for what we can see. And for the consumer industry at large, whatever it's Centric PLM or what we do in the consumer packaged goods, again, the cycle is extremely high. I mean, Centric is growing high double digits, and we continue to expand. That's what I can say. Maybe for the cost, Rouven?

Rouven Bergmann
CFO & Executive VP

Yes, yes. Thank you, Adam. So for a few things that we've been considering as we thought about the second half of the year and coming into next year, but I also want to come back to what we've presented at our Capital Markets Day because this, for us, was an important point to reinsure and reconfirm some of our operating principles and the way we run our business and prioritize our decisions. One of the key highlights was we shared with you the track record of us over a decade, from 2012 to 2021, improve our margin by 40 basis points on average per year.

Now there can be fluctuations from year to year, but when you look at it at the macro picture, we have a strong track record of continuous margin improvement. But at the same point of time, in 2022, when we issued our guidance, we said we are going to catch up and we are going to make dedicated investments for some of the delays that we were facing in 2021. And that's what we are doing right now. We've been delivering on our plan for hiring and we plan to -- we stick to our plan for the second half of the year to continue to invest into hiring the required capacity and the critical know-how that will be important for us to continue our growth path in 2023 and beyond.

You saw 3DEXPERIENCE growing at 30%. You saw cloud growing at 23%. You heard from Pascal that more and more of our customer engaging -- customer engagements are very strategic and driven by platform investments. They are required to have deep knowledge about our customers' business processes and work with them long term together. And that's where we are going to drive our growth and opportunity from across our sectors.

When we step back and the way we have -- now we have set our target for 2024, right? We are -- we have the room right now to make these investments because we are on track. And we don't want to compromise that. And so that's, in a nutshell, what we are -- what we look at in 2022. We took the cautious measure to trim the license outlook by 100 basis points. Because of the good performance in the first half of the year, we can derisk. But we also reflected half of it already in our guidance.

So I think it's a good balance and mix on the one side of investments and growth that we are confident about. I hope this helps you to frame the outlook and the decisions that we have.

Operator

We are going to take the next question. The next question comes from the line of Kathinka de Kuyper from JPMorgan.

Kathinka M. de Kuyper
JPMorgan Chase & Co, Research Division

Also two for me, please. Just on the situation of hiring. I think Q1, you mentioned you saw a 5% wage inflation. Is that still the case or is it higher? And do you see the attrition rates improving? And then to what extent have you been able to pass that wage inflation onto your customers, like price increases?

And then secondly, on the 3DEXPERIENCE software revenues. It was a nice acceleration to 30%. Can you provide a bit more color on what was driving this acceleration, maybe what type of industries or type of customer? .

Pascal Daloz
COO & Director

Take the first one?

Rouven Bergmann
CFO & Executive VP

Yes, happy to. So yes, on the wage inflation that we communicated of percent, yes, that's factored into our Q2 actuals because of the increase in salaries and compensation becomes effective 1st of April. So you see that reflected now for the first 3 months. We had an OpEx increase overall, as you can see, from the materials we shared with you this morning of 12% OpEx increase. That's about EUR 100 million of increase year-over-year. About 70% of that increase is from payroll, which reflects the 8% head count growth plus the compensation increase. So that is according to plan.

Of course, we monitor -- we continue to monitor the inflation situation as well as in comparison to the compensation to see where we might be exposed because as many companies, we have faced attrition at higher rates and higher levels. While at the same point, right now, we see that coming down, right? The attrition rates are declining because I think there is -- we've gone -- we've reached the peak level, and now we're seeing this coming slightly down. And we'll have to see how the second half of the year will be. But I think we're starting to come down to more normal territory, right, where we used to be. We're not there yet, but we've reached the peak levels.

From a pricing perspective, we have taken a lot of effort and focus at the beginning of the year and end of last year to do all the preparation to be ready to implement price increases through our partner channel as well as through all our direct business. We have executed some of it already at the end of Q1. There are still some price increases that are following in the second quarter. We continue to monitor, of course, the rates. Every time we renew, we adjust for our consumer price index or CPI index. That's business as usual. We are protected as it relates to that. But it's a topic that's top of mind for us to ensure that we develop our price points according to the market prices, reflecting inflation as well as the value we provide to our customers. Maybe to the 3DEXPERIENCE?

Pascal Daloz
COO & Director

Yes, you are right to notice that the 3DEXPERIENCE platform related software have grown 3x faster than the overall revenue. It's not coming from one specific industry. It's really broad based, which is extremely important for us. From a product line standpoint, I would say CATIA, ENOVIA, NETVIBES are really the one driving most of the growth. And it's specifically coming from the direct large accounts we have against -- you have a piece coming from the indirect channel as well. But the vast majority is really driven by the large contract we signed in Q2 and also Q1, where we had some follow-ups.

So clearly, this is the profile of the 3DEXPERIENCE platform related software growth. And the way to conclude it is really becoming mainstream. I mean it's the foundation in all the large contracts and all the large engagement we have. More and more, the supply chain is adopting the 3DEXPERIENCE platform. And we see also the WORKS family taking off. For example, this quarter, we had a good momentum with DELMIAWORKS, which as you remember, the expansion of the manufacturing domains into the SOLIDWORKS installed base. And we are obviously -- it's part of the WORKS family. So the 3DEXPERIENCE platform is really the cornerstone for -- to make it happen. That's what we can say for the 3DEXPERIENCE platform.

Operator

We are going to take the next question. And the next questions come from the line of Michael Briest from UBS.

Michael Briest
UBS Investment Bank, Research Division

Two for me as well. If you could just address the M&A pipeline. And I'm curious, with the big move in the U.S. dollar, whether that has an effect on your ability or willingness to do U.S. deals at the moment.

And then, Rouven, on the services business, I mean, the guidance is 11% to 13% growth this quarter. I think it was 17% in H1. But it looks like you're expecting a big slowdown in Q4. Can you talk of how that is and whether that business should reaccelerate in 2023?

Pascal Daloz
COO & Director

Thank you, Michael, for the question. I will start with the first one, and Rouven will address the second one. So you are. I mean, you are speaking about the M&A, but let's -- before to touch it. Just to reinforce that most of the growth we are doing for the last 3 years, right, is an organic growth. And to be noticed that we are outperforming, putting the engine on fire and pushing all the different cost [levers] we have. Nevertheless, it does not mean we will not consider M&A. And you remember, I've been explicit about this. To complement the good quality of -- in terms of executions, we want also to use the external growth lever.

And being deleverage almost, we are below EUR 0.5 billion net debt right now. And within a quarter, we will be positive. So I think it's really the time to reconsider. We have a pipeline, right? And you are right, the dollar exchange rate is, to some extent, helping. However, to make those kind of deals and transactions, you know the strategy should be well in place. The team should be embark, and we should have the strategic framework being well designed. So clearly, we are working on some of the projects.

The question maybe you have, is it something you could expect to have this year? Probably not, right? But is it something you could expect in the future? Definitively yes. That's my way of answering, Michael.

Rouven Bergmann
CFO & Executive VP

Okay. Yes, thank you, Michael. I would say good catch on the services line. We have good momentum in the first half of the year. You're right. It's obvious the numbers are very, very good, Q1 and Q2 even better. And we also have a solid pipeline for the third quarter. We took the decision to not change the guidance for the year essentially because it's always part of our strategy, is to make sure we enable and equip the ecosystem to really drive the weight of the implementation and ensure they are skilled and trained because that's where the scale should be coming from.

We need to ensure that we drive the new innovation and the adoption and these are clue and be the domain -- those who have the strong domain knowledge, but we really want to make sure and we -- in some way is reflected in this number that we will rely more and more on the ecosystem and try to rely more on the ecosystem to take more of the growth. And while we are making investments and recruiting consultants, we don't want to deprioritize that, right? We know it's critical. And you see we have delivered strong growth, and the margin at the same time also have improved very nicely. The services margin now at a healthy level of 13% to 14%. So that's the strategy we have.

Pascal Daloz
COO & Director

Just to complement what you say, Rouven. Michael, in almost in 25% of the large engagement we have, we are doing jointly with CSI, and we want to improve from 25% to 50%. So that's really the goal. And Rouven say explicitly because it's a way, really, to spread the skills and the competence through the ecosystems. And also if you remember, we were protecting our capacity during the tough time, which was not the case for the CSI. So I think it's also important for them to rebuild their capacity and giving more of the services businesses to them. It's also a way to help them to rebuild the capacity in a short period of time.

Operator

We are going to take the next question. The next questions come from the line of Mohammed Moawalla from Goldman Sachs.

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

Great. Pascal and Rouven, two for me. First one, just focusing on the MEDIDATA side. You talked about the kind of relative resiliency here, but also the growth opportunities. So maybe just curious to understand the kind of cross-sell, upsell and uplifts you see on renewals and how sustainable that would be or how resilient that can be in perhaps a more cautious macro environment. And then related to that is, again, the Life Sciences growth resiliency.

The second question is just on some of the strategic engagements that you've had. How do you -- or do you see any impact on those discussions going forward? Perhaps kind of larger deals, are you seeing any changes in sort of customer behavior around that for the kind of core manufacturing business? And how big of a risk do you see perhaps in next year around that compared to kind of prior downturns where perhaps we did see customers dialing a lot of that spend back?

Pascal Daloz
COO & Director

Will you take the first one, Rouven?

Rouven Bergmann
CFO & Executive VP

Yes, happy to. Thanks, Mo. Let's maybe give a little bit of more insight into the performance of MEDIDATA in the first 6 months of this year, and Q2 was certainly a strong quarter for MEDIDATA. It was actually Q2 was the largest bookings performance of the company outside Q4, right? Q4 traditionally is the largest quarter of the year, but there was no -- never a quarter outside of Q4 stronger than this Q2 in terms of incremental bookings performance. So I think it's -- it shows the strength of the positioning and the, really, ability to continue to drive value and growth from our customers.

And how are we doing this? Because that's what's behind your question, right? When we look at upsell and cross-sell, it's the DNA of the company, to do the value wide and value up, the land and expand and attach more products to existing customers. And we do this typically at the time of renewals. And here, you ask for the upsell and cross-sell uplift that we were able to achieve, which is at a level that's very, very good this quarter. I would say over 30% for every deal that renewed on an annual contract value, we were able to increase the value and the contract value from customers at the time of renewal compared to the prior contract that was in place.

So it shows the ability for us to attach more product, to create more value. And this is where the long-term investment strategy is paying off because what are our clients doing? They are looking for our data management platform, right, to be extended to patients with the Patient Cloud platform to really decentralize the infrastructure and the ability to engage patients into clinical trials much more directly and seamlessly when they are at home, as well as using the AI capabilities and our huge data assets to provide unique insights.

And now we top this with the 3DEXPERIENCE platform and the manufacturing capabilities to really change the paradigm of life sciences overall, not only in drug development, but also in manufacturing and supply chain management. And this is the example of Sanofi, which Pascal shared. And this is the starting point, and we have many active discussions where these are relevant topics. So I would characterize it to summarize that the MEDIDATA performance is very durable. We are kind of tailing off the COVID period. And I remember you asked questions about are we going to see a slowdown because there are now less clinical trials and mega trials are ending. So here we are, right?

We are -- yes, there is less activity, there are less trials. It's not growing as fast as it was last year. But I think our ability to take more share of wallet and still capture the incremental growth in the market is paying the dividend, and it's what we're seeing in our results.

Pascal Daloz
COO & Director

Related to the large deal and basically their weight into the pipelines, I think it's relatively consistent compared to what we have seen last year. The reality in Q2, the -- we signed a significant number of large contracts. Rouven was mentioning Jaguar Land Rover being one of the largest, but it's not the only one. It's really across all the geos, and we have not seen any decision being postponed. And the proof of what I'm seeing is the growth of the direct engagement was higher than 15% for this quarter. So what we have seen, nevertheless, you're right. In -- probably in the United States, this is where the large corporations are anticipating the most the recessions.

And they have put in place some criteria in order to basically put priorities on their investments. And I was stating clearly in my comments, we are mission-critical. And we are mission-critical because we play on both sides to help them to manage the short-term challenges, reducing costs, improving efficiency, managing the supply chain shortage. At the same time, we help them to prepare the future. And this is where we are. We -- I mean many of our customers have to face this challenge to compromise between both.

And Bernard and I, we had many, many customer discussion in the last quarter because we are back on the road, and we have the ability to meet many of them, including, by the way, the partners. And the platform is not any more a question. For many of them, it's a must. The question is probably when and how, probably how they should start. So that's the reason why we are not -- we do -- we are not -- I mean we have not seen decisions being postponed. We have not seen people hesitating or at least a significant reduction of the large transactions in the pipeline. I would say it's probably the contrary we are seeing. At least this is true in the car industry for us, but also in the new industries such as the consumer goods, consumer packaged goods, life sciences, you were mentioning it, Rouven. So that's what we are seeing.

Operator

We are going to take the next question. And the next questions come from the line of Charles Brennan from Jefferies.

Charles Brennan
Jefferies LLC, Research Division

I'll just do one, if I can. And that's just on the subscription growth. It's obviously very nice to see you beating your guidance. It looks like you outperformed by 1.5 percentage points. In euro terms, that implies sort of EUR 12 million worth of outperformance. And if I think about 1/12 revenue recognition of recurring revenue, that implies you were pleasantly surprised by EUR 140 million worth of business in the quarter. Is that the right way to think about it or is there some point in time revenue recognition that takes place? And if that's the case, can you just size the point in time, rev rec for us?

Rouven Bergmann
CFO & Executive VP

Thanks, Charles. So for the -- you're right, we accelerated to 10%, which we always said we will see an acceleration throughout the year. Q2 was strong. And the contribution to the subscription growth was broad-based, right? I mentioned MEDIDATA. And you're absolutely right. If you recognize the revenue on a subscription basis, essentially, you recognize your backlog of previous bookings. So it's really a reflection of the strong performance in the quarters ahead, right? Because in the current quarter, there's only so much time, right, to recognize this portion. So that's a good part of this.

It's been the strong bookings performance and backlog growth of our cloud business, which is not only MEDIDATA, but it's also the 3DEXPERIENCE driven, ENOVIA, CATIA. And I walked you through the portfolios at the Capital Markets Day, all the businesses that are contributing to this growth. And then what -- of course, what is included in the recurring line item is the support revenue. And we always said that we will see a catch-up in support revenue from the strong licenses of 2021 and certainly Q4 2021. That's also what's happening.

So it's a combination of both. Yes, it's the booking volume behind this, if we were to recognize all of this upfront, would be much, much larger. Yes, much larger. There were some big transactions that we did on a subscription basis. So for example, the one that we just mentioned, JLR, is a subscription contract. It's not a onetime revenue that we've booked. So it's also a healthy mix of large engagements and deals as well as a number of smaller transactions that contribute to this. So I hope, Charlie, this helps you to understand the performance overall and the composition of the growth profile.

Pascal Daloz
COO & Director

And maybe I should add one thing, Rouven, is most of the subscriptions contract we signed are recognized from a revenue standpoint pro rata temporis. We are not playing with the upfront mechanisms, right, unlike some of the competitors.

Charles Brennan
Jefferies LLC, Research Division

You said the majority. That implies there is some point of time revenue recognition.

Pascal Daloz
COO & Director

No, no. The only -- sometimes I -- because the way to do it is by putting a non-exit clause, right? That's, from a contract standpoint, the way to do it is when we have some competitive situation in some customers, sometimes we are doing it. But for these reasons, not for revenue reasons. And the impact is not significant, right, this quarter. So the growth is really coming from what Rouven just described.

Just to complement, if you take a product line like CATIA and ENOVIA, the subscriptions revenue is growing more than 30%, the two of them, right? So that's basically the proof that you should see the subscriptions the same way that the license, it's an incremental growth also for us.

Rouven Bergmann
CFO & Executive VP

Which should recognize over time.

Operator

We are going to take the next question. The next questions come from the line of James Goodman from Barclays.

James Arthur Goodman
Barclays Bank PLC, Research Division

Firstly, just a lot of discussion, understandably, around China. But Asia Pac actually stood out pretty positively at 13% despite that. So can you help me reconcile the Americas growth at 8%, especially given probably some tailwind still from the MEDIDATA disproportionate exposure there?

But then if we also, secondly, think about the license guidance for the year and the 1 percentage point adjustment that you've spoken to, you've been pretty clear that, that's purely China. But can you comment from a product perspective? I wasn't entirely clear. Is that largely SOLIDWORKS or sort of broader derisking across products that you've taken into the guidance?

And if I look at the, say, 3-year performance of license, it looks like Q3 is actually a much tougher comp than Q4, but you're not really implying a significant acceleration into Q4. So within that context around phasing, I wondered if you could help us with what you've built into the Q4 license and/or derisking.

Rouven Bergmann
CFO & Executive VP

So should I start with the license part and then you take the regional, the APAC and Americas?

Pascal Daloz
COO & Director

If you want, yes.

Rouven Bergmann
CFO & Executive VP

Or we can do it in any way or form. So yes, so the 100 basis points of slight pullback of the outlook for licenses is attributed to the volatility and headwind we faced in Q2 in China, which some of those restrictions and confinements are still in place. So our team, I think, has despite executed very well to deliver a 4% growth in China, but it was a miss in license of minus 10%, which is unusual for China because they have a track record of executing very strong. And it is the largest -- the majority of this shortfall comes from the SOLIDWORKS part of the business because that's where the impact was larger, with the small and midsized companies that were really suffering and under confinement because their ability to do business was very, very constrained.

The large ones with presence in multiple states of China, they are -- they have an ability to hedge and to reshuffle the resources and reallocate their focus so that they -- that we are able to engage with them outside of the area which was under confinement, which was predominantly Shanghai, which is the main area where many of our customers are based. So that's the story behind this rebalancing. And because China is, for us, a core market for license growth, that's how this is connected, yes?

We also answered a previous discussion around Charlie's question on the increase in recurring revenue. We are making up with this, of course, we need to support our overall revenue growth and software revenue growth with our strong recurring performance right now, right? And the momentum we have created for the recurring revenue line. So that's helping us to offset this from a software revenue guidance standpoint for the full year.

Now you asked a question about Q4 specifically. Maybe I address that quickly. We were -- we have a strong comparison base for the fourth quarter. I think we have good outlook for the third quarter now. I think, of course, the pipeline for Q4 is to continue to mature. It's too early to comment that, but we are -- we stick to our overall plan for the phasing. I think I would characterize that the first half of -- for the first half of the year, we are a little bit ahead of where we initially planned to be, which gives us some flexibility. But I don't think that the growth targets for Q3 or Q4, they are achievable for license and for recurring.

Pascal Daloz
COO & Director

Okay. So speaking about the performance per geo, you're right. I mean, North America and Asia at large, it's a proof that the business model is resilient, right? Because achieving 13% growth for the quarter, which is what we did for H1 also. And having China delivering mid-single-digit growth, it means, by definition, that the rest is performing well. And the rest is almost all the other countries.

To be noticed, also, it's something no one asks, but I will use the opportunity to say a few words. You have maybe seen we issue a new press release related to the extension of the contract with Hyundai Motor. And as you may know, Hyundai Motor has been publicitized by one of our competitors, claiming that they were kicking us out of the count. And you noticed that that's not true.

Why I'm saying this? Because we are seeing in Asia and also in America a lot of win backs. So the win rates continue to be extremely high, more than 80% in whatever it -- in the car industries, but also in the new one like life sciences. That's what we can say for Asia. North America, I would say, the point is -- this is really where most of the growth is now coming from subscriptions. Why so? Because it has always been the most advanced country with this business model. And we see the large transaction moving along this way. It was the case for the largest like Boeing and Airbus. But now we see a generalization of this model for many of them.

So clearly, that's what we could say. But again, the growth is really solid, robust. The business, the pipeline is extremely strong and the competitive edge we have, including in North America, is also high and -- for the one who knows us for a long time, believe it or not, but we are improving significantly our footprint at General Motors, Caterpillar, which has been one of the largest account for our competitors.

That's it, I think, for this call. So again, I will take the opportunity to thank you, all of you, for the attendance and the active participation. And I think, on behalf of the Dassault Systèmes teams, I'm wishing you a good summer break, and see you on the road in September. Goodbye.

Rouven Bergmann
CFO & Executive VP

Thank you.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect your lines. Speakers, please stand by.