S&P Global
Market Intelligence

Dassault Systèmes SE ENXTPA:DSY

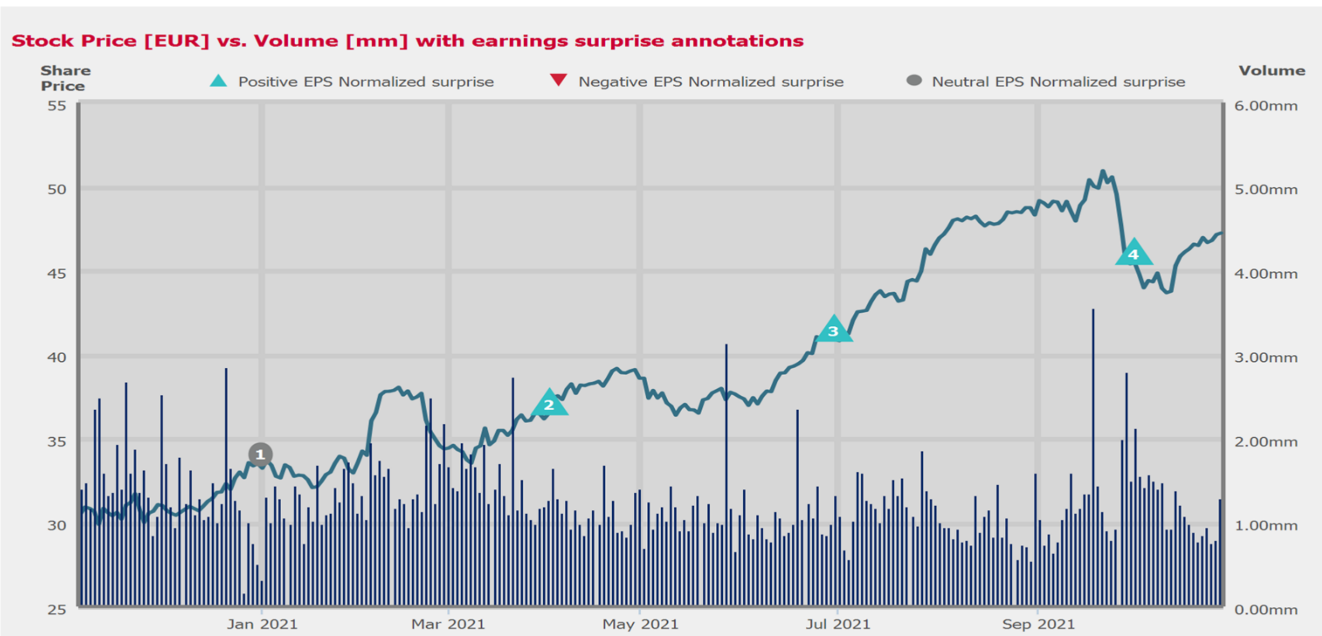
FQ3 2021 Earnings Call Transcripts

Thursday, October 28, 2021 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.19	0.22	▲15.79	0.27	0.95	NA
Revenue (mm)	1143.95	1158.80	▲1.30	1342.79	4815.63	NA

Currency: EUR
Consensus as of Oct-28-2021 11:08 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	0.24	0.24	● 0.00 %
FQ1 2021	0.20	0.23	▲ 15.00 %
FQ2 2021	0.19	0.22	▲ 15.79 %
FQ3 2021	0.19	0.22	▲ 15.79 %

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EXECUTIVES

Bernard S. Charles
Vice Chairman & CEO

François-José Bordonado
Vice-President of Investor Relations

Pascal Daloz
COO, CFO & Director

ANALYSTS

Adam Dennis Wood
Morgan Stanley, Research Division

Frederic Emile Alfred Boulan
BofA Securities, Research Division

James Arthur Goodman
Barclays Bank PLC, Research Division

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UBS Investment Bank, Research Division

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Goldman Sachs Group, Inc., Research Division

Nicolas David
ODDO BHF Corporate & Markets, Research Division

Stacy Elizabeth Pollard
JPMorgan Chase & Co, Research Division

ATTENDEES

Luca de Meo
Renault SA

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Dassault Systèmes 2021 Q3 Earnings Presentation. [Operator Instructions] I would now like to turn the conference over to François Bordonado. Please go ahead, sir.

François-José Bordonado
Vice-President of Investor Relations

Thank you, Roberto. Good morning, everyone. This is François Bordonado speaking, Dassault Systèmes Investor Relations. From the company, we have Bernard Charles, our Vice Chairman and Chief Executive Officer; and Pascal Daloz, Chief Operations Officer and Chief Financial Officer. I would like to welcome you to Dassault Systèmes Third Quarter and 9 first months of 2021 webcast presentation. At the end of the presentation we'll take questions from participants. Later today, we'll 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 currency unless otherwise noted.

For an understanding of the differences between the IFRS and non-IFRS, please see the reconciliation tables included in our press release. Some of the comments we'll 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 2020 document d'enregistrement universel. I will now hand over to Bernard Charles.

Bernard S. Charles
Vice Chairman & CEO

Thank you, François-José. A good quarter, as you have noticed already, thanks to all the team and especially Pascal. The Q3 total revenue is up 12% on a broad-base. Really, about 90% of the coverage of our revenue is growing double digits. So it's a very healthy balance of sorts of revenue. The new license revenue is up 24% and the EPS is reaching a healthy 40%. For the full year, if you look at the side of this table, we are raising the 2021 guidance on targeting an EPS growth of about 25% to 27%.

And then what can be explained in that, I think we see really a new decision process with our clients, with a preoccupation to really move from a product centered economy to an experienced economy, the value of usage, product and services. Sustainability is at the core. I think when shortage conversation will be reduced in many industries in maybe 2, 3 or 4 quarters from now, I think the topic will be back about really how do we create sustainable portfolio and circular economy. So we are really working hard on this topic, and I think this is creating visibility for Dassault Systèmes with new value networks for those industries.

And really, our focus is really deep customer focus with virtual twin experience with the platform itself, the 3DEXPERIENCE platform, and really the capitalization of knowledge and know-how. So we are going to share, of course, like I'm going to share this agenda with Pascal. So let me just give you the context in which we are playing. I would say that when this year will be over, we will have well positioned the company in these 3 big sectors of the economy, all manufactured goods, life science and health care at large, and then infrastructure with energy on cities, which basically, at the end of those loops are the consumers, the patients, human as patients, and human as citizens and workers.

So this is what we do. This is the core of Dassault Systèmes. And I believe this third quarter, on the showcase we have in each of them, illustrates that shift from digitalization to true virtualization of things, which is really, there is a big difference. When you do a digital document, you reduce the time to communicate them, make them available to everyone. When you do virtualization, you increase the prediction of what is going to happen in the real world. So it's not a light difference. It's a very big one. I think I will take briefly 3 or 4 examples.

An airplane does not take off by accident. You have to simulate everything. Synthetic control arm, the third group of patients, which is a virtual court, well, that speaks for itself. You have the placebo group, you have the patients which are under treatment, and you have a third group now showing up, which is the reveal of AI-based observation of long track record to really create this. It's happening. It's not just a view of the brain. It's really happening, and it's in action. I will come back on this.

So virtual twin experience to design to operate companies. This is where we are going. A good example of it is the Renault showcase, and there will be many others in the future, where really the transformation of this group is really centered on a fundamental shift from digitalization to virtualization of everything, the way products are created, produced, delivered, and even the way the company is working. And my friend, Luca has a 45 second message, so please run the video.

[Presentation]

Luca de Meo
Renault SA

Renaulution. That's the name we have chosen for our short, mid and long-term strategic plan. One simple slogan, it will be moving our focus from volume to value. We have 3 phases. First phase is resurrection, running from 2020 to 2023. It will be clearly about cost reduction, margin and cash generation. Renovation spanning from 2023 to 2025. This is when we will benefit from a completely new and revamped lineup, electric and electrified. And then third phase is revolution. From 2025 onwards, it's about becoming a player in the data, energy and services.

Bernard S. Charles
Vice Chairman & CEO

I couldn't find a better synthetic precise view of why they are adopting the 3DEXPERIENCE platform, because when you know fleet's conditions of operation, you can better understand what kind of product or services could be provided. So it's a great -- I think we were very happy to build up this transformation road map with them on the deployment of 3DEXPERIENCE platform. And you see here very tangible reasons for that, shortening the development of the vehicles, but also providing new types of services. The cloud platform being adopted for global collaboration and its cloud native, reaching ultimately, a large percentage of the total population of the group.

So more will come on November 9. We have the 3DEXPERIENCE forum in Western Europe, and we are very pleased to have the VP of Renault coming to speak about their transformation. And so we will do the PR at that time. That's why it was not done today, but we just wanted to give you visibility there.

The second remark I want to share with you is the expansion of the scope of the 3DEXPERIENCE platform, going beyond product creation and production, which is about product in operation, explore the way things are used in real world. And that's -- a good representation is that you will see everywhere in our solutions going forward is this famous IFWE Loop, we call it the IFWE Loop, which is to connect the world of producing with creating and producing with the word of using the solutions. And this is happening in all sectors of the economy and it explains a few moves we have been doing.

But as Luca de Meo said, he wants to use the smart data analytics of vehicle usage to really provide new offer for his clients, which is exactly a proof point about that trend, and it's happening everywhere. As a side note, we are very pleased to have taken an equity position in a very innovative start-up called Bloom here in France. What they do is smart analytics of all information on social network to why do we think it's a value to connect with them. For a simple reason, all enterprises we serve in the world want to improve their understanding about what their consumers, patients, or citizens are expecting. There is no better way than observing what is said and written on the social networks of the world. And that new reach, we believe, will be possible. That's why you have the blue arrow here -- the blue zone here on the IFWE Loop is to demonstrate that we are connecting the 3DEXPERIENCE platform with humans to understand the value of it.

So whether it's a consumer or a patient or a citizen. And we have already great customers. They have already great customers. And we are already, as you know, all the names I presented here, and you see them hopefully in the presentation. All those names are already, for example, CENTRIC PLM clients. So we are already there for the collection definition. We are already there from the portfolio. Connecting that approach to expectation from consumers is very critical, and this is happening everywhere.

So we continue to stick to what we said, be game changer in 3 sectors of the economy, how the world is manufacturing things, objects; how are we transforming life science and health care; and how do we play to improve quality of life with infrastructure.

Let's have a few illustrations about why there are good reasons to believe that it's happening. The MEDIDATA NEXT event was an amazing, amazing event, really with 3,000 customers and partners, 200-plus speakers, 55 countries represented. And when you notice the names on what were the subject matter, like Moderna with next-generation medicine; Amgen, with data everywhere, anywhere, anytime on analytics; and then LabCorp with strategic sensor cloud partnership, so we can connect with the patient on the new equipment that they will be using; Medicenna, with integrated data science for agile therapeutic development. By the way, this is where we have synthetic control arm applications. Boston Scientific, a prestigious other name, large-scale remote monitoring for operational excellence and compliance. Even the FDA itself, discovering how much synthetic control arm can bring to the evaluation of value and risk, which is always the real challenge in this world where there is so much complexity.

So a great event, a great dynamic, and above all proof points from customers that we are bringing real value to them. Few quick examples here. Rho, they are doing decentralized clinical trial. They have been adopting Medidata patient cloud for that. It's a wonderful solution, extremely powerful solution for that. It's the best on the market, and they are expecting to really improve their competitive advantage, of course, to accelerate the clinical development program and to provide -- we provide the sponsor a complete holistic view to the operational data that they use in the clinical trial. And of course, it improves their decision-making process.

So this is in America. If I look at Asia and specifically China, and the reason why I say China is, look at this, there are new players coming really in the manufacturing of extremely sophisticated machines, high-tech machines for genome sequencing, and they are adopting license to cure from medical device, which is really all the process to create, produce and certify the compliancy with, of course, all the regulatory rules, and they want to accelerate the -- first of all, it's a new possibility for them to reach a level of excellence never reached before. So that's another example that we selected for you just with proof points.

BMW. They are all talking these days about shortage. But part of the shortage is also the restructuring of the supply chain at large. And why the supply chain is going to be restructured massively everywhere around the world, in my mind, it's not the reason of shortage only, it's because of sustainability reasons. And this resetting of the world of industry is going to happen and the ones who are going to do it first will have a strategic advantage. With BMW, we are deploying DELMIA Quintiq for production planning, scheduling. And of course, when you speak about production planning and scheduling, you speak about all the constraints for the flow of things that should come together at the right time, so you can deliver the product and the cars you need to deliver.

On the third example, also to show that we are focusing not only in production quality, but global ballet, if you want, about everything that happens to make sure that companies can deliver on time and with the precision, is Hexcel, aerospace supplier, where they are basically taking the same approach with DELMIA Quintiq.

Mainstream market. We have now multiple energy sources for the -- you all associate our mainstream market to SOLIDWORKS. But we believe that the mainstream market is also driven by CENTRIC PLM. And the footprint that those companies are opening up are just gigantic. We reached with CENTRIC PLM, 500 companies, amazing logos. Over 2,000 brands are trusting now CENTRIC PLM. And with all on the cloud subscription model, clearly, it's about the life cycle of collection, the supply management. And we are going beyond with what is called VIP, which is the trading between the stores and the one producing the collection to really commit for sales.

So we are reaching a point where this platform is becoming a platform that connects the dots in a holistic manner between collection creation, store activities and profiling of offers that are going to be part of that multichannel approach. We don't forget our existing loyal long-term customers, Airbus. We are even doing very open and very innovative things. As you know, there are many, many fronts of development with Airbus. We have talked about it before. But this is kind of a new unique expansion of our partnership, because we are really investing together to create a virtual twin of earth to really use the way they collect data and improve services online that will be used in the world of nutrition supply, food supply, as well as the surveillance of territory deforestation, land planning, climate change, et cetera.

So why do I like this example? For the simple reason, it shows that we can reach scale.

Interstellar Lab. Let's go beyond the current planet. This is an amazing Franco-American company, building modules for sustainable living on earth and in space. I'm sure that our friends from Blue Origin, who are our clients, will see; and from [indiscernible] and many other launchers will see the value of that, where basically micro production unit will be over time turning around us and around the planet. This is what they do. And it's going to be used, of course, for BioPod, for example. So I don't think it's anecdote. I think this is showing an interesting expansion of our planet in terms of making things available for human.

And finally, I cannot forget the COP26 challenges. The Paris Agreement was a very successful one, where many companies committed. But the question now is about how to improve the commitment and how to make it happen. In the Financial Times survey, 36% of the executives are really considering how to start integrating sustainability and SBTi basically in their product development and operation. And innovation will be probably a massive element that will trigger those transformations.

I think we can connect to great showcases we have today. If you look at what we are doing with Bouygues and with new virtualization of construction process, so removing waste massively. And there is a lot of waste in construction. And also, we have here another use of platform with a German company. We have many examples here, which are good illustration even for wine, by the way, which shows that the platform can be used not only for planes and cars or medicine, but can be used to better manage the logistics on the packaging for this company.

Last but not least, before I conclude and give the floor to Pascal. If you have the opportunity to be in London, please go and stop by at the Design Museum. We had a big event last week with the best designer of the planet, discussing about how the new way of design could radically change product sustainability. And if you look at the right side of this illustration, you have in this museum for a certain period, I think until year-end, an illustration about those tubes that you see below the car here are exactly the materials on the volume materials, I should have put the scale, but roughly speaking, it's about 60, 70 centimeters high, less than a meter of materials that are making those cars.

What is intriguing when you see it that way is you say, wow, if we do it right at the design stage, we can do circularity. Something new is going to happen there. We all agree, the top designer of the world and us, we all agreed that this is a sweet spot for the future, and we are going to make it happen. You can click on the link. I've put several links in the presentation, because I think it's useful to come back to this. In short, I think we are walking the talk with the commitment as on date for the Dassault Systèmes, the purpose, which is harmonized product nature and life. And with that Pascal, you have the floor to illustrate that numbers are resonating.

Pascal Daloz
COO, CFO & Director

Thank you, Bernard. Very inspiring, by the way, speech, talks. Hi to everyone, and I hope all of you, you are doing extremely well, and thank you for joining us today.

So turning to our financial performance. I think we delivered strong third quarter results, thanks to the broad-based growth across regions, product line and industries. Now starting with the top line year-over-year comparisons. Total revenue grew organically 12% to EUR 1.116 billion, near to the top of our 10% to 13% range. Software revenue grew 11%, driven by the license and other revenue, which rose 24% to EUR 108.3 million, which is well above the guidance. Subscription and support revenue increased 8%, driven by the high double-digit growth in subscriptions, reflecting not only the strong MEDIDATA momentum, but also the 3DEXPERIENCE sales.

Recurring revenue represents today 80% of the total software revenue. Services revenue was up 19%, driven by the large 3DEXPERIENCE platform project we have. And we think we achieved a very interesting services gross margin of 20%, substantially better than compared to last year, thanks to the effort we made in 2020 to preserve the margin in the face of the pandemic, at the same time to also secure our commitment for our customers.

Operating margin expanded to 33.8%. And finally, EPS grew 40% to EUR 0.22.

Now let's turn to the software revenue by geography. The Americas grew 12% during the third quarter, benefiting from a strong performance in life sciences and health care, but also aerospace and consumer packaged goods. On a year-to-date basis, the Americas represent 38% of the total software revenue. Europe increased 9%, led by the Northern Europe as well as France. And Germany rebound significantly during the quarter. And on a year-to-year basis, Europe represented 36% of the revenue. Asia rose 13% with India and Japan rebounding during the quarter. China grew 8% on the back of a strong year-over-year comparison. The year-to-date for China is exceeding 25%. And year-to-date Asia represents 26% of the revenue.

Now let's zoom on the product line performance. Industrial Innovation software revenue rose 8% to EUR 555.3 million driven by an extremely good performance of SIMULIA and DELMIA, as well as the large customer wins we signed during the quarter. CATIA license revenue was up also double digit, while ENOVIA experienced strong subscription growth, which is something I want to spend 1 minute on this. More and more, we see the subscription model becoming the standard for ENOVIA and the 3DEXPERIENCE platform, which is also understandable because they are the corroborative piece of our solutions. And that's not yet the case for, I would say, the CATIA and to a certain extent, SOLIDWORKS, which are still driven by the license model.

Now let's move to life sciences software. Revenue totaled EUR 226.5 million, an increase of 19%. MEDIDATA continued to experience a strong momentum across its product portfolio including MEDIDATA Rave, MEDIDATA Acorn AI, and MEDIDATA Patient Cloud, as well as across end markets, including pharmaceutical and biological companies, the contract research organizations, but also the medical devices company, where we signed a new enterprise platform deal with a top 10 med device company. We also saw a high double-digit growth in the FX rate, and if you remember, it was one of the questions you had at the beginning. Rave is basically the de facto standard in this industry. But what about all the new modules developed on top of, and we are very pleased with the performance we have been able to achieve since the beginning of the year. In summary, the life science industry is transforming rapidly, adopting decentralized trials and AI-based analytics using MEDIDATA unique data science capabilities and has evidence at the next conference this month.

In the mainstream innovation, software revenue rose 13% to EUR 262.9 million. And I would qualify this growth being broad-based, drove by SOLIDWORKS software revenue growth of 12% on the back on a relatively stronger comparison. If you remember, last year, it was higher than 10% as the recovery started in Q3 last year. We continue to see a good adoption of our 3DEXPERIENCE WORKS family, the cloud-based solutions starting during this period. And as Bernard mentioned, CENTRIC PLM executed extremely well again this quarter, reaching the milestone of 500 clients and driving a high double-digit increase in revenue, could be triple digit, very close.

Now let's review our key growth strategies, specifically the 3DEXPERIENCE and the cloud adoptions and how we are progressing relatively to the objective we laid out during the 2020 Capital Markets Day. Year-to-date 3DEXPERIENCE sales grew 18%, with license and other software revenue up 36% to account for 28% of the total software revenue, an increase of 3 points compared to last year. The strong value proposition of our 3DEXPERIENCE platform has been a key factor in driving the client wins.

The cloud revenue increased 24% in the quarter and now representing 20% of the revenue, which is plus 1 point compared to last year and is driven obviously by the strength in life sciences as well as the 3DEXPERIENCE cloud solutions. We are focused on supporting our customers as they adopt the new business model. They are coming to us in order to accelerate innovation cycles, speed up execution, drive the business transformations, all centered on improving value and experience for users and customers. Our strategy is also to enable this transformation through the native cloud applications and extensions to existing on-premise investment and the 3DEXPERIENCE platform with an open ecosystem. And I think the Renault partnership is a new illustration of this momentum. Not only, as you say, in the mainstream market, but also for the large corporations, which has been, to a certain extent, the most difficult people to convince to adopt the cloud solution. But we are moving along this way.

Now let's say a few words about profitability. We delivered significant outperformance in operating margin this quarter. The operating margin expanded by 560 basis points to 33.8% versus the midpoint of our guidance of 29.15%. And it's an overperformance of 465 basis points. This was driven by the revenue at the high end of the guidance, point number one. Then the strong operational execution as well and the continuation of the pandemic-related expense, and last but not least, the headcount tailwind we discussed last quarter.

Let's say a few words about the headcount. This quarter, we saw strong hiring activities, up more than 2x more compared to Q1. So I think we did great in the way to continue to attract the talent and to onboard them. And this is resulting in a 2% overall headcount increase driven specifically by the research and development up to 4%. I think we have a track record of delivering transformation innovation in the context of the mission-driven culture. However, the attrition remained elevated, and we are nevertheless confident that we have the ability to continue to attract and retain the top talent. This is a top priority for Q4 and for the beginning of next year.

EPS, this is reflected -- I mean the good performance in the operating margin is obviously reflecting the EPS with a growth of 40% to EUR 0.22 compared to our guidance of 15% to 22%. This represents a EUR 0.03 above the midrange of the guidance. EUR 0.025 is coming from the profitability and the good performance and EUR 0.005 is coming from foreign exchanges.

Now turning back to our financial performance and balance sheet items. Let's say a few words about the cash flow. Year-to-date cash flow from operations rose 24.5% relative to last year to EUR 1.255 billion, which is almost what we delivered last year for the full year. So we are almost a quarter in advance. Our net financial debt position at the end of September decreased by EUR 850 million, to be at EUR 1.2 billion and putting us on the pace to reach our deleveraging goals well ahead of the schedules. It's almost a year before. So I think we have been able to manage extremely well the cash flow during the last 18 months. And as you know, this is giving some new room to maneuver in the coming years.

Now let's say a few words about the 2021 financial objectives. We raised our fiscal year 2021 revenue growth objective range from EUR 4.745 billion to EUR 4.790 billion to EUR 4.8 billion to EUR 4.825 billion, which is representing an increase of 10% to 11%. We expect our operating margin in a range of 34% to 34.1% versus 32.7% to 33.1% previously. And we expect to expand the headcount tailwind. We expanded this year to dissipate in the coming quarter. We stated to resume the travel, increase the sales and marketing spend and accelerate also the net gain in hiring in the key areas across the globe.

Consequently, we are raising our EPS objective range to EUR 0.99 to EUR 0.91 to EUR 0.94 to EUR 0.95, which represents a growth of 25% to 27%. All the updated guidance captured in the incremental earnings aside from the third quarter and increased revenue visibility while expense remaining changed are captured in the guidance. So you will find more detail about the full year objectives as well as the fourth quarter guidance in the earnings press release and the presentations. I think it's time to conclude now, Bernard.

A few takeaways I want to remind to you. One, I think we are encouraged to see the vast majority of our end markets growing double digits. Bernard said a few words in the introduction, but I think this is a very key takeaway and especially in the manufacturing core industries. It was also great to see that certain countries like India, hit by the pandemic, staged a comeback this quarter.

The second thing which I think the client is imperative of the virtual twin experience is the inclusiveness by the way of platformization and the cloud as well as the sustainability accelerating, and we view these as secular drivers. So it's not something for 1 or 2 quarters. I think it's for the next decade. Our strategy, I think, is well enabled, these imperatives and our 3DEXPERIENCE platform powering the virtual twin experience is a competitive advantage as it connects IDs, people and data with a common architecture.

Our commitment to drive our strategy is clear, and we thank them for their continued trust this quarter. Lastly, we hope to resume in-person meetings with the investment community in the coming months. I know I was speaking with some of you. You start to be back to the office, and I will maybe have a chance to see you in person. So I look forward to see you soon. I think Bernard and I now are ready to take your questions.

Bernard S. Charles
Vice Chairman & CEO
Operator?

Question and Answer

Operator

[Operator Instructions] We have the first question from the line of Adam Wood from Morgan Stanley.

Adam Dennis Wood
Morgan Stanley, Research Division

First of all, congratulations on another strong quarter. I've got two questions, please. The first one was around the hiring attrition and therefore margins; probably a bit more for Pascal. Could you just talk a little bit about whether you believe you can continue to hire at the pace that you saw in Q3 or even accelerate it? And then a little bit around what the attrition means in terms of wage inflation for next year. And kind of linked to that, do you start to have any concerns about the ability to deliver the growth that you want given the difficulties of getting the headcount up as we look into the next couple of years? That's really on the margin side.

And then secondly, I wanted to ask kind of a bigger picture question around China. I mean, it's obviously been nice growth driver this year. It's a huge opportunity for you. I guess European companies have found a nice happy medium between the U.S. and domestic players, and I think we hear in other sectors of software that a lot of U.S. companies have almost exited China. Could you just talk a little bit about the competitive landscape there in terms of the traditional companies that you would compete with in the industry and whether that situation is benefiting you? And maybe also from a domestic competition point of view, do you see any emerging players who, over time, could become more competitive and obviously, privileged by the government in terms of companies being encouraged to use their solutions rather than external ones?

Bernard S. Charles
Vice Chairman & CEO

Thank you, Adam. Pascal, I think you...

Pascal Daloz
COO, CFO & Director

Okay. I will take the first one. So yes, you are right, Adam. Let me give you again some perspective. In Q1, we were flat in terms of number of people. In Q2, we hired a little bit more than 50 net. Now it's 300 for this quarter, and I do expect for Q4 to hire close to 200 net people. That gives you to a certain extent the trend.

For next year, I do expect to hire 1,000 people per quarter in average. And I hope we'll be able to contain the attrition. Why so? Because the normal attrition we have per quarter is around 400 people. 500 sometimes. The peak is usually in Q3, by the way, it's between 600 and 700 depending on the year. But there is something new happening, which is, in the 1,000 people we are planning to hire, we could now count that 100 of them, they will not show up.

So the first day, you are expecting them to come and they are not coming. It's something new. We did not factor this in our plan in 2021, but now I'm really taking this into account. And I'm working on this. The vast majority were in India. And I think we took some decisions in order to adjust the composition. I think we were slightly below the peers. And I hope in Q4, we will be able to correct this. But there is a piece, which is a new behavior. We just have to take this into account.

So coming back to your question for next year. So if you combine the fact that I really want to improve significantly the number of people in addition, in net, plus the fact that we really want to have the people being on the road, visiting customers, we want also to relaunch the marketing machine at the level where it should be. So I think the question is really to give you some guidance for next year for the EBIT margin. You should count that between 1 point to 1.5 points less compared to this year as a good indication of where the margin should be. It's a little bit early. Again, we are still in the middle of the budget discussion. So I hope you will not blame me if I'm coming with some adjustment early next year. But with this, I think you have a good way to modelize and understand where we are going.

Bernard S. Charles
Vice Chairman & CEO

Related to the second question, which is quite important, China landscape and the dynamic. We are welcome in China first. We have a trusted stable relationship with prestigious companies and also their partner network. The dynamic for cloud, for example, is very good in China, unlike many other foreign companies. And the second thing is I think it's understood by many Chinese executives that our solutions are core to help them be more sustainable. That sustainability, even though we can discuss about the global emission factors, is really on the agenda. It's a very strong preoccupation. We see it in energy, of course, with nuclear project; we see it in hydro project, and we see it in infrastructure; in medical, I mentioned a few customer selection there; in mobility, and we are well recognized. So to your specific question, Adam, about competitive landscape, we are very well recognized, and we have a lot of synergy with existing companies there. At this point in time, our real challenge is to continue to develop our partner network to fulfill the demand.

Operator

The next question from Frederic Boulan from BofA.

Frederic Emile Alfred Boulan
BofA Securities, Research Division

A couple of questions on my side. First of all, you mentioned supply chain. Interested to see how you see the supply chain issues impacting, in particular, auto, airspace and other manufacturing, both in terms of long-term demand for your structural solutions, but also more short term, considering some of the constraints we're seeing in the supply chain. Secondly, on life science, very strong growth again from MEDIDATA, 20% growth in Q3. How do you see the medium-term potential of this business? It seems to be faring very nicely versus the 13% to 15% long-term outlook you have for life science. And then thirdly, on the industry consolidation piece, I don't know if you have any thoughts on AspenTech deal, whether you would expect further consolidation in the industry and whether you see incremental risk from an integrator vendor model versus a pure software model like yourselves?

Bernard S. Charles
Vice Chairman & CEO

Thank you. Supply chain. That's a very important question. There are 2 dimensions to it; the tactical issues right now are that some industries are suffering from shortage of electronic components or more and there is a long term. My observation today is that in the years to come, in almost all industries, there will be a new fundamental setup of the supply chain for the following reason: The use of material science is going to evolve, primary materials and the way they are transformed. And we see it now in prototyping activities, but it's going to change.

The second thing is the impact of the logistics on the science-based reporting for sustainability is going to be more seriously evaluated. And there is a third thing, it's the very nature of the product structure. Like when you think about gasoline engine on a car versus electrical car, battery-based cars, it's a massive change in terms of who is doing what. Do you want to delegate the battery? Or do you want to have it part of the OEM activity? Do you want to master the sense? Or do you delegate? Do you want to delegate production or not? Those 3 factors: Science, logistic and the new nature of offers, product portfolio and service, this is a long-term impact on the entire setting of the industry worldwide.

And for us, we are in the center of that game, because we can connect science with evaluation of flows around the world with, of course, the very nature of new portfolios that are being created by those companies, and it's going to happen everywhere. So we'll come back on this topic. My point on what I mentioned this morning at one of the interview is the current tactical issues, it's a small part of the resetting of the entire industry supply chain going forward. And it's a very small part because at the end, it's about who creates which value, where, for what kind of delivery to the consumer. So the entire industry is going to go to a logic which is similar to what is happening in retail. But instead of happening to retail, it's the entire industry itself and the way you deliver product and service, what we call experiences.

As a matter of fact, to get understanding about what Dassault Systèmes is doing, which for me is an excitement every day, is we are building -- my view of the future is manufacturing industries will produce experiences, not products. And then clients will deliver experience as a service to their clients, whether they are consumers, patient or citizen. Experience as a service is going to come. It's not an IT issue. It's the use of product and services in the context of what I call experience economy. And this is happening in retail. It's visible people get it, but it's going to happen for all industries we serve. That's why we are very different in terms of investment than any other of the competitors we have. I could go further, but we'll have opportunity to discuss that later.

Pascal Daloz

COO, CFO & Director

You want me to answer the second question?

Bernard S. Charles
Vice Chairman & CEO

Yes, please do.

Pascal Daloz
COO, CFO & Director

On life sciences? Yes, you could always expect us to change the long-term plan, but there is something you know now from us is when we have a long-term plan, we stick to the plan. So I told you at the time of the acquisition that the long-term plan was between 13% to 15% of the revenue growth. And at the same time, we will also improve by 200 basis points the EBIT margin. We are committing to this plan. We are, to a certain extent, over delivering this year, but the comp base will probably be less favorable for next year. And also, I want you to take into consideration something. The performance of Life Sciences for us will not come only from MEDIDATA. It will come from the other pieces we have, right?

BIOVIA is obviously one of them, on research and discovery. But more and more, we see more traction on the manufacturing side, on the supply chain management side, on the product introduction side, and this is where we are also putting the focus in order to accelerate this piece of the software -- this piece of the growth, if you want the exposure of the solution to this market. So considering that the life science sector will continue to deliver 13%, 15% growth overall for a few years, I think it's not so bad.

Bernard S. Charles
Vice Chairman & CEO

Related to the consolidation to follow exactly Pascal's point, there is so much old software in the world. I don't want to buy old software. I want to buy expertise on science. But we don't -- the unique thing about the Dassault Systèmes portfolio those days, it's highly modern software. I mean we have a platform which is cloud native. It's powering all our software we do, and this is across the product line. And many acquisitions are going to be based on acquiring old software where the game is changing for those industries which are using. Of course, it's slow, but it's going to happen. And for example, let's be clear, we will be a big player in continuous process for manufacturing, not only discrete. And we believe we can do it with new generation of software like bioreactor in the pharma sector, where, of course, there were other players that have been there for years, but with software which are not architected for the future.

So we put a lot of attention on the right architecture, the science in, and the fact that we always go to the next shot because there is a parameter that needs to be taken into account, which is it takes time for clients to transform themselves. And we have to be there at the right time. So consolidation, yes, with the same law on the scope of what Pascal said, with smart targeting, targeting the next shot. I don't want to have to be buying an old company and trying to optimize and reduce cost on things on there. I think this is not fun. That's not what we like. We leave that to certain investors who think they can clean up the house, but it's not my job. We don't want that.

Pascal Daloz
COO, CFO & Director

And the last question, which was related to maybe, let me rephrase what I understood, is the balance between integration and software. I think to answer to these questions, you are missing one specific point, which is the platform game. I think platform is changing in the split. The split between system integration of software has been the one before the platform. Why so? Because the platform is by definition the way to integrate the different pieces together. It's the way to deliver the end-to-end experiences, to connect the different stakeholders. So does that mean the services piece will disappear? It means the nature of the services will be different.

It will be probably much more outcome-based, much more related to the company transformation, because you need to evolve, to change the organization, to redefine the roles, to trade and prepare the people and the workforce of the future. So that's really how we see the trends going on.

And related to the cloud, because this is maybe also the questions behind. I think the applications are defining what kind of architecture and infrastructure you need under these, not the opposite way. Otherwise, you compromise the experiences, you compromise the user experience, you compromise the quality of the services. And we have enough proof point to tell you that the decision we took a few years ago to have our own cloud architecture and infrastructure is becoming a significant competitive advantage, because we can basically master the entire stack without having to spend our life to develop IT systems to be interoperable with all the many legacy systems they have. That's really, again, the platform game is changing these borders and the strategic definition of what are the software, by the way. And Bernard has an interesting comment, which says, "I do not want to do a software as a service. I want to do experience as a service", which is much more deep if you understand what is behind.

Operator

We have the next question from the line of James Goodman from Barclays.

James Arthur Goodman
Barclays Bank PLC, Research Division

Maybe following up a little bit on the platform comments. I mean, the adoption of 3DEXPERIENCE this quarter stepped up significantly. So just wondered from a product perspective, maybe you could add a little bit more color there? I think you mentioned ENOVIA on the subscription side being strong, but presumably that's only a sort of smaller part of that. And then just secondly, I mean, considering the very strong MEDIDATA performance that you spoke to just now, I think, recurring, ex MEDIDATA, perhaps just a little bit light, therefore, I wondered if you could just help us with any detail there across subscription or maintenance on the non-MEDIDATA recurring performance in the quarter?

Bernard S. Charles
Vice Chairman & CEO

Just one remark before Pascal provides insight about your questions. As you notice, everything we do now is platform based; MEDIDATA is a data science platform, of course, with AI and all those technology. 3DEXPERIENCE is a platform, powering everything, including the mainstream SOLIDWORKS. And CENTRIC PLM itself is a platform. And they are all extremely well positioned to complement each other and provide this future to what we call platform parametrization, so we can adapt. And I'll give you a concrete example because it was used last quarter. The Bouygues example where we have stopped an agreement with a big IT company doing too much customization and decided to do native parametrize, which is working extremely well, and the adoption by users is extremely well.

So we are demonstrating that the platform power is really suitable for a new sector of conquest, like construction and what we did for lean in manufacturing is applying to lean for construction with just parameterization, for example, and the collaborative process is working the same way. So basically, the mainstream platforms, the industry platform and the health platform are all acting in accordance to connect the dots. With that, Pascal?

Pascal Daloz
COO, CFO & Director

Yes. On the numbers related to the 3DEXPERIENCE platform, the plan is 2/3 of the software revenue will come to the 3DEXPERIENCE platform-related software in 2025. And obviously, this is calculated outside the recent acquisition we did, CENTRIC PLM. And as Bernard said, MEDIDATA is already a platform. To achieve this number, we need to continue to deliver the growth we have with the 3DEXPERIENCE Platform Solutions. But the key point is really to accelerate the adoption of the SOLIDWORKS 3DEXPERIENCE platform, which is on the way. I mean, the solution is there. The VAR are enabled. We have adjusted the compensation model for the VAR, putting more on phases on the fact that the 3DEXPERIENCE platform is becoming a must for them. So I'm pretty confident that we are on the right path to make it happen.

Bernard S. Charles
Vice Chairman & CEO

And noticeable, Pascal, in China, the adoption is faster than anywhere is of the 3DEXPERIENCE platform with SOLIDWORKS.

Pascal Daloz
COO, CFO & Director

Coming back to the second part of your question related to the recurring part of the revenue. Yes, you're right. I mean the subscriptions grew extremely well this quarter, but it was not only coming from MEDIDATA. It was also coming from the rest of the software, specifically ENOVIA and 3DEXPERIENCE platform, but also SIMULIA. And also DELMIA, we have more and more subscriptions also on DELMIA. So which basically comes to the second part of your questions, what about the maintenance and support performance. I think it's the lowest point we have touched. Why so? Because if you remember, I mean, there is a strong correlation between the growth and the new license you saw the previous year. And as you may know, last year, we were decreasing in terms of new licenses. So that's the reason why the growth has not been at the level it used to be historically. However, if you remember, in Q4 last year, we were back on growth with the license. So clearly, this is the lowest point. We achieved a 3% growth for the maintenance and support this quarter. And I do expect rapidly to come back to where it should be, between 4% to 5%.

Operator

The next question from Jeff Jones from UBS.

Michael Briest
UBS Investment Bank, Research Division

It's Michael Briest. Just 2 for me. Just, I guess, following on from that Pascal. If I look at deferred income or whatever it's called now, unearned revenues. I mean, the growth in Q1 was 19% and then 17% and then 11% this quarter. What does that say about the -- maybe the billing profile of the cloud business is different from support and maintenance, but also the growth of recurring revenue in Q4 when you've got a much tougher comp on deferred revenue and into 2022. And then on the issue of sort of talent recruitment and retention. I think it's quite a wide issue in the sector. You announced a couple of weeks ago a new employee shareholding scheme of about 5 million shares. Is that something that's going to be expanded? Is it going to be an annual program? And equally on the stock-based compensation, it's about 200 million this year, as it was last year. Is that a new run rate? Or were there any one-offs in there around MEDIDATA?

Pascal Daloz
COO, CFO & Director

Okay. So I'm going to take the first question. No, I would say the unearned revenue is -- you cannot use this as an early indicator. I think it's a mix between the maintenance and support of the MEDIDATA, and it's heavily dependent on the contractual framework. And we have big differences compared to one customer to another one. So I will not use this as a way to have an early indicator, if you want, of what should be the maintenance and support performance. The best way is really to do what I was suggesting to you, you take the new licenses we sold a year before, you compute the numbers, and you will land to exactly what I'm saying. That's really the way we modelize it, the way we plan it. And to a certain extent, it's a good news because you could expect next year to have more contribution from maintenance and support. Bernard, you want to answer to the second part of the question, which is the employee plan we did?

Bernard S. Charles
Vice Chairman & CEO

Well, first, it's well received. It's part of -- we made it consistent with previous years shareholder program. So it will stay consistent in terms of -- from a pure dilution standpoint, if I may say so, we are not going to do anything that goes on top of something, it's going to be part of the total envelope. So it's a very, very clean, clear process, and I think it's well received by people.

Pascal Daloz
COO, CFO & Director

Just to give a complement, Michael, you are right. I mean, we took these decisions to have the ability to address all the employees of Dassault Systèmes.

Bernard S. Charles
Vice Chairman & CEO

Yes, because, of course, the LTI is only a subset.

Pascal Daloz
COO, CFO & Director

Exactly. And this is becoming critical in terms of retention, and you are right to notice it. And that's the reason why we want this to be reground mechanisms. But as Bernard said, it's already in the envelope because we're going to make a trade-off between the LTI, the long-term incentive plan, which is specific, which is a dedicated set of actions for population and the one to speak of, which is touching all the employees.

Michael Briest
UBS Investment Bank, Research Division

Okay. So it's not on top of the 200 million for this year?

Pascal Daloz
COO, CFO & Director

No.

Operator

The next question is from Stacy Pollard from JPMorgan.

Stacy Elizabeth Pollard
JPMorgan Chase & Co, Research Division

A few extras for me. Can you remind us how you're progressing with sort of CATIA, ENOVIA, DELMIA within the EV arms of the large OEMs. Are most of these decisions made within the EV area? Are there more still in process? And what has been your win rate? And then second question, you mentioned customers like Renault leveraging smart data usage. I know Dassault has some offerings here, but is this an area that you might also consider further investment or M&A?

Bernard S. Charles
Vice Chairman & CEO

Stacy, clearly, I would say that our platform is the work standard for all EV programs, no matter where they are. As you may remember, all the early players are -- almost all of them are using the 3DEXPERIENCE platform. So it has been a very strong factor of confidence for an existing player in that sector to say, "no doubt, that's a platform we need to use for our own internal program." So yes, the dynamic is very positive there. Of course, with different constraints like integrating with existing environment and so on, but we are in a very good position. And the adoption is good. It explains also why, as Pascal mentioned, we are double-digit growth in those sectors. We are already installed with powerful V5 product portfolio and expanding with the platform. So the last point I would mention on that is that the system approach is becoming very important. The challenge with EV that was not really solved before is the energy bill of the vehicle.

And not only the energy bill when you get a new brand vehicle, but how does it last? What is the energy bill of the vehicle after 3 years of usage? And everyone will have to provide new law on those because if you have a manufacturer selling an EV with a certain characteristic and 3 years later, you get only half of the characteristic of the vehicle, it's going to be a big issue. People smile about it, but it's a serious topic. It's a very serious topic, and I think the regulator is going to put some rules there, not to speak about circularity about how you recycle, where we are already in that aspect. So everything related to electrification, we are in a very strong position. Related to the consequences on smart data and so on, Stacy, you are on a very good point. We want to help our customers deliver experience as a service.

We presented months ago the case for smart data analytics for civil aircraft fleet, health and analysis with big data with a great client, Gulfstream. They improved massively the availability of the fleet of aircraft, predictive maintenance included. This is the way to go. It's to provide the experience as a service to the clients they have. So big data and smart data is as illustrated with many data, as illustrated in manufacturing world, as illustrated with what we do, we force our customers for what we call operational availability of equipment. It's a core science for Dassault Systèmes. And we think we are very well positioned, and the platform will reveal that those who are using disconnected systems are not going to make it work properly.

Pascal Daloz
COO, CFO & Director

Just to complement because Stacy's question was is it an area for potential M&A, we did Bloom. So I think towards the next time, you have the answer.

Operator

Next question is from Mohammed Moawalla from Goldman Sachs.

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

I had a couple of questions. So firstly, around kind of your visibility on the top line. I mean we've obviously seen cyclical and kind of pent-up demand recovery. But as we kind of bridge to more of the sort of structural drivers, I'm curious, if you could kind of comment on visibility into sort of next year, particularly around the top line. You've obviously been signing a number of both kind of mid-size but larger deals. So could you talk us through that visibility you have where perhaps it's the strongest and where the potential areas of risk are?

And my second question is, as Pascal, you mentioned you've delevered quite quickly. How should we think of -- I know you've said that you don't want to run with sort of excessive cash on the balance sheet. Are you kind of looking to potentially evaluate more transformational deals? Or we should look at more kind of bolt-ons. And are there any particular areas that perhaps are a matter of priority right now for you? I know you've talked about sort of simulation where you need to kind of still build out. But curious to get your thoughts on how you think of M&A.

Bernard S. Charles
Vice Chairman & CEO

Thank you, Mo. I think for the top line, Pascal has the [indiscernible]. So Pascal?

Pascal Daloz
COO, CFO & Director

No. Again, it's a little bit early to give the perspective for next year. However, the fact that the growth is really coming from all the different sectors of the economy we are serving, I think it's a good sign. I would have a different feeling if it would have been dependent only on China or one specific set of industries like life sciences. That's not the case at all. So we have some good news. For example, Renault is one of them. We are almost tripling the revenue we do with them on a yearly basis. So I will say some of the large deals we signed recently are giving confidence. However, the size of the company is also increasing at the same time. So at least we need to nurture this growth. So if you don't mind, Mo, I will say more at the time of the full year announcement, and I'll give you the perspective. But I'm relatively confident.

Bernard S. Charles
Vice Chairman & CEO

Related to what's a very smart question, potential transformational deals and priorities. Of course, it's on the agenda. I think we will follow the discipline we had, which is really to target the right technology, science and people, and making sure it makes sense, provided really the ambition we have set up with Pascal that was really revealed on February 6 of 2020, where we said about those 3 sectors of the economy and now we are reframing the priorities of the company from that standpoint. And I think we are proving it with MEDIDATA and others. It's difficult for me at this point in time to be more specific, but you understand that with the platform aspect of things.

The data science is, of course, core for all touch points we have. Also being able to help our customers go and deliver with our platform experience as a service to their own customer is an exciting thing. I think in February, we will talk about the followup to what we announced, which is IT, because I think you will be quite interested to see how much we are discovering the potential there. So same with CENTRIC PLM. But I think we have February for that, and I think we will have the June time frame to really cover with the Capital Markets Day to really go deeper in those priorities.

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

Okay. That's great. If I could squeeze one more in. I mean, do you think the Renault deal and adoption of kind of cloud native applications; does this mark an inflection point in your view? Or do you think that the customers are still going to take a much more sort of gradual approach? Or are there any particular industries that perhaps you see more of an inflection in?

Bernard S. Charles
Vice Chairman & CEO

First, it's becoming visible for many observers that the speed at which it can be deployed is just very impressive, a game changer, transformational. We have really a clear commitment from other very large companies to go in that direction. So too early to say when, but really the clarity for them about going in that direction is there. If you remember more for Bouygues, which is going -- we see the number of users expanding every week. It's native cloud also. 3DEXPERIENCE is native cloud. One of the key factors is, of course, the cyber aspect of it. But we have a quite interesting architecture. We are seriously demonstrating that we can do edge cloud for certain mission-critical environments, with the same architecture. More to be discussed at another opportunity. It's an exciting moment to leverage private, public, dedicated cloud in a smart way. And as you know, we manage the stack totally. We know exactly to the chip level what we do, which we think is an important aspect for the type of customers we have.

Operator

The last question is from Nicolas David from ODDO BHF.

Nicolas David
ODDO BHF Corporate & Markets, Research Division

I have 2 questions, actually, which are follow-ups of already asked question, but more details, I think. First on hiring, again, I mean, Pascal, you mentioned there's an impact on the bottom line. But if we look at the top line potential impact, would this put us a risk as we go into 2022, if you can't fill the sales position which are open currently? And any comments regarding the situation with your sales team attrition and the ability to hire would be helpful there.

And my second question is regarding maintenance again. I mean you mentioned this 4% to 5% growth you are targeting rapidly. Could you talk about -- were you thinking about Q4 already? Or is it rather '22 things? And also this 4% to 5% growth, is it the midterm growth you see for this revenue stream in the context of more subscription adoption? Or do you think that you can go back to faster growth like you used to deliver in maintenance?

Bernard S. Charles
Vice Chairman & CEO

Okay. So let's start with the first question related to the hiring. To a certain extent, the situation is not the same across all the different countries. Where we have, I would say, the more most open positions on the sales side is in United States, right? And to a certain extent, I do not feel at risk. Why so? Because we have long-standing relationship with many of our customers. So I will be, to some extent, much more concerned if our resellers, they will have a lack of capacity, because they have difficulty to hire and retain people, which is not the case. So this is an important point to notice.

Now if we are not capable to fill back this position over the time, this could become an issue, because again, each time we hire people, we are also changing the profile of the team by infusing also sometimes different generations, different set of skills. So that's my answer. I do not feel at risk for 2022. And again, we do not have the same problem with the resellers.

The second question, which is an interesting one. First of all, I told you the Q3 is really the lowest point. So I do expect, obviously, Q4 to go back to the indication I gave to you. So that's point number one. Point number two, to answer to your questions, it's related to how the mix between subscription and license will evolve, which is probably something which is still a little bit difficult to predict. I could have a wish, I could have, to a certain extent, a strategy to accelerate the subscriptions. But as I was telling you, we discovered that some products are much more suitable to the subscription. And again, people are always putting in the position subscription and license. And I consider you need both. You need both depending on your business model, depending also on, for example, we have some customers in the defense part. They do not want to be dependent on anything. They want to control their own destiny for obvious reasons.

So the best way for them is to license the software, and I'm sure we will continue to do it over time. So let's assume that we are in the previous mix. I'm pretty confident that the maintenance and support will go back to where it used to be in terms of growth. But we should probably take into consideration that the subscription is growing, I would say, 15% on average. You are not taking too much risk by doing so. And you will see there is some readjustment. But at the end, it would not change the overall plan, which is again, the plan we have built is to deliver a 9% growth organic software, and it's a combination of the license and the recurring part. And that's what I'm speaking. The moving part inside is basically what I'm playing with it in order to maximize the chance to deliver the plan I committed to do.

François-José Bordonado
Vice-President of Investor Relations

With that, thank you very much for joining this call this morning. Thank you for your questions. Of course, we are always there to continue to discuss with you, and we will have the call this afternoon for our friends in America, especially. Have a good day, and thank you again for following us.

Operator
That concludes the conference for today. Thank you for participating. You may all disconnect.